

Tasmania Shipping and Freight Inquiry

February 2014



 **VEOLIA**
ENVIRONMENTAL
SERVICES



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Executive Summary

FY2013 Veolia Environmental Services Australia (Veolia) shipped 1731 TEU (twenty foot equivalent units) of domestic recycling product such as cardboard, paper and plastics northbound for mainland Australia and international waters on its way to our South East Asian customers.

Cost disadvantages of crossing Bass Strait as a result of the withdrawal of a direct call international service 2010/2011 has forced our high volume/low value (non-perishable goods) business to focus on innovation and efficiencies.

Nevertheless, shipping and freight continue to account for a large portion of operation costs.

The Productivity Commission Draft Report released Jan 2014 has made a number of recommendations to address these cost disadvantages to Tasmanian businesses.

Additionally the Productivity Commission Draft Report is seeking information requests on several issues yet to be examined in depth and where collated information is insufficient to form a recommendation at this point.

Key outcomes:

- Optional changes within current funding levels to the Tasmanian Freight Equalisation Scheme (TFES), 'extending the northbound component of the scheme to include all eligible goods (including exports) shipped from Tasmania to the Port of Melbourne', would be welcomed by Veolia. Veolia's preference however is the return of a direct call international shipping vessel.
- Removal of coastal shipping restrictions (cabotage) would be strongly supported by Veolia. Veolia believe that the removal of such coastal shipping regulations would provide an incentive for international shipping lines to return. Discussions with three international shipping lines confirm the same.
- Innovation and efficiencies: Much like Veolia has been forced to be more innovative and efficient within its operations, Veolia supports recommendations by the Productivity Commission, the Australian Government and the like for efficient and innovative long term economic approaches.



Veolia Environmental Services (Tasmania) Profile

Veolia Environmental Services Australia (Veolia) is Tasmania's leader in all facets of waste management, resource recovery, scaffolding and industrial services. Veolia offers statewide coverage with five main depots across Tasmania:

- Mornington
- Cambridge
- Derwent Park
- Invermay
- Spreyton

The company has an extensive ***fleet of specialist vehicles*** operated by ***well-trained*** and ***certified personnel***. An experienced management team supports the latter. This combination provides our customer base with a high level of confidence as to the quality, reliability and compliance of our services. There is a significant capacity to respond to and meet any demands that may be placed upon us. Veolia has 274 employees in Tasmania and a fleet of 145 vehicles that operate across the state.

Veolia has a commitment to the highest level of Occupational Health, Safety and Environment practices within all workplaces. This strong and continuous commitment to both Safety and the Environment is evidenced by our triple national certification to:

- **AS/NZS ISO 9001:2008 (Quality Management System)**
- **AS/NZS 4801:2001 (OHS Management Systems)**
- **AS/NZS ISO 14001:2004 (Environmental Management Systems)**



Significance of Sea Freight:

Veolia's Resource Recovery Business

Material Recovery Facilities in Hobart & Spreyton, Baling & Shredding Facility in Launceston.

Process approx 55,000-60,000 ton pa of recyclable product

FY2013 Veolia shipped 1731 TEU (Twenty Foot Equivalent Units) or 41,558 ton northbound

Of this 45% was shipped interstate (domestic) and 55% international (export)

Malaysia 55%

Hong Kong, China, Philippines, Singapore, Korea & India making up the remaining 45%

Impact/significance

2010-2011 prior to cessation of international direct call shipping line service, average shipping cost per ton \$24.

2013 average shipping cost per ton \$76.

This has added **1.2m** directly to the bottom line, turning our profit making business to a loss making business overnight.



Response to Productivity Commission Draft Recommendations:

- **Draft Recommendation 1**

The Australian Government should proceed with the foreshadowed review of coastal shipping regulation as soon as possible. The objective of the review should be to achieve the most efficient coastal shipping services feasible for Australia

Cabotage: We would like to see this abolished, current coastal shipping regulations are a significant inhibiting factor for international shipping lines considering re-entering the market.

This would address another issue of lack of availability of empty containers, a cost currently worn by the shipper.

This would increase the profitability for an international shipping line to call to Tasmania For example:

International shipping line could transport a container from Brisbane to Tasmania charging the Brisbane customer for the shipment, making available the empty container for exporters.

Cross ref with Information Request 5

- **Draft Recommendation 2**

If the Australian Government chooses to retain the Tasmanian Freight Equalisation Scheme in essentially its current form, it should ensure that the payment rates are based on the findings of the Bureau of Infrastructure, Transport and Regional Economics parameter reviews. These reviews should be conducted every two years. Payment rates should be revised to reflect the latest available parameter estimates.

Veolia Agrees with the recommendation: No further comment

- **Draft Recommendation 3**

Future Tasmanian Freight Equalisation Scheme parameter reviews should be undertaken by the Bureau of Infrastructure, Transport and Regional Economics using a public multi-stage process, comprising:

- ***Release of a draft report, containing the estimated parameter updates and underlying assumptions and data:***
- ***A public submission process that allows interested parties sufficient time to provide input: and***
- ***Release of a final report that incorporates resulting feedback and evidence.***

Veolia Agrees with the recommendation: No further comment



- **Draft Recommendation 4**

The Australian Government should respond publicly and in a timely manner to all Tasmanian Freight Equalisation Scheme parameter reviews. All responses should be released before the end of the calendar year in which the parameter review is completed to provide certainty for recipients, and provide sufficient lead time for any resulting revisions to payment rates to be incorporated into Commonwealth Budget processes.

Veolia Agrees with the recommendation: No further comment

- **Draft Recommendation 5**

The Australian Government should introduce payment of sea freight assistance as a single flat rate of subsidy per TEU (twenty foot equivalent unit) shipped.

The Bureau of Infrastructure, Transport and Regional Economics should recommend a dollar amount for assistance, taking into account:

- ***the parameter or parameters that the flat rate should be based on; and***
- ***that the flat rate should provide assistance that is compatible with the incentive to seek the lowest shipping cost.***

If the Government does not adopt a flat rate, assistance under the Tasmanian Freight Equalisation Scheme should only be payable on the basis of evidence of actual wharf-to-wharf cost.

Veolia would agree with the recommendation of a single flat rate of subsidy per TEU on the basis we are not disadvantaged in comparison with the current scheme. Veolia would like to add that by having a single flat rate subsidy it would take out a major variable component when tendering for long term contracts (between 7 and 9 years).

- **Draft Recommendation 6**

The Department of Infrastructure and Regional Development should provide more comprehensive public reporting of information under the Tasmanian Freight Equalisation Scheme, including annual payments to recipients.

Veolia supports the need for more comprehensive reporting of information under the Tasmanian Freight Equalisation Scheme. Inclusion of annual payments to recipients would raise commercial in confidence issues. Veolia would prefer recipients identity remain anonymous.

- **Draft Recommendation 7**

The Department of Human Services should examine the benefits and costs, including compliance costs for claimants, of upgrading its technology to provide greater access to online claims under the Tasmanian Freight Equalisation Scheme and improve internal claims processing.

Veolia Agrees with the recommendation: No further comment

- **Draft Recommendation 8**



The Department of Infrastructure and Regional Development should impose a threshold on the minimum value of a claim line item under the northbound component of the Tasmanian Freight Equalisation Scheme to distinguish between business and minor transactions.

Unfairness toward start up businesses and SME

- **Draft Recommendation 9**

The Department of Infrastructure and Regional Development should extend the self-assessment facility under the Tasmanian Freight Equalisation Scheme to more claimants.

Veolia Agrees with the recommendation: No further comment

- **Draft Recommendation 10**

The Australian Government should terminate the Tasmanian Wheat Freight Scheme as its original policy rationale and therefore the scheme itself are redundant.

The calculation of assistance for wheat (and other grains) shipped in containers under the Tasmanian Freight Equalisation Scheme should be based on the lowest cost option for transporting grain to Tasmania.

Veolia has no comment as recommendation has no impact on Veolia.

- **Draft Recommendation 11**

Given that the main objective of the Bass Strait Passenger Vehicle Equalisation Scheme appears to be the provision of support for Tasmania's inbound tourism, the Australian Government should examine alternative use of the funds under the scheme to pursue this objective more effectively and transparently.

To the extent that the scheme has a broader objective — including outbound travel from Tasmania, the Government should clearly articulate this objective and evaluate the scheme on that basis.

Veolia has no comment as recommendation has no impact on Veolia.



- **Draft Recommendation 12**

The Tasmanian Government should articulate its underlying objective/s in owning and operating a shipping business and assess whether ownership of the TT-Line is the most cost-effective way in which to achieve those objectives

Veolia would agree with reviewing the ownership and underlying objectives. A broader discussion needs to be had with privatisation. An extraordinary amount of local government entities raises opportunities for privatisation and capital investment.

- **Draft Recommendation 13**

The Tasmanian Government should assess the commercial viability of TasPorts and potential changes to enhance its operation. The assessment should include a consideration of alternative models for the provision of port infrastructure, including the feasibility of privatisation, long term leases, and targeted divestment of port assets.

Veolia would agree with consideration of alternative models including privatisation and a one port strategy.

- **Draft Recommendation 14**

The Commission endorses the need for a comprehensive, long term integrated freight strategy for Tasmania. As the Australian Government will retain a role in funding Tasmanian infrastructure investments, it is appropriate that it (including through Infrastructure Australia) have a role in developing that strategy.

In developing the strategy, there should be broad consultation between industry, all levels of government, and the community more generally. A benefit-cost framework should be applied that identifies the most efficient use of investment capital and which clearly identifies the net benefits or trade-offs arising from community service initiatives or region-specific development objectives. As a matter of urgency, the strategy should:

- ***identify Tasmania's likely future freight infrastructure requirements across all modes — sea, road, rail and air***
- ***address port developments, including specialisation or rationalisation of existing infrastructure***
- ***address the long term role of rail in Tasmania given the high degree of substitutability with road transport***
- ***ensure that the objectives of government business enterprises for ports, sea freight and rail are consistent with commercial sustainability.***

Veolia agrees with the recommendation.

- **Draft Recommendation 15**



The Joint Commonwealth and Tasmanian Economic Council should undertake or commission a stocktake and review of existing policies and agencies associated with the pursuit of economic development in Tasmania as part of its initial work program. The review should:

- ***cover initiatives established by all levels of government***
- ***clarify their nature, intent, timing, scope, governance arrangements and any areas of duplication***
- ***assess whether the suite of initiatives represents a coordinated, consistent, targeted, and efficient approach to Tasmania's economic development***
- ***include the release of a public report by the end of 2015.***

The results of the stocktake and review should contribute to and inform the development of an integrated economic development strategy for Tasmania.

Veolia agrees with the recommendation

- **Draft Recommendation 16**

The Australian Government should review and evaluate its programs for Tasmania after a reasonable length of time. Such reviews should be transparent, be conducted by an appropriate independent body and should comprise an ex-post assessment of the aggregate benefits and costs of the strategy to date and an assessment of the benefits and costs of any continued Australian Government financial contribution to these programs.

Veolia Agrees with the recommendation: No further comment



Response to Productivity Commission Information Requests:

- **Information Request 1**

What would be the potential impacts (both positive and negative) on Tasmanian firms and industries, and the Tasmanian and Australian economy more broadly, of the following optional changes to the coverage of the Tasmanian Freight Equalisation Scheme within current funding levels:

- ***extending the northbound component of the scheme to include all eligible goods shipped from Tasmania to the Port of Melbourne.***
- ***extending the northbound component of the scheme to include all eligible goods shipped from Tasmania to the Port of Melbourne and removing the southbound component of the scheme for all goods shipped from the Australian mainland to Tasmania.***

Veolia would totally support recommendation if TFES northbound was to include export shipments. **But** Veolia's preference is an international shipping vessel. As southbound claims by Veolia are minimal, optional changes within the current funding levels will net insignificant benefits.

Information Request 2

What minimum claim value (per claim line item) would meet the objective of the Tasmanian Freight Equalisation Scheme while reducing administration costs for government and compliance costs for businesses?

Veolia's experience would suggest \$500 as the minimum claim value.

- **Information Request 3**

To what extent does the government-owned TT-Line provide competitive pressure in the Bass Strait shipping market? Would a scenario with only the two commercial shippers provide a more cost-effective outcome?

Veolia currently uses TT- line, this keeps the market competitive. We disagree that less competition across Bass Strait would be cost effective. We also feel the introduction of an international shipping line with no cabotage restrictions, would provide the most competitive pressure on rates.

- **Information Request 4**

What would be the potential impacts (both positive and negative) and efficacy of an alternative approach to the current TFES/BSPVES model whereby the Australian and Tasmanian Governments would use their current financial commitments under the schemes to cease paying individuals and businesses and instead secure more directly the Bass Strait freight and passenger services they are seeking through a periodic open tender process?



Veolia would support an open tender process.

- **Information Request 5**

What specific benefits would there be for Tasmanian shippers from removing restrictions on coastal shipping?

Cross ref Draft Recommendation 1

This would provide the incentive required for international shipping lines to re-enter the market. We have had discussions with 3 international shipping lines who would support the removal of restrictions on coastal shipping. One of the shipping lines has confirmed they would be ready to act immediately should this change take place.

Volumes would increase and in turn drive prices down.

Additionally this would solve the issue of lack of empty containers at not cost to the shipper.

Veolia would like to make reference to a proposed matrix as a potential solution provided in our earlier submission, and welcome the opportunity to discuss further at a later stage.

- **Information Request 6**

To what extent will the Tasmanian Government and TasPorts' plan for port specialisation enable Tasmanian ports to capture the efficiencies available from greater scale?

Veolia believes this option needs to be heavily weighed up against a one port strategy.

- **Information Request 7**

To what extent is uniform pricing distorting decisions in regards to activities and investment at Tasmanian ports?

To what extent does the current pricing strategy of TasPorts reflect efficient costs of providing the port infrastructure and services?

We understand that Burnie Port has been able to offer reduced port service charges, thus putting it at an advantage over Bell Bay/Devonport.

- **Information Request 8**

Is the current gazetted road network a significant constraint on the use of High Productivity Vehicles in Tasmania? Is there a case for allowing the use of higher mass limit vehicles on some routes?



Uniformity required across all states. Currently each state operates under different mass management rules. For example loads sent from Tasmania to NSW, different rules under NSW regulations mean loads packed to capacity are illegal as soon as they hit the boarder. In these instances were are required to light load, further increasing a transport/freight costs.

- **Information Request 9**

How do road freight costs in Tasmania compare with costs of equivalent services on the mainland? Are there any competition issues in the road freight market given the presence of integrated freight logistics?

In Veolia's experience Tasmania pricing is competitive (eg Melbourne to Morwell)

- **Information Request 10**

What scope is there for parts of the rail network in Tasmania to be rationalised?

What are the nature and extent of any positive spillover benefits from rail that justify continued public subsidisation of rail freight charges? If rail charges were to be increased to reflect the full cost of service provision, what would be the impacts on current users and on the commercial sustainability of TasRail?

What is the scope for some form of private investment or operational service provision in rail?

Veolia is a minimal rail user, no further comment.