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Mr Peter Harris
Chairman
Productivity Commission
Tasmanian Shipping and Freight Inquiry
GPO Box 1428
CANBERRA ACT 2601
Via email daryl.quinlivan@pc.gov.au

Dear Mr Harris

Toll Group welcomes the opportunity to contribute a submission to the Productivity Commission's inquiry into Tasmanian Shipping and Freight. We recognise the value of this refresh after your 2006 review. While this submission provides a general perspective on the issues raised in your terms of reference we would also welcome the opportunity to engage further with the Commission after the release of your draft report in late January.

About Toll Group

Toll Group is the Asian region's leading provider of integrated logistics services, generating revenue of A$8.7 billion and operating an extensive network of over 1,200 sites in 55 countries. Toll has access to transport and infrastructure assets including road fleets, warehousing, ships, air freight capacity, ports and rail rolling stock. These assets when combined with operational expertise and technology solutions are aimed at driving supply chain efficiencies to deliver best practice in supply chain management for Toll's diverse customer base.

Toll's Bass Strait shipping and Tasmania businesses

Toll Shipping provides the largest and most comprehensive shipping service between Tasmania and mainland Australia. Its twin purpose-built roll-on/roll-off (RORO) vessels sail six days a week. Our dedicated terminals at Melbourne's Webb Dock and McGaw Wharf in Burnie utilise cutting edge RORO cargo handling technology to efficiently handle all cargo types.

Toll Tasmania is the largest freight forwarder to and from Tasmania. It specialises in palletised and bulk transports, and also offers temperature-controlled distribution services. Its large cross docking facilities enables it to move significant amounts of freight in short time periods. It's also able to access Toll's networks to provide mainland and international freight forwarding services to its customers.

Please find below some key information to assist the Commssion with its knowledge of the current and future Bass Strait market.

Operator	Market share	Capacity
Toll Shipping	Approximately 55 per cent	1,000 TEU
SeaRoad	Approximately 25 per cent	390 TEU
TT-Line	Approximately 20 per cent	360 TEU (80 trailers per ship)

Toll believes there is currently more than enough freight capacity on Bass Strait. The only exceptions to this are the weeks leading up to Christmas and Easter each year. We would like to reinforce with you that even at this peak period Toll and TT-Line can both make additional sailings (this Christmas these additional sailings were not necessary). All three shippers operate below full capacity outside of these three-to-four week peak times.

We understand that the Tasmanian economy is predicted to grow at only half the national growth rate. Over the past six years, total Bass Strait freight movements have reduced with total TEU volumes (including empties) reduced from 491,500 TEU in 2007/08 to 459,400 in 2012/13 (the closure of Australian Paper is estimated to be responsible for approximately half of this decline).

In response to point three in your terms of reference, we note that the Freight and Logistics Council of Tasmania's (FLCT) recent report contemplates a consolidation in port infrastructure in coming years. Toll believes this would usefully serve to recognise the reality in the market with Burnie becoming increasingly seen as the major freight port. Infrastructure investment by state and federal governments into road, rail, intermodal and port facilities provides a welcome enhancement to the state's productive economy. Toll believes further spending of this sort should be prioritised according to strict benefit-cost analysis and fast-tracked by governments.

Recommendations relating to a subsidy scheme

- *The Australian Government should continue to fund a subsidy scheme which recognises the freight cost disadvantage of Tasmanian businesses.*

  <u>As the 2006 PC Report noted:</u> Sea freight is inherently more expensive, relative to road freight, over shorter distances such as Bass Strait. Additional sources of sea freight cost disadvantage arise from specialised packaging requirements; intermodal transfers; significant capital investments required to improve the efficiency of shipping services; and the costs of freight consolidation. Reliance on shipping also requires higher input inventories and the capacity to store additional output. There also needs to be greater investment in transport infrastructure (trailers, containers and the like), given the longer turn-around times.

- *The subsidy scheme's clear rationale should be to remove the inequality of sea freight costs versus the equivalent road freight cost in the mainland states. Comparisons of other sea freight costs, while interesting, are not equivalent given cost of bunker fuel, crew and economies of scale on ship maintenance and wharf infrastructure.*

  <u>Cost comparison of Bass Strait Shipping:</u> the Aurecon report on Overseas Short Sea RoRo Shipping service costs pp109-114 examines the cost profiles of RoRo shipping along with benchmarking two European services similar to Bass Strait. Analysis covers cost comparisons for 20ft containers and trailers between Immingham and Rotterdam and Immingham and Cuxhaven. Toll has inspected these operations and can provide the following insights.

  The report noted the cheap cost of bunker fuel in Rotterdam (fuel is 30% of a voyage cost according to the Aurecon Report). Additionally European shipping companies often employ East European crews which are considerably less expensive than Australian crews. The report notes the Immingham to Rotterdam 20ft GP rate of $612. This rate does not include any terminal charges, power or equipment because typically the shipper supplies the trailer or container in Europe, By comparison, Toll's 20ft GP rate of $700-$950 (depending on weight and service) includes the cost of terminals which is in the order of $250 a TEU plus the supply of equipment of approximately $60. On that comparison, the European rate would be in the range of $922 plus fuel and wages.

- *The rules of the scheme should be set to allow straight-forward and transparent compliance by shippers and shipping companies and must be easily audited and enforced.*

  <u>Paraphrasing the 2006 PC Report:</u>. Not all freight is carried across Bass Strait between northern Tasmania and Victoria; there may be other land and sea legs. Different sizes and types of containers are carried. Also freight is often carried and invoiced door-to door with no clearly identified sea freight component. Therefore the existing scheme requires complex scaling factors and price adjustments which can lead to gaming on one hand or genuine high compliance burdens on the other.

- *The subsidy scheme should cover all Tasmanian-produced goods transported across Bass Strait and designated inputs from the mainland*

  Toll Group supports the scheme being extended to cover goods for export. We note our continued support for the current arrangement relating to the shipment of designated inputs for use in manufacturing, mining, agriculture, forestry and fishing in Tasmania. The subsidy does not apply to the shipment of consumer goods, bulk freight, imports and goods intended for export. Only about 40 per cent of container trade across Bass Strait receives TFES assistance.

- *Shipping service providers should be able to invoice the scheme on behalf of their customers. This has the advantage of simplifying the process for the customer as well as protecting commercial in confidence pricing information from third parties (such as Netseafreight).*

Recommendations relating to Bass Strait shipping services

- *Toll Group recommends the Tasmanian Government views Bass Strait shipping providers as the state's strategic partners.*

- *Government intervention in the sea freight market via subsidised freight shipping services can be damaging and run counter to the long term interests of businesses and communities. The market has volume peaks and troughs through the year and from year to year.*

  The Australian and Tasmanian Governments should be conscious of the high capital costs faced by commercial shipping service providers across Bass Strait. Achieving a long-term, sustainable commercial return on capital providing shipping services to the relatively small and declining Tasmanian market carries significant risks for the companies involved. New shipping providers entering and leaving the market cause huge disruptions in the short term which may cause all of the operators to lose money until one withdraws again. This instability is not in the interests of Tasmanian businesses or consumers who need to be able to count on high quality, reliable service throughout the year.

- *Toll Group supports competition and promotes efficient supply chains wherever it operates. Given the economies of scale, high cost of capital, relative declining state GDP against the national average, introduction of larger ships to the Port of Melbourne (post channel deepening) and peaks and troughs in demand within and between years, the company cannot understand how Tasmania could maintain a sustainable commercially viable international shipping service.*

- *We recommend the Commission notes the severe impact that short-term changes to the supply arrangements can have on long-term shipping operators and therefore consequently on the viability of many Tasmanian businesses.*

- *The viability of reliable and sustainable freight shipping services to Tasmania will also be impacted by a number of factors on the Melbourne side of Bass Strait. We recommend the Tasmanian and Australian Governments recognise the potential impact on the viability of shipping services (and the charges that will accrue to our customers) when changes to lease arrangements occur.*

  Toll's access to Webb Dock at the Port of Melbourne is under a lease which expires in 2017. In recent times, the Port of Melbourne has significantly increased port costs on the basis it can achieve higher returns from international shipping providers. We note for the record that the Port of Melbourne has been working collaboratively with Toll with respect to these lease extensions. However, it is important to record here that the renewal of commercially sustainable long-term leases at Webb Dock is a core concern for Toll Group in 2014.

- *Continued long term leases at the Port of Burnie and the opportunity to continue to grow the port in partnership with the state and federal governments are also key contributors to the future of our shipping services and therefore the certainty of supply for Tasmanian businesses.*

In closing, we appreciate the opportunity to provide this submission to your inquiry. Please contact me on (03) 9694 2890 or at andrew.ethell@tollgroup.com if you would like to discuss this submission further or if you have any questions.

Yours sincerely

Andrew Ethell
Group Director – Corporate Affairs
Toll Group

2 January 2014