SUBMISSION TO THE PRODUCTIVITY COMMISSION TASMANIAN SHIPPING AND FREIGHT INQUIRY 2014

TFES Background

The Report to the Minister for Infrastructure and Transport (24/5/12) by Michael Deegan included in his terms of reference the operation of the Tasmanian Freight Equalisation Scheme(TFES) and other methods of providing assistance to Tasmanian companies. This Report covers much of the ground in the current Productivity Commission's 2014 inquiry.

Deegan's initial views put to the Minister for consideration were:

1 Establishment of a review of shipping costs and competition policy issues for both sea freight and passenger services to be under taken by the ACCC'.

2 A reference to the AFP re fraud allegations in connection with the TFES.

3 Subject to 1 and 2 an updated examination by the Bureau of Infrastructure, Transport and Regional Economics of the freight disadvantage compared to the rest of Australia

4 The inclusion of all non-bulk goods between Tasmania and the mainland for consideration in any equalisation scheme.

5 The Commonwealth withdraw all its direct funding of the TFES and ask the Commonwealth Grants Commission to consider the freight disadvantage in its work on GST distribution. Alternatively withdraw 10% of TFES over 10 years for each year and convert to capital improvements in Tasmania's infrastructure.

6 Part allocation of the $20m provided to Tasmania to

(a)The ACCC to review shipping costs and competition policy issues.

(b) Create a freight logistics team with industry leadership (similar to the Hunter Valley Coal Chain team)

(i) To focus on individual industry issues eg argriculture, metal, paper, food, etc including initial work on the top ten issues and TFES claimants.

(ii) Coordination between customers, road, rail, ports and particularly the Port of Melbourne

(iii) Advance long term planning work on road and rail systems to lift standards under the national land freight strategy-super B doubles, and carrying capacity for 25 tonne axle loads on the national rail system.

(iv) Provide for immediate capital works that provide a net productivity improvement

(v) Develop Tasmanian ports as under the national port strategy-ie development of 50 year plans with the Port of Melbourne and its mainland supply chain; timely development and transparent reporting against a set of KPI's as proposed in the national ports strategy.

(vi) Maximize the benefit of the Brighton intermodal hub

(vii) Work with Tasmania's exporters, and

(viii) Drive down costs across the supply chain.

Any payments to industry as 'compensation' for withdrawal of international shipping should only be considered if there is a strong case, on the basis that this is a one off structural adjustment payment and should not become a separate entitlement similar to the TFES.

Current and future government and private sector investments in port and logistics infrastructure

7 Close liason with the Minister's Department to ensure capital funds expended meet outcomes under the national port and freight strategies including liason between the Department and Tasmanian Government on the Coastal shipping Legislation

Terms of reference

*Identification of whole of government measures needed to address current issues; and

* Development of a long-term Tasmanian ports and freight strategy that will identify optimum investments in freight transport and port capacity.

To report on

- International shipping trends and developments, particularly as these affect Tasmania
- Current and prospective government and private sector investments in port facilities and logistics infrastructure
- The operation of the TFES and other mechanisms proving assistance to Tasmanian companies'Efficientport and logistics structures for Tasmania;
- Implications of developments with Tasmanian and Victorian ports, and

The Deegan Report noted that the TFES was the central result of the Nimmo Commission into Transport to and From Tasmania. The Nimmo Report identified some key problems with Tasmania's infrastructure many of which continue to influence the local and national supply chain to the present. One key issue identified by Nimmo was bureaucratic. In 1974 Tasmania's ports were operated by local port authorities and there was no central coordination .In 2006 this lack of coordinated approach was met by amalgamation of four port authorities into Tasports.

Context

Since Nimmo there have been three further inquiries into the TFES ; 1985 the Interstate Commission 1998;Tasmanian Freight Equalisation Scheme Authority; 2006 the Productivity Commission

Deegan termed the TFES as a *barrier to Tasmania understanding the virtues of economic self sufficiency."*If Tasmania is to be a productive member of the Australian Commonwealth then it must take risks, and provide opportunities that will give it an investment boom".

Freight flows and logistic chains in Tasmania

Up to December 2011 agricultural exports were 51.6% of total exports..

There is evidence of a disconnect between Tasmanian ports and rail-eg not long after Tasrail opened its service to Bell Bay Norske Skog and Nystar transferred their operations to Burnie-both companies TFES claimants.

Rail was rated an inefficient modal choice as in 2008-9 it took only 10% of the freight task-(now 2012-18%). Deegan noted Tasmania's railways as being dilapidated in parts with speed restrictions in place. DIER also classified in its Review of Gazetted High Productivity Vehicle Network a number if roads as not meeting Tasmanian Guidelines or Marginally Below

This is unacceptable in light of the nature of Tasmania's rail network and goes some way to explaining Tasmania's economic malaise in that two networks required to transport freight throughout the State are structurally incapable of doing so.

- **Recent relevant analysis and research in the area.**

Nimmo identified major problems in 1976 with Tasmania's port, road and rail infrastructure and the lack of a coherent framework for freight.

At this time Bass Strait was dominated by two firms that exercised market power because they were shielded from competition. A result was held to be that the shipping services did not meet best practice; containers, ships and cargo handling equipment used for Tasmanian trades were obsolescent. The Nimmo Report recommended a freight equalisation scheme with stated aims to:

*offset Tasmania's freight disadvantage;
*promote economic development in Tasmania, and
*promote the development of an efficient transport system.

.Nimmo argued that Tasmania deserved assistance not given to other areas of Australia because at Federation the States had agreed to pool resources to attain a consistent standard of living across the country.

Operation proposed for TFES and reviews

The proposed scheme was to offset freight cost disadvantage but take account of benefits to businesses locating to Tasmania.

The scheme introduced in 1976 only considered freight cost disadvantage but did not include locational advantages in Tasmania.

Export cargoes were excluded from the TFES possibly because of the possibility of:

breaches of obligations under GATT;
*benefits captured by shipping lines rather than Tasmanian businesses;
*export payments to work against direct international shipping services to Tasmania.

The Bureau of Infrastructure and Regional Economics has stated the TFES objective "to alleviate the freight cost disadvantage incurred by shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea".

The TFES seems to have been set up to reduce the potential for Tasmanian businesses becoming unviable by virtue of their reliance on shipping. This might be compared to the key aim in Nimmo to Tasmanian economic development and transport efficiency.

In 2006 the Productivity noted that there had been longstanding concern about the ambiguity of the TFES's underlying objectives. It concluded "There is no clear underlying rationale for providing freight assistance to particular Tasmanian shippers".

In 1985 the Interstate Commission was asked to calculate rates of assistance and examine the extent to which payment

s made under the TFES provided appropriate compensation for any interstate freight cost disadvantages. It found that "those who consign non-bulk goods by sea between Tasmania and Australia are at a demonstrable disadvantage compared with those who consign comparable goods between mainland points of origin and destination..

"Those who ship (bulk) commodities between Tasmania and the mainland suffer no comparative cost disadvantage".

The Commission found no economic reason for subsidies to equalise Bass Strait freight costs with mainland freight costs. It did ,however, see a case for subsidies to be paid to Tasmanian shippers to offset the adverse effects on them of government transport policy decisions that kept the costs of coastal shipping higher than they otherwise would be..The Commission recommended that the TFES be configured as a compensation, rather than an equalisation scheme.

In the Commission's view, Tasmania's transport disadvantage arose solely from the Navigation Act

The Federal Government accepted the Commission's recommendations regarding rates of subsidy but not it's view on causes of transport disadvantage.

In 1998 the Tasmanian Freight Equalisation Scheme Authority found that the TFES failed to define"freight cost disadvantage".It recommended a change in the method of calculating subsidy including the introduction of parameters such as the "road freight equivalent","wharf to wharf" basis,etc.

"The TFES should be placed on a basis where the concept of sea freight disadvantage is defined, widely understood, and the related entitlement to assistance is quantifiable and capable of annual update".

The methodology for subsidy calculation proposed by the Authority in later years has been described as "very Heath Robinson".

The Productivity Commission in 2006 was asked to report on the merits of the arrangements for subsidising shipping between the mainland and Australia.

It found no sound underlying rationale for the scheme:

"If a broader objective of regional development is intended, a sea freight subsidy is unlikely to be the most economically efficient way of meeting this.The subsidies are not equitable within Tasmania. The TFES discriminates against industries that are ineligible for payments under the Ministerial Directions, and favour transport intensive industries and methods of production".

During the review the Howard Government announced continuation of the TFES..The Commission noted that the TFES lacked an economic rationale, and was not consistent with Australia’s regional development programs. The Commission responded:

“ As a result it is difficult to draw meaningful conclusions about the appropriate scope of the scheme. However, as the Government has announced that the scheme will remain, the commission has taken its current scope as a ‘given’ and focussed on ways to make the arrangements operate more efficiently and effectively”.

The Commission found that the parameters used for measurement and compensation for freight disadvantage was problematic and far from robust and essentially arbitrary.

The Commission was also concerned about the potential for market power to affect costs and capture the benefits of the TFES despite there being several shipping companies involved in the Bass Strait trade.:

“The ACCC (2006) considered the barriers to entry into Bass Strait shipping were high, one reason being that there was very little opportunity for a new entrant to gain access to berths, or develop additional berths within the Port of Melbourne. It also identified the effect of vertical integration between carriers and freight forwarders, high capital costs (without guaranteed volume) and the deterrence posed by current excess capacity”.

The Commission questioned whether the TFES had substantial impacts at State level.

“ Potentially significant impacts of the TFES at the firm level do not imply similar impact for the Tasmanian economy overall. TFES payments are equivalent to about 0.9% of total costs and about 2.3% of the value added for the agriculture, mining and manufacturing sectors of the Tasmanian economy…..it would be reasonable to expect the overall output and employment effects from withdrawing the TFES to be commensurate.”

The Commission questioned the extent of the impacts of abolishing the TFES from the Tasmanian Government’s submission which argued that such abolition would cause the Tasmanian economy to experience substantial negative effects on employment and activity over time..with total employment down by around 4,250 jobs. .The Commission responded by stating that the modelling showed that the continuation of the TFES led to very little improvement in Tasmanian welfare per capita “because the population growth induced by the extra economic activity generated by the sea freight subsidy”.

Deegan tregards this as significant in view of Nimmo’s argument that Tasmania deserved assistance because it joined the Federation. Nimmo referred to ‘standard of living’ which equates with welfare per capita as distinct from (say) business profits. :

The Commission effectively found that this type of scheme was ineffective in meeting Nimmo’s argument.

The Commission found that

> The output and employment benefits to the Tasmanian economy are largely at the expense of economic activity elsewhere in Australia and at a small cost to the Australian economy as a whole,and
> Some subsidy recepients under TFES expressed concern about ‘manipulation’ of claims

In 2011 the Australian National Audit Office noted that the TFES is demand driven and while an annual budget is set for the total assistance available for claimants, in practice there is no upper limit to the total annual payments that could be made to claimants,

From 1975-76 to 2010-11 a total of $2.9 billion has been expended on the TFES (in 2010 $ terms)

Abolition of TFES

In 2005 a Monash University study into the economic effects of the TFES for DIER raised concerns at what would happen if the scheme was abolished.

.It found that:

“The Tasmanian economy would experience substantial negative effects on employment and activity that would intensify over time .In that initial year (of TFES abolition) Tasmania would feel just under a third of the ultimate reduction in employment. By the tenth year of the simulation Tasmanian employment would almost have fully adjusted to the loss of (TFES) with total employment down by around 4,250 jobs compared to the baseline forecast with the existing scheme in place".

In 2006 the Productivity Commission , as noted, released its own report and although it did not commission any modelling it did make observations on the level of reliance that the Tasmanian industry has on the TFES. It noted:

" The significance of the TFES relates not only to its quantum but also how long a business has been receiving payments. The longer that subsidies are received the greater the likelihood that they become part of a trading environment and incorporated into business plans. The more likely also that there will be cases where marginal businesses are sustained by subsidy payments".

Deegan regards that this warning by the Commission will make it harder to remove the TFES because of the apparent lack of an Economic Plan B by the Tasmanian Government and industry. The industries that are most likely to be most affected, based on the Productivity Commission data are the Paper and products sector (making up 3.2 % of the northbound TFES claims 2004-5) and the other machinery and equipment sectors (making up 4% of the southbound TFES claims in 2004-5)

Objectives of transport subsidy

Deegan holds that the purpose of a transport subsidy is not to encourage transport, but enable better productivity ,social or safety outcomes by use of transport.

Therefore, in his view, the 'objective' to address 'freight disadvantage' is inadequate as a statement of the purpose of the TFES..The 'objective' merely describes how the scheme is intended to operate-intended to reduce the'freight cost disadvantage' caused by Bass Strait

The purpose of reducing freight cost disadvantage presumably relates to improving the competitiveness of Tasmanian freight customers compared with the mainland industry.this is consistent with the underlying purpose suggested for the original TFES by Nimmo.

High freight costs

The concept of freight cost disadvantage needs careful examination as:

- some argue that recent changes regarding transport increase Tasmania's freight cost disadvantage;
- The potential inability of the TFES to address any such disadvantage caused by inefficient use of infrastructure, fragmented supply chains or market power;
- The Productivity Commission considered the concept to be problematic, and the source of concerns about the TFES.
- Tasmanian businesses are not unique in facing freight costs higher than some mainland businesses as the Tasmanian position must be compared with other Australian businesses.

The idea of freight cost disadvantage estimated by freight costs over a specific distance such as Bass Strait does not have an intrinsic meaning. If it did it would not equate to the level of assistance necessary or sufficient to allow competiveness with comparable firms, or to shore up employment, regional economy, etc.
Nimmo's formulation of cost advantages of location, and the relative importance of freight costs are some of the obvious additional factors that would need to be taken into account.

Inefficient infrastructure and supply chains;market power

Inefficient use of infrastructure in Tasmania include:
*ports with subscale operations reflecting fragmentation of task and less than adequate returns to Tasports;
* limited access for efficient freight vehicles on the road network; poor rail network infrastructure and operating subsidies.
All these have a negative impact on businesses competiveness in Tasmania and generally on the Tasmanian economy.

Fragmented supply chains are indicated by failure to achieve full vehicle/container loads and breaks in the virtual supply chain-information flows. Interoperability between Tasmanian and mainland transport system have not received attention .A subsidy to general transport would not resolve supply chain breaks. More appropriate

responses include supply chain coordination adequately supervised by competition authorities such as the ACCC, and requirements for infrastructure and
vehicle interoperability as a condition of any investment in supply chains.

Freight disadvantage and business plans

*Where freight cost disadvantage includes the need to move goods a short distance by sea issues regarding natural monopoly arise especially at exchange ports, and potential barriers to entry in capital intensive activities such as shipping. Where market power exists it can be exercised to increase costs to customers. There are risks in placing subsidies into supply chains as some parties are able to exercise significant market power. The presence of multiple operators does not rule out market power and assessing it and correction the problems it causes are matters for the ACCC. In relation to the TFES and subsidies generally some firms may develop their internal business plans to take advantage of a subsidy and it may be the sole reason for a firm's existence..However no government can rule out changes to subsidies. There may be a high risk of this happening if the subsidy is seen as anomalous, without a strong basis, or subject to ongoing parameter change.

Effectiveness of TFES

The claims made to the review suggest that after 36 years of the TFES Tasmanian industry still suffers from the same type of freight disadvantage and underlying infrastructure and coordination issues identified by Nimmo. Over that time opportunities to deal with issues such as the inherited problems of ports but no evidence they have been necessarily addressed.

The national purpose as distinct from the State purpose of the TFES is unclear .It is not self evident that the operation of the TFES adds to national productivity or provides a nt national or fiscal dividend apart from local effects. The Productivity Commission concluded that the national effect of the TFES is negative even after accepting that it provides support for the Tasmanian economy.

For example, the Monash claim that the TFES supports 4,000 jobs implies over $20,000 in tax supports each job. The 'equalisation' concept to account for

State or regional disadvantage is addressed in Australia through the Grants Commission. In this process the State governments are given an opportunity to develop strategies to deal with local disadvantage through general purpose grants from the Federal Government.

The pooling of States' resources to establish a consistent standard of living, a concept attributed to Nimmo, seems unusual as there will always be significant variations in living standards across areas which can be met by specific Commonwealth payments to businesses for apparent disadvantages caused by their location.

The 'pooling' concept implies that it should be State governments receiving assistance from any 'pool'.As the Productivity Commission noted the scheme in which Commonwealth payments are made to regional businesses rather than government to offset one element of commercial disadvantage is outside other Commonwealth grants which are targeted at social disadvantage of individuals, enhancing the ability of governments to address their constituents.

Strategy Development

The Deegan review analysis calls for an integrated strategy needed to sustainably improve freight services for Tasmanian businesses. This would address port, rail infrastructure issues particularly the use of infrastructure, market power and supply chain issues should also be considered..

At the time of Nimmo the Commonwealth had a much more significant and direct presence in transport services relating to Tasmania (eg ANL) than it does today. A strategic plan for Tasmanian freight to be developed at that time required the Commonwealth as a key participant. This is no longer the case. The national ports strategy and the draft national land freight strategy stress the importance of long term strategic freight plans being developed by industry and States towards national objectives.

Payments from the Commonwealth to certain industry participants on the basis of freight disadvantage according to Deegan do not create a potential and incentives for Tasmania o develop an effective and sustainable freight strategy. In doing so they do not support the aims of national transport strategies..Whatever sense payments from the Commonwealth through the

TFES to industry for freight disadvantage may have made in the 1970's, there is less reason today.

TASMANIAN FREIGHT EQUALISATION SCHEME AND EXPORT SHIPPING

INFORMATION REQUEST 1

The anomalies in the Tasmanian Freight Equalisation Scheme need fixing.

A Tasmanian processor of skins and hides, Cuthbertsons, exporting direct to China (pre export shipping link closure) does not have the competitive advantage of a similar Victorian processor because they will get Freight Equalisation payments on hides and skins (processed in Tasmania) going to Melbourne but shipped overseas. The Tasmanian processor is not entitled to the $900 per container payment.

The loss of the AAA service from Bell Bay in April 2011 has cost Cuthbertson's an estimated extra $230,000 annually

(summary of letter from Doug Dickinson CEO Cuthbertson Bros. Pty Ltd to Andrew Wilkie MHR 9/6/11)

"The loss of overseas services has doubled shipping costs for local exporters as they now have to pay to get their goods to Melbourne before they can be shipped overseas. For example, in 2006 a wharf-to-wharf freight rate per container was $1160 compared to $507 in road freight equivalent. On top of this the intermodal costs were more than $100 per unit. With the depletion of shipper competition, costs have risen in that time".

The Tasmanian Freight Equalisation Scheme set up in 1976, provides Federal assistance to local companies sending goods to the mainland but it does not apply to goods destined for overseas markets or goods brought into Tasmania from interstate. The state currently receives around $100 million a year in subsidies under the scheme.

While there are issues relating to international trade agreements relating to subsidies on export goods, we want to ensure that the Commonwealth Government gives equal consideration to Tasmanian freight issues as it does on the mainland, for instance with its large Auslink highway investment."

Since the ending of the direct export shipping service from Bell Bay in April 2011 Tasmanian export shippers have experienced additional costs. as there is no choice but to pay for goods to go through Melbourne before being shipped overseas. These cost escalations have been compounded by Tasmanian exporters not being entitled to the $500 to ship to Melbourne.

By contrast a Victorian operator can purchase the same product, ship it to Victoria, follow the same process, export overseas and claim an advantage over Tasmanian firms.

On top of this from1 July 2012 the Port of Melbourne imposed a charge on port users under the Victorian Government imposing a $75million licence fee under the *Management Amendment(Port of Melbourne Licence Fee) Act* 2012 which is estimated by the Department of Infrastructure, Energy and Resources to cost Tasmanian exporters $13 million a year.

There is no indication that Port Licence fee (PLF) would be spent by the Victorian government on Port of Melbourne related infrastructure. According to the Victorian Minister for Ports the PLF would be recovered through normal fees and charges. The Port of Melbourne proposes to do this by an increase in the Reference Tariff (RTF)-wharfage, channel fees and other charges which are estimated to increase the RTF by around 50%.

There are two possible avenues to challenging the PLF. The Transport Pricing General Oversight Branch (TPGO) gives advice to the Australian Competition and Consumer Commission assisting with regulating third party access to essential infrastructure services under the National Access Regime and undertakes certain price oversight functions.

One of TGPO's main roles is to advise on the regulation of transport and general infrastructure access in industries with infrastructure or supply chain bottlenecks or limited competition. This role includes the TGPO assessing proposed access undertakings and arbitrating access disputes in industries such as freight rail and ports. This has been done in the case of bulk wheat export terminals around Australia. The TPGO also has the responsibility for monitoring prices, costs and quality of services in various industries including container operator companies at major Australian ports.

It is clear that the PLF would come under the oversight of the TPGO. The Tasmanian shipping community has no other option than to use the ort of Melbourne for both its interstate and international trade. A 50% increase in its tariffs would be subject to review and this line of action should be followed up by the Minister David O'Byrne and the Tasmanian government.

The second approach could be issue of the constitutionality of the PLF which might fall under the ruling by the High Court in *Hughes &Vale Pty Ltd* v *New South Wales(No2)* (1955) 93 CLR 127.In that case the High Court struck down the Queensland *State Transport Facilities Act* 1946 requiring interstate road traffic to pay more than a reasonable sum for the use of its roads as breaching s92 of the Constitution requiring freedom of interstate trade.

In relation to the Tasmanian Freight Equalisation Scheme(TFES) the then Federal Minister for Transport Senator Albanese provided a $20 million offer to assist Tasmanian exporters but had not agreed to extend the TFES to the export leg for Tasmanian shippers .As the Tasmanian Farmers and Graziers CEO Jan Davis commented (Mercury 24/3/12) a review of the TFES, which the TFG has been pressing for, would have been a better option.

The then Federal Transport Minister Albanese, releasing more details of the package on May 28, announced that it included a $14.5 million as a one off payment as direct assistance to exporters based on full international export containers shipped between April 2011 and April 2012. $4million was allocated to the port of Burnie to increase container handling capacity. An additional $1.5 million for an industry specific freight logistics co-ordination team to examine industry specific freight logistic issues, efficiency improvements and cost minimisation across supply chains and long term port planning.. Bob Gozzi of the Bell Bay Industry Group has commented that there had never been any suggestion or discussion in March this year of funds going to Burnie as the package was intended to compensate for the withdrawal of the international shipping service from Bell Bay.

However the $20 million Federal package is a band aid for the export cost problems facing Tasmanian shippers.

The Productivity Commission 2014 draft report (Request 1) offers extending the northbound component of the TFES to include all eligible goods shipped from Tasmania to the Port of Melbourne. The referral of the Melbourne Port licence fee to the Transport Pricing Oversight Authority as outlined above might be an alternative to extending the TFES to the export leg to Melbourne.

In contrast to the Federal government's approach Canada may offer a better model for dealing with shipping costs and transport efficiency. Canada has what is termed a 'shortsea' shipping policy which covers all of the Canadian provinces and territories and has extended a multimodal concept involving passenger and goods transport (non ocean traffic) to the United States and Mexico. It presents arguably, compared to Australia, a more rational and national. approach to the issue of holding transport costs.

The *Canada Transportation Act* 2001 outlines (in s5) Canada's national transport policy. It states the objectives of a competitive, economic and efficient national transport policy. The ways in which these be achieved include ensuring that rates do not constitute an undue obstacle to the traffic movement within Canada or its exports .In addition governments and the private sector are required to work together for an integrated transport system.

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INFORMATION REQUEST 5 REMOVING RESTRICTIONS ON COASTAL SHIPPING AND REQUEST 4 TT LLINE COMPETITIVE ROLE.

The Juturna (Tasmanian Government Freight Coordination Team Report) study has already indentified the effect of the Coastal Trading(Revitalising Australian Shipping)Act 2012 (Cth) (referred to subsequently as the Coastal Trading Act) and concluded that its cabotage restrictions are likely to have anticompetitive effect and impact on the cost of shipping borne by Tasmanian businesses.

Deputy Prime Minister Warren Truss (Australian 19/9'12) as Minister for Infrastructure and Regional Development has signalled changing the Coastal Shipping Act 2012(Cth).This involved streamlining the system for applying for temporary licences to use foreign ships on Australian coastal voyages.

The Minister expressed concern at a blow out in domestic shipping costs. as the Coastal Trading Act)had tightened cabotage rules that preserve freight routes from one Australian port to another for Australian flagged ships. It was now cheaper to ship sugar from Thailand to Melbourne than between Melbourne and Queensland. It was also reaching the stage where it was cheaper to ship cement from China to Australia than move it between domestic ports. The Minister's preference was for Australian flagships plying the Australian coast in larger numbers. However in respect of speciality journeys the better option was for more internationally flagged vessels undertaking a journey around the Australian coast than have the product simply imported from another part of the world.

Mark Chellow , CEO of Adelaide Brighton (a cement manufacturer), stated that the Coastal Shipping Act had' increased union power and led to a potential monopoly of coastal shipping'. Incitec Pivot's chief operations officer James Whiteside claimed that the Coastal Shipping Act 'restricts our ability to achieve timely deliveries of fertiliser to meet the demands of Australian farmers, places an unnecessary risk on timely supply of raw materials to our manufacturing assts, and reduces the availability of commercial vessels in Australian waters'. Cement industry CEO Margaret Thomson said that industry was concerned that the Coastal Trading Act proposals would create a monopoly on coastal shipping for dry bulk freight users that was protected by legislation and room for price gouging could have occurred. Caltex had warned prior to the Coastal Trading Act passing that a new requirement to carry out 5 voyages a year to get a 12 month licence would encourage shippers to include bogus voyages in their operations.

The effect of modifications of the Coastal Trading Act 2012(Cth) as proposed by Federal Minister Truss may have beneficial effects which may reduce freight rates for Australian coastal shipping including services on Bass Strait. However, the Productivity Commission in 2006 had voiced concerns about the potential for market power to affect costs and capture the benefits of the TFES and noted "The ACCC (2006) considered the barriers to entry into Bass Strait Shipping were high, one reason being there was very little opportunity for a new entrant to gain access to berths, or develop additional berths within the Port of Melbourne. It also identified the effect of vertical integration between carriers and freight forwarders, high capital costs (without guaranteed volume) and the deterrent posed by current excess capacity" The Deegan 2012 Report to the Minister for Infrastructure and Transport commented that where freight cost disadvantage includes the need to move goods a short distance by sea issues regarding natural monopoly arise especially at exchange ports, and potential barriers to entry in capital intensive activities such as shipping. Where market power exists it can be exercised to increase costs to customers. There are risks in placing subsidies into supply chains as some parties are able to exercise significant market power. The presence of multiple operators does not rule out market power and assessing it and correction of the problems it causes are matters for the ACCC.

On this issue of competition in Bass Strait Shipping examination by the ACCC is arguably a major priority.

INFORMATION REQUEST 6 TASPORTS AND SPECIALISATION

The Freight Logistics Coordination Team ((Juturna) 2012 Report included in its recommendations a proposal for a single port strategy focussing on Burnie.

Bob Gozzi of the Tasmanian Export Group has criticised singling out Burnie as underestimating container growth arguing that the Juturna recommendation would see Tasmania reach freight capacity in over a decade. The Juturna Report maintains that Burnie has the capacity for 750,000 containers a year meeting demand for the next 30 years.

The MMCLink Report (2012),'Containerised Freight Specialisation at the Port of Bell Bay: A Cost Benefit Analysis' found that existing ports, including Burnie, would reach capacity within 10 years. Without planned port investment now Tasmania would lose trade opportunities. The Report highlighted the need for selection of infrastructure upgrades that should include factors such as land availability, neighbouring industry uses and existing site congestion constraints.

The MMCLink Report determined that Bell Bay was the preferred location for future expansion of container freight capacity. The Report noted that Bell Bay was home to key industries including TEMCO, Rio Tinto Alcan, Gunns(until 2013),Artec, ECKA Granules and the Tamar Valley Power Station. Bell Bay was the best location to manage growth with sufficient nearby industrial land, good rail and road links,a deep natural harbour and no nearby development.

Restraints consisted of congested rail loading facilities on the main berth area with restrictions on rail operations during ship unloading. Connection to the main rail network was poor, with a steep grade out of the port limiting train capacity.

The loss of the international service in April 2011 requires the transhipment of all containerised goods through the Port of Melbourne and the loss of the domestic container services with the departure of Toll and ANL to Burnie adds the cost of freighting goods in the case of exporters to Burnie or Devonport estimated by the Aurecon consultancy as $1000-$1300 more per TEU (standard container referred to as a Twenty Foot Equivalent Unit)

Before the loss of these services, Bell Bay was near its container capacity of 150,000 TEUs.Since 2009 an application from the Department of Infrastructure, Energy and Resources (DIER) has been before Infrastructure Australia for upgrading Bell Bay. The proposal in two stages involves:

- Removing the constraints including development of berths and foreshore reclamation giving an increase in capacity of 200,000TEUs a year by 2020
- An inland expansion increasing capacity to 400,000 TEUs a year

  The increase in trade volume has placed much stress on the Burnie container terminal. In May 2012 Burnie port received $8 million in Federal infrastructure funding to increase its container capacity. An estimate of expansion in these facilities gives Burnie port eventual handling of 350,000 TEUs a year, but at 3 per cent annual growth DIER predict this full capacity will be reached by 2020.

  Growth in Burnie port beyond the capacity planned is significantly limited by urban encroachment to expansion of the port inland. There would be additional pressure, according to the MMCLink Report,if increased production and export of bulk commodities from the North West mines came on stream as forecast.

Although the Juturna Report rules out Bell Bay as a container port, investing in Bell Bay for export containers on the analysis provided by the MMCLink Report on Bell Bay would provide the container freight capacity that would add to but not duplicate Burnie.

INFORMATION REQUEST 10 RAIL SPECIALISATION

There are two supply alternatives for land transport of bulk freight-rail or road trucks. Each has the ability to transport bulk freight although each offer a different service. In the first instance, this service is dependent on infrastructure (road and rail) being available. In addition each mode must be able to offer the service characteristics required to satisfy demand. These characteristics cover such aspects as frequency and speed of service; and most importantly the ability to transport the commodity itself. The final aspect of supply is the respective cost of freight movements of the two modes. The relative importance of these factors will depend on the particular commodity to be transported.

The report of the Public Inquiry into the Modal Split of Bulk Traffic between Road and Rail 1991 (the Livermore Report) took the view that as Tasrail at that time confined itself to bulk cargo (significantly containers) the only vehicles that provided an alternative to rail transport were those in the higher gross vehicle mass (GVM) or gross combination mass (GVM) categories. Vehicles of less than 30 tonnes were regarded as unlikely to represent a real alternative to rail.

Background

In order to assess whether Tasrail requires' rationalization' or examination of 'subsidy' in the form of Federal and Tasmanian government funding some background to the current status of the rail system needs to be outlined.

The Australian National Rail Commission (ANRC) in 1978 took over the Tasmanian Government Railways, then run down. The issue of closing down the entire rail system was examined (BTE 1991) considering all costs, including the road system and external costs and the conclusion was that rail services were worth retaining in Tasmania;

‘A full or partial closure of TasRail would further increase heavy truck volumes and thus would, amongst other things, accelerate road damage. It is estimated that the closure of TasRail would affect 967 kms of road sections and result in increased road reconstruction and maintainence cost,.

The Brew Report (1997) recommended transfer of TasRail to private line operators, or if this was not possible, then transfer to the Tasmanian Government. Brew noted’ TasRail’s current and projected operating results indicate that it is not a profitable business’.

In 1997 a Senate Committee, on a decision by the Federal government to sell TasRail, recommended that ‘before proceeding with the sale process the government should develop a coherent land transport policy framework taking into account financial, economic, social and environmental goals and recommending mid and long term investment programs for road and rail in all major corridors’.

Wisconsin Central, which had formed the Australian Transport Network (ATN) to buy TasRail in 1997,sold it to Pacific National (PNT) in 2004.By 2005 the entire network was under invested, with substandard track and many speed restrictions especially over the numerous tight track curves. In October 2005 PNT (through its parent company Asciano) announced impeding cessation of freight rail services in Tasmania (other than cement from Railton to Devonport (22kms) and minerals on the West Coast Melba/Emu Bay line) unless the Federal and Tasmanian Governments provided financial Assistance to upgrade the network. A 2005 study found that a forced shift of freight from rail to road would result in an additional $17 million cost to Tasmanian businesses relying on rail, externalities of more than $6 million and additional road maintainence of $1million a year.

On January 1 2007 the Tasmanian Government acquired all tracks (other than the Melba line) and below rail assets for $1.The Federal Government agreed to provide $78 million to upgrade the Tasmanian Rail network as part of a Rail Rescue Package and PT agreed to provide above rail services on the network and upgrade locomotives and rolling stock. The Railway Company Act 2009(Tas) set upTasrail as a vertically integrated freight railway to operate rail freight services previously provided by PNT.The Emu Bay railway was subsequent purchased from PNT to become part of TasRail under the Emu Bay Railway (Operations and Acquisition) Act 2009(Tas).

In 2012 TasRail, which at that point had 18% of the total land freight task, following substantive rolling stock, locomotive investment and track upgrades reported a freight task of 2.34 million tonnes and a comprehensive operating loss of $36.3 million.

The road-rail split:investment and priorities

The draft Productivity Commission report notes that the Freight Logistics Coordination Team (Juturna) highlighted the need to prioritise road investment on the main freight corridor linking Hobart to Burnie Devonport and the key regional freight roads linking to this corridor. Upgrading of the Midland Highway is phased in currently over 10 years with no current commitment by the Federal Government through Infrastructure Australia to fund The Midland Highway as a dual highway. Unless that occurs in a shorter time frame than 10 years the rail network that duplicates the main freight corridor to Burnie will still be needed to carry bulk freight to the northern ports including Burnie.

Going back to the Brew solution of cherry picking the rail network to hive off the profitable sections which would include the Melba line and the Railton-Devonport link carrying Australian Cement's products would only diminish any return from what the remnant TasRail might hold.In any case The Railton-Devonport link is an example where a short haul is viable counter to the views of some transport economists.

In terms of viability of the rail network the BTE 1991 warning of the impact of closing or depleting the rail network should hold good.As the draft Productivity Commission notes Tasrail could improve its bottom line with better port connectivity of the kind that has recently, but belatedly, occurred in Burnie.

The concept of the Tasrail government funding to be regarded as a subsidy ignores the taxpayer's underwriting of road infrastructure. In the end rail has to be competitive commercially with road and this could involve opening up currently unused lines such as Wiltshire to private operators or assisting tourist rail operators like the Derwent Valley Railway to develop a niche business. The contention in the Productivity Commission draft report that recent rail investment was likely to have delivered a higher return to the Tasmanian Government if directed to transport infrastructure catering to B double traffic is yet to be determined by a framework under the proposed Tasmanian Freight Strategy.

Quotes

“Tasmania should act on its competitive advantages as well as the disadvantages it faces as an island and as a result of shipping rationalisation and consolidation.”

(Robert Wallace TCCI CEO Tasmanian Business Reporter October 2011

“For Tasmanians fair access to mainland transport is not facilitated under the current Bass Strait equalisation scheme”

(Peter Brohier in a letter to Senator Penny Wong Federal Minister for Finance and Deregulation 21/3/11)

“The transport disadvantage posed by Bass Strait is the single most serious impediment to growth in jobs, investment and population for Tasmania” (John Howard 1996)

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