Tasmanian Shipping Inquiry
Productivity Commission
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12 December 2013

Dear Sir / Madam

Re: Productivity Commission Inquiry into Tasmanian Shipping and Freight

Bell Bay Aluminium is pleased to have the opportunity to make a submission to the Productivity Commission Inquiry into Tasmanian Shipping and Freight [the Inquiry].

Bell Bay Aluminium (BBA) is situated on the mouth of the Tamar River, in Northern Tasmania. BBA directly employs around 460 people, however, on a typical day however, up to 100 contractors are also undertaking work at the smelter. Independent studies have found that BBA, directly and indirectly, employs over 1000 Tasmanians, and contributes $690 million per annum to Gross State Product. In 2012 the smelter spent $224 million purchasing goods and services from 293 Tasmanian suppliers.

BBA produces around 180 kt of primary aluminium a year. Around 140 kt of this is exported, some directly to our customers and around 70 kt of this is containerised product. The primary markets for our metal include Asia (mainly China, South Korea and Japan), India, South Africa and Australia. In addition to exporting aluminium, BBA also imports around 360 kt per year of alumina from Gladstone, Queensland.

The market price paid for aluminium from BBA is the same price paid for aluminium worldwide. This price is determined by the London Metals Exchange (LME). The aluminium industry in Australia is experiencing unprecedented challenges to its viability from depressed aluminium prices and the continued strength of the Australian dollar. In today's dollars, the LME aluminium price remains more than 20% less today than it was during the worst of the GFC (Figure 1).

BBA has a number of issues with the provision of freight for both its inbound raw materials (alumina from Gladstone under the Coastal Shipping Act) and the export of its finished product to market (containerised and break bulk freight) which are addressed in this submission.

BBA would welcome the opportunity to provide more information to the Inquiry. Please direct all enquiries in the first instance to Marghanita Johnson, Manager External Relations

Yours sincerely,

Ray Mostogl
General Manager, Bell Bay Aluminium

Copy to:
Treasurer, The Hon Joe Hockey
Minister for Infrastructure, The Hon Warren Truss MP
Member for Bass, Andrew Nikolic MP
Tasmanian Minister for Infrastructure, The Hon David O'Byrne MP

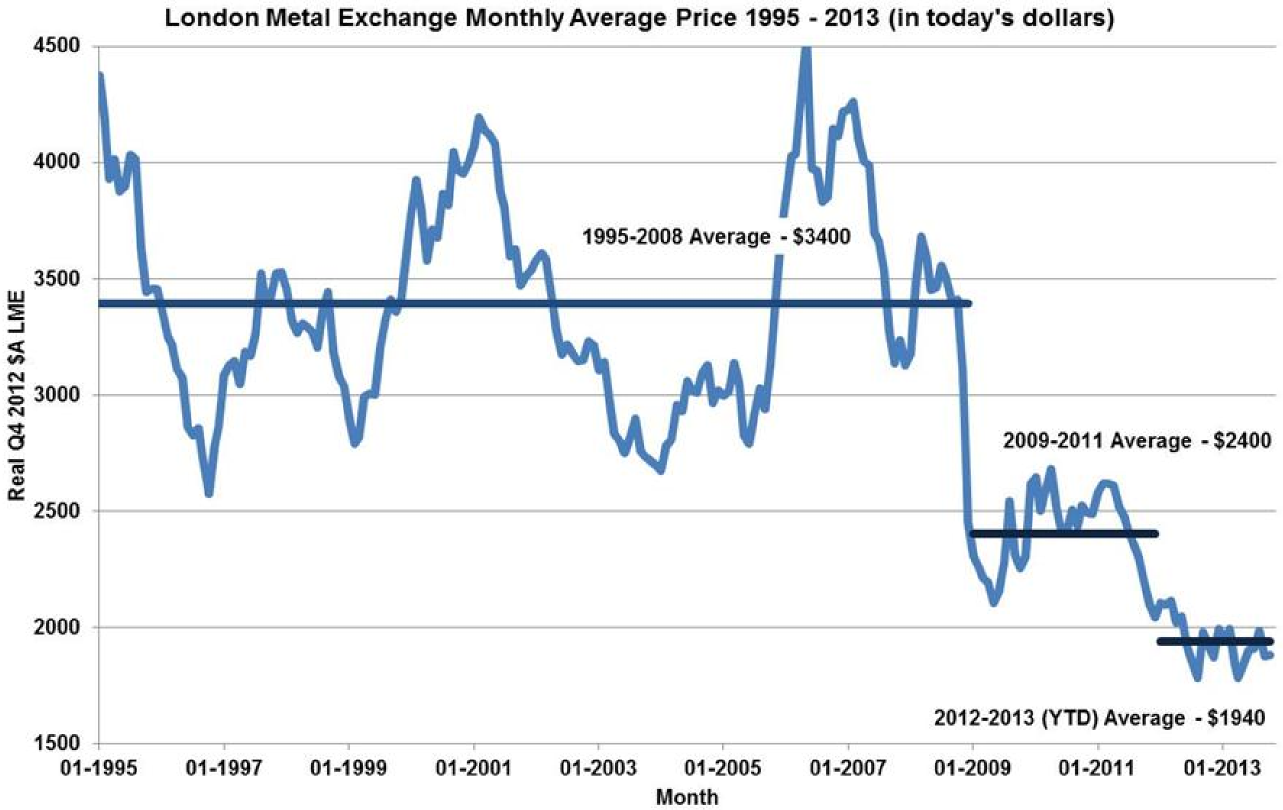

Figure 1. Aluminium Price (1995 -2013)

Bell Bay Aluminium (BBA) has been actively involved in discussions with regard to both inbound and export freight from Tasmania for many years. This has included highly public roles in the Freight Logistics Coordination Team, the Tasmanian Chamber of Commerce and Industry and the Bell Bay Industry Group. BBA has therefore had time to consider what would constitute an ideal freight outcome for BBA including:

1) Competitive Tasmanian port costs;
2) "Cost equalised" (shipping across the Bass Strait to cost no more than road transport over the same distance) domestic shipping;
3) The removal of Victorian Government imposed levies via the Port of Melbourne; and
4) Linking in with frequent international services leaving Port of Melbourne.

The first three parts of this "ideal position" would also benefit Tasmanian domestic freight users. The next best alternate to this "ideal" is a direct weekly international service from the Port of Bell Bay. Unfortunately, this ideal is far from reflected in the current situation faced by BBA.

This submission is presented in order of financial priority to BBA:

- Coastal Shipping Act;
- Issues with containerised shipping via Port of Melbourne; and
- Tasmanian Port costs.

Coastal Shipping Act 2012

Under any circumstances, the reliability of alumina supply to an aluminium smelter is a central concern. At BBA the reliability of alumina supply is of even greater concern as there is very limited alumina storage which tends to run from maximum to minimum levels for each voyage with very limited flexibility. It is therefore, essential that the alumina delivery schedule is maintained, approximately monthly.

In the current economic environment, the reliability of alumina supply is even more essential for BBA. The only General Licence holder with a suitable vessel to transport alumina from Gladstone to BBA is Canadian Shipping Lines Australia (CSLA) which has only one vessel which is able to perform these charters. This one vessel is of course, not always available, due to planned and unplanned maintenance. BBA does not have the logistical infrastructure or operational flexibility to adapt to this unreliability due to its current financial position and distance from its alumina source.

Until the introduction of the Coastal Trading (Revitalising Australian Shipping) Act 2012 on 1 July 2012, BBA ensured the timely and competitive freight for supply of alumina using a combination of Australian (General Licence) and foreign flagged vessels (Temporary Licence), by sourcing each voyage individually, as was allowed under the previous legislation. This meant that BBA was able to manage commercial arrangements, whilst still using Australian vessels when available, but there was a competitive tension in the market.

Following introduction of the Coastal Trading Act 2012, BBA faced increased costs from $18.20 a tonne in 2011 to $29.70 in 2012, or 63 per cent. This compared with $17.50 a tonne charged by international operators in 2012.

Demurrage rates also rose from $14,000/ in 2011 to $35,000 in 2012. The combined effects of this legislation increased annualised costs with at least A$4 million on freight alone. This was on top of the $4M in additional costs already being absorbed by BBA since the loss of a direct International container service from the Port of Bell Bay. This was widely and publicly reported as part of the Federal Court decision CSL Australia v the Minister for Infrastructure and Transport (No. 3) [2012] in which BBA was the affected third party:

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BBA believes the main issues with the Coastal Trading Act 2012 which are contributing to these cost increases are:

- Temporary Licences currently must be for a minimum of 5 voyages, compared to previously only requiring 1 voyage;
- The Temporary Licences currently must nominate specific loading dates at the time of application, thus reducing commercial flexibility by requiring this up to six months in advance of actual shipping dates;
- A General Licence holder has the opportunity to bid for any work covered under a Temporary Licence application and yet the General Licence holder is not required to use an Australian flagged vessel for this work, thus enabling a General Licence holder to have greater competitive advantage in the market; and
- Under the legislation commercial competitiveness is not an explicit cause for the applicant to reject the General Licence holder, even when costs are well above international standards.

Port of Bell Bay has experienced decreased access to containerised freight services

In August 2011, the main provider servicing Port of Bell Bay (Agility) announced that it was ceasing its Port of Bell Bay to Port of Melbourne service. This is on top of the announcement in April 2011 for AAA shipping to discontinue its direct Port of Bell Bay – Singapore service. This resulted in all containerised product from BBA being trucked to an alternate port (Burnie or Devonport), increasing freight costs by an estimated $4M per annum.

In February 2013 BBA was able to secure a direct multi-purpose international shipping service with Swire Shipping from Port of Bell Bay. Swire Shipping was able to provide BBA with multi-purpose vessels capable of both a break-bulk and containerised ocean freight shipping service on a monthly basis from Port of Bell Bay to various locations in Asia including Singapore. This reversed some of the double-handling and additional costs which had been created by freight going via road and then to Melbourne. The contract with Swire Shipping is for a period of one year with options to extend the contract for a further two years, one year at a time.

With this service, approximately 50% of BBA's containerised freight is shipped directly to export markets from Port of Bell Bay on a Swire ship on a monthly basis. The remaining container volume is shipped from Devonport and Burnie via Bass Strait to Port of Melbourne. The Bass Strait freight leg is considerably more expensive than the direct international leg.

However, it is recognised that the provision of this Swire service alone is not enough for Tasmania as it only addresses some containerised freight, and further work is required to find a broader commercial outcome to give access for all

Direct International shipping could be sustainable

A direct international container service reduces complexity and cost for international importers and exporters, but attracting a sustainable service is not straightforward[1]*.* The issue for Tasmania is the volume of export freight is distributed across multiple freight contracts all with different end dates. Support is needed to enable the consolidation of freight over a period of time. It is likely in the early period of a direct international service, the volumes would be too low on their own to make the service commercially viable. Over time, as freight contracts end and the additional freight is added to the service, the service would become commercially sustainable.

[1] Freight Logistics Coordination Team, Chair's Interim Findings, November 2013.

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Non standardised containers are increasing costs to industry

One driver of costs for BBA is the need to source empty export containers from interstate. Tasmania suffers a mismatch in numbers of containers which are north and south bound (due to the seasonality of agriculture freight) as well as the mismatch between predominantly incoming domestic containers to Tasmania, and the need for outgoing export containers. Unfortunately Australia is one of the countries in the world where it has built an entire industry around the sizing of domestic pallets and domestic containers, whereas the rest of the world has moved to an international size. To overcome this mismatch, empty container movements between Tasmania and Victoria are the single largest "product type (air)" moved across the Bass Strait. Empty containers comprise a high proportion of the inbound (20%[1]) and outbound (25%) freight task. Any changes to reduce the number of empty containers being moved should result in lower overall shipping costs. This issue also contributes to high utilisation requirements on ships, leading to potentially seeing larger / more frequent domestic ships. Reducing the number of "nil value adding" slots on ships should be seen as the priority to get the optimum utilisation of ships.

Shipping across Bass Strait is one of the most expensive components of freight export

The factors affecting cost on Bass Strait are complex, and include shipper characteristics (volumes shipped, seasonal vs. regular shipper); high fixed costs associated with shipping (fuel, wages); and particularly cabotage legislation [Coastal Trading (Revitalising Australian Shipping) Act 2012] [1]. BBA's freight profile means that it currently achieves close to the optimum needs due to a relatively large volume which is consistently distributed across the year. Despite this, BBA's costs remain higher than comparable operations exporting goods from other Australian ports. *For shipping providers, fixed costs are high. Benchmarking[2] of shipping costs for users found Bass Strait shipping to be 24% more expensive than a similar European service, largely due to estimated input costs for Bass Strait providers (labour costs and fuel) to be 23% more expensive than in Europe[1].*

The Tasmanian Freight Equalisation Scheme (TFES) is an essential part of Tasmania's freight system as it somewhat balances the labour constraints imposed under cabotage legislation. While ever Bass Strait freight is insulated from international competition due to cabotage, then the TFES must continually be updated to ensure it represents the current costs of shipping. The existing TFES scheme should be extended to exporters in the absence of a direct international service.

Shipping via Port of Melbourne further increases costs

The Port of Melbourne increased tariffs for Port Licence Fee for Containers, including those from Bass Strait, effective 1 July 2012. The Port Licence Fee increased by around 50 per cent on this one cost, and this change alone added around $70, 000 to shipping costs from BBA. Tasmanian shipping represents 28%[3] of the Port of Melbourne's demand, so this burden shared across all users is considerable.

Tasmanian Ports are more expensive than others in mainland Australia

The cost of freight from Port of Bell Bay is prohibitive, at around five times that out of a major mainland port. Port of Bell Bay costs are higher than other ports when comparing the same size and type of ship and reason for the port call. Costs incurred by shippers when trading Australian ports can be broken up into three types:

1) light dues and government charges;
2) port costs levied by ports and terminals the vessel call and the towage companies in the ports; and
3) general agency and ongoing running costs of the ship

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[2]Tasmanian Shipping and Ports, Aurecon Supply Chains Report Part 2, Prepared for Department of Infrastructure, Energy and Resources, September 2013.

[3] Freight Logistics Coordination Team, Chair's Interim Findings

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Items 1 and 3 are paid in all ports, by all ships and are fairly standardised. In Port of Bell Bay the costs are significantly higher in relation to port call costs specifically around wharfage, berth fees and towage costs. For example, for coastal alumina shipments between Gladstone and Tasmania, BBA pay the following port costs in their freight rate:

- Gladstone Port costs ~A$38 000 versus
- Port of Bell Bay costs ~A$107 000.

For Port of Bell Bay the standout differences compared to other ports are:

a) Harbour Towage $A8 000 in Gladstone versus A$33 000 in Bell Bay; and
b) Wharfage/ tonnage/ berth age dues are charged by the port authority and costs in Gladstone $A8 000 and Bell Bay $A19 000.

The Tasmanian Ports Corporation Pty Ltd (TasPorts) publishes their schedule of charges annually. This enables comparison between ports within Tasmania, which shows while there are some differences between Port of Bell Bay and other Tasmanian ports this is not substantial. The major difference would be as a result of the towage costs which will vary according to the time the tugs are used, which is dependent on the physical layout of the port, access channel affects the total cost of towage per port call and if more than one tug is required.

By comparison, Gladstone costs are similar to other port costs along east coast Australia e.g. Townsville, Newcastle, Port Kembla. These ports tend to service a greater number of vessels than Port of Bell Bay. BBA considers that there may be opportunity to bring the cost of Tasmanian Ports more into line with other main Australian bulk and container ports.

Claims are often made that port infrastructure for a larger ship is an issue. It is correct that on the main global trade routes, ships are getting larger. There are many ports globally, including Australia, which bigger ships can no longer access. These ports needs are being met by smaller ships and niche operators who specialise in picking up what the larger ships cannot easily access.