

18<sup>th</sup> February 2014



Mr Daryl Quinlivan  
Head of Office  
Productivity Commission  
GPO Box 1428  
CANBERRA ACT 2601.

Dear Mr Quinlivan

**RE: NYRSTAR PRODUCTIVITY COMMISSION (TASMANIAN SHIPPING AND FREIGHT) SUBMISSION**

Thank you for the opportunity to provide information to the Productivity Commission's draft report into Tasmanian shipping and freight.

As Tasmania's largest exporter by value (24% total state exports by value) worth \$795 million (GSP) to the Tasmanian economy, we have committed our global commercial expertise to running cost benefit exercises to identify the optimal service structure to support our freight task requirements.

It is a strongly held belief by Nyrstar that its Tasmanian freight cost component is a major prohibiting factor in Nyrstar Hobart increasing its sales within Asia. Should the TFES be expanded to exports Nyrstar truly believes it would increase its market share in Asia which would no doubt have a positive impact on the Tasmanian economy given Nyrstar's significant GSP.

I would like to categorically state that Nyrstar does not have any requirement for a direct international shipping service from Tasmania, with the Port of Melbourne offering far greater optionality which is pertinent to our overarching business strategy to provide world-class customer service and meet diverse delivery needs.

We would also like to use this forum to firmly support Norske Skog's comments during the public hearing on Tuesday 4th February where it was highlighted that there is a significant cost disadvantage for shippers using Bass Strait compared to road freight. The current assistance provided does not fully compensate for that disadvantage. Nyrstar also rejects any assertion that shippers are over compensated under the current TFES parameters.

Nyrstar at this time would also like to request that the report recommends all exports directed through the Port of Melbourne from Tasmania, which is a captive state, be exempt from the Port Licence Fee, with this level of revenue raising appearing in direct conflict with the Federal Government's intent to get the 'business conditions' right for business to thrive and grow.

Nyrstar supports an extension of the Tasmanian Freight Equalisation Scheme for commodities which are exported to international destinations via the Port of Melbourne. This extension aligns with the original intent of the Freight Equalisation Scheme and is considered critical in facilitating international and domestic trade on a 'fair and equal playing field' as enjoyed by interstate export businesses. Today Nyrstar exports over 96% of its zinc metal produced in Hobart through the Port of Melbourne to its markets across Asia. The service that the Port of Melbourne offers through weekly vessel sailings, equipment availability, service reliability and shipping line competitiveness means Nyrstar has sufficient optionality to reach its main customer markets, which aligns to its future strategy centred on market growth and providing superior customer service through regular container deliveries.

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For further information contact Barbara McGregor  
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A monthly international shipping service from Tasmania will not be cost competitive or offer a high degree of responsiveness and optionality that is demanded by Nyrstar's diverse customer base in Asia. Today Nyrstar utilises over 30 container vessels per month which service over 40 Asian ports.

Nyrstar does not support the recommendation of removing the southbound component of the scheme; the freight task issues faced in the North bound movement of freight is also faced by south bound movement of freight. Nyrstar Hobart in 2015 and beyond will be increasingly reliant on international concentrate market from regions like South America and Europe that will need raw material to be containerised as opposed to predominantly bulk vessels today.

These containers will be required to transit through the Port of Melbourne. The cost disadvantages Nyrstar faces in moving zinc metal north bound to the Port of Melbourne will also be faced in moving material south bound from the Port of Melbourne to Hobart.

TT Line does not provide any competitive pressure for Nyrstar. This can be explained by referring to table 4.1 of the Productivity Commission's draft report into Tasmanian Shipping and Freight where the container capacity of Toll ANL is far greater than that of Sea Road, while TT-Line predominately receives trailers as opposed to containers.

It is on this basis that Nyrstar is limited to using the services of just one service provider. If the Tasmanian freight market was truly competitive Nyrstar would require all Bass Strait service providers to have similar capacities due to the annual freight task for Nyrstar totalling over 11,250 TEUs annually or the equivalent to 270,000 mt per year (north bound).

The benefits Nyrstar could realise if restrictions were removed from coastal shipping would be a reduction of inbound raw materials freight cost by ~\$2.5million per year. It is also expected that a change to coastal shipping would encourage greater competition in Bass Strait shipping services. Further Nyrstar could potentially utilise coastal vessels to transfer metal directly from our Risdon wharf to the Port of Melbourne and therefore significantly optimise the current supply chain which requires excessive intermodal handling of zinc metal leading to higher freight.

Today three different transport modes are required to transport zinc metal to the Port of Melbourne for international export of containers (which is approximately 70% of the overall freight charges from site to Asia). Further vessel utilisation would be significantly improved on the Nyrstar berth as currently a majority of foreign vessels (approximately 28 per year) discharge zinc concentrate at the Hobart smelter (Risdon wharf) however, do not load any coastal cargoes due to the current coastal shipping restrictions.

Nyrstar transports under the Coastal Shipping Act over 500,000 mt. Nyrstar welcomes and fully supports the draft report's recommendation for the urgent review by the Australian Government of the coastal shipping regulation given the substantial cost impact it has to Nyrstar Hobart's operation.

Nyrstar rejects the Productivity Commission's findings that Port costs constitute a relatively small share of the supply chain cost.

It is Nyrstar's commercial experience that port charges for its Risdon wharf are excessive and have been increasing well beyond any other Australian port year on year. Alarmingly over the past four years Nyrstar has seen port costs increase by 71% with no visible improvement in port infrastructure or service resulting in Nyrstar believing that we are subsidising other ports within Tasmania. Nyrstar is the largest bulk user within the Hobart region based on number of vessels and tonnage utilising the smelter's Risdon berth.

There appears to be significant opportunity for the State Government and TasPorts to capture efficiencies from greater scale. This appears to be most obvious in the North of the state where the current number of ports appear to be well beyond the state's needs, therefore leading to significant cross-subsidisation by end users. By reducing the

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number of commercial ports funding can be targeted at ensuring remaining state ports are well maintained and offer greater efficiency supporting increased throughput volumes and ultimately lower rates to end users.



Nyrstar does not believe the current pricing strategy of TasPorts reflects efficient costs of providing the port infrastructure and services. Apparent efficiency gains as noted by Toll at its Burnie terminal, which were funded by private investment were ultimately passed on to the end customer such as Nyrstar through increased freight rates. Nyrstar fully supports the draft report's view that the current pricing strategy of TasPorts results in cross-subsidisation across ports and port activities. Nyrstar would like to see a full review of TasPorts' pricing strategy and the introduction of an incentive pricing system which rewards customer's based on tonnage and vessel calls per annum.

While Nyrstar's business dictates the use of High Productivity Vehicles, it is unclear if any change in the current constraints would offer any significant cost saving given the direct impact HPV's have on road infrastructure. We do not believe higher mass limit vehicles on some routes will offer any significant freight improvement instead it may lead to higher costs. This can be explained by tonnage removed from the rail to road results in the rail operating having less tonnage therefore recovering costs by increasing rates for consumers who remain with rail.

It is Nyrstar's view that there are competition issues in road freight market given the presence of integrated freight and logistics businesses.

If rail charges were to be increased it would have significant impact on Nyrstar Hobart.

Today 100% of Nyrstar Hobart's zinc metal production is transported to Burnie via rail. Nyrstar believes any increase in rates would also have a negative impact on Tas Rail and its commercial sustainability as Nyrstar would be forced to consider alternative transport modes such as coastal shipping for both its north and south bound freight task (in excess of 11,250 TEUs per annum). Nyrstar does not believe there is any scope for private investment as any outlay would demand a commercial return which could only be achieved through a significant increase in freight rates.

Yours sincerely

Craig Jetson  
**Vice President Zinc Smelting**  
**Nyrstar**

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