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Tasmanian Shipping Inquiry
Productivity Commission
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Australian Aluminium Council Submission to the Tasmanian Shipping Inquiry

Thank you for the opportunity to make a submission to the Productivity Commission's Inquiry into Tasmanian Shipping and Freight. This submission is on behalf of the Australian aluminium industry. While it covers issues that also impact alumina refineries and aluminium smelters on mainland Australia, it is particularly pertinent to Tasmania given the importance of the Bell Bay Aluminium smelter to the Tasmanian economy and its reliance on competitive shipping arrangements.

Bell Bay Aluminum's regional economic contribution has been estimated in the range $250-330 million annually, with employment creation for more than 1000 people. The main physical input to the smelter – alumina – is brought in from the mainland and the majority of product is exported, making shipping costs a critical part of the competitiveness equation.

The costs and flexibility of shipping alumina to the Bell Bay smelter from refineries in Queensland are particularly problematic under current interstate coastal shipping arrangements.

Coastal Shipping Regime

The legal and regulatory regime for interstate coastal shipping was 'reformed' by the previous Federal Government through the *Coastal Trading (Revitalising Australian Shipping) Act 2012*. There are three tiers of licences under the legislation – General, Temporary and Emergency. A number of aspects of the licence regime are problematic for industry, particularly:

- Temporary Licences must be for a minimum of five voyages;
- The Temporary Licences must nominate specific loading dates at the time of application;
- A General Licence holder has the opportunity to bid for any work covered under a Temporary Licence application;
- The General Licence holder is not required to use an Australian flagged vessel.

Impact
The new licensing arrangements have led to greatly reduced shipping options and competition in the market and an associated increase in the cost of shipping.

The viability of aluminium smelters is being impacted financially – through increased shipping costs – and operationally – through input supply risk caused by reduced flexibility of shipping arrangements. For example, as reported in the Federal Court decision *CSL Australia v the Minister for Infrastructure and Transport (No. 3) [2012] i*n which Bell Bay Aluminium was the affected 3rd party:

- Tonnage rates increased from $18.20 a tonne in 2011 (before the reforms) to $29.70 in 2012 (an increase of 63%). This compares with $17.50 a tonne being charged by international operators in 2012.
- Demurrage rates increased from $14,000/HD in 2011 and $35,000/HD in 2012

The requirement to apply for a minimum of five voyages under a Temporary Licence and to lock-in loading dates and ports significantly in advance is already leading to situations where alumina supply at smelters has reached critically low levels. This would normally be addressed through adjusting the dates and voyages of shipping, through normal commercial negotiations, however this is unworkable under the current regime.

The new regime has also led to a virtual monopoly General Licence holder for the dry bulk market who can object to any competition that might be created under a Temporary Licence. This has produced higher shipping costs and a perverse situation where that General Licence holder can use foreign flagged vessels at a higher cost than could be accessed directly by the customer.

Proposed Changes
The aluminium industry is seeking changes to the coastal shipping regime to provide a more competitive market and greater flexibility to adjust shipping arrangements to respond to business needs in the short term.

Specifically we are seeking changes that will allow users of coastal shipping to:

- Apply for temporary licences to cover single voyages;
- Refuse bids from General Licence holders if they are uncompetitive, or unsafe/unsuitable;
- Vary loading and discharge ports and dates after licence approval;
- Use foreign-flagged vessels if General Licence holders have the same option.

These changes would significantly improve the cost-effectiveness and flexibility of alumina shipping and materially improve the viability of the Bell Bay smelter by imposing competition and commercial discipline in a market that is otherwise dominated by a near-monopoly supplier. The additional cost imposition on Bell Bay Aluminium is in the order of $4 million per annum. Similar, unnecessary cost increases are also being experienced by other Australian smelters due to the restrictions of the Coastal Trading Act.

These cost increases are particularly important as they have come at a time when the low international price for aluminium and strong Australian dollar have already created significant margin compression for Australian aluminium smelters.

The Aluminium Council requests that the Productivity Commission include recommendations to address this issue in the draft Report to be released in January. We would welcome the opportunity to provide further input.

Yours sincerely

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