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Mr John Mullen
Chair
Strategic Fleet Taskforce
By email: SFConsultation@infrastructure.gov.au

- 7 DEC 2022

Dear Mr Mullen

Thank you for the opportunity to respond to the Strategic Fleet Taskforce Discussion Paper.

Tasmania is an island-based, export-focused economy, with a heavy reliance on shipping connections for domestic and international cargo movement, as well as supporting passenger movement and the tourism industry. More than 99 per cent of goods leaving and arriving in Tasmania are moved by sea.

Throughout reviews of coastal trading arrangements by successive Australian Governments, the Tasmanian Government has consistently sought recognition of Tasmania's reliance on coastal shipping and outcomes that support increasingly cost competitive and sustainable shipping services for Tasmanian businesses. This includes arrangements that facilitate a sustainable and reliable fleet of vessels engaged in Tasmania's coastal trade and the inclusion of Australian coastal shipping routes in international voyages.

This submission provides information on areas of interest to the taskforce, particularly Tasmania's shipping needs and the impact of maritime disruption. The Tasmanian Government requests the taskforce to consider these matters in forming its recommendations to the Australian Government. Although the identification of specific vessels to be part of a Strategic Fleet is outside of scope for consideration, the Tasmanian Government notes that the possible requisition of vessels from the Bass Strait trade has the potential to negatively impact the Tasmanian economy and security of critical imports including food, medical and pharmaceutical supplies and critical business inputs.

Tasmania's strategic shipping needs

Tasmania produces a diverse range of goods for domestic and international export, and the sea freight task continues to grow. During 2021-22, 607 205 TEUs transited through Tasmania's multi-port network. In addition, about 2 million tonnes of iron ore is exported from privately owned port facilities at Port Latta each year.

Tasmanian shipping is reliant on both Australian and foreign flagged vessels to support its domestic and international freight task. It is understood that vessels providing Tasmanian domestic shipping services comprise a significant proportion of Coastal Trading General Licence holders on the Australia Shipping Register. All three domestic Bass Strait general cargo shipping service providers operate Australian flagged vessels. However, the majority of bulk cargo vessels calling to Tasmanian ports are foreign-flagged.

Bass Strait Container Shipping

Tasmania's freight system is dependent on highly efficient Bass Strait shipping services, which connect Tasmania with the rest of Australia and the world.

Bass Strait freight operators provide an overnight service using roll-on-roll-off vessels, as follows:

- Strait Link (between the Port of Burnie and Port of Melbourne)
- SeaRoad Shipping (between the Port of Devonport and Port of Melbourne)
- TT-Line (between the Port of Devonport and Port of Geelong)

These services are highly regarded by users, who report that the service provision is consistent and reliable. Bass Strait services support just-in-time delivery and minimises the requirement for on-island storage and warehousing. Overnight services also support the time sensitive freight market, including the fresh food products in high demand from Tasmania.

As a short sea trade, however, it is potentially a more expensive model to provide and use. For containerised freight, shipping is proportionally the single largest transport cost in the supply chain of most Tasmanian businesses, comprising a significant component of a domestic shipper's supply chain costs. Eligible businesses receive assistance with shipping costs through the Australian Government's Tasmanian Freight Equalisation Scheme, the operation of which is critical to Tasmania's economic growth.

Seasonal shipping peaks exist across Bass Strait between September and early December for imports, driven by the retail sector, and February to June for exports, driven by agriculture. In recent years, as Tasmania's economy has shown strong growth, Bass Strait freight capacity has been tested during these peak periods.

All Bass Strait operators have acquired appropriately equipped vessels to handle Bass Strait conditions and provide a service model that suits Tasmanian importers and exporters. All three operators have, or are in the process of procuring, new vessels, delivering a major increase in freight capacity and competition. The investment in vessel replacement by Bass Strait shipping operators will provide much needed additional capacity during the traditional peak periods. New vessel capacity is a major boost for Tasmania and provides confidence for freight users. This investment reflects the growing Tasmanian economy and growing demand for Tasmanian products.

International Container Shipping

Direct international shipping options also provide Tasmanian shippers with efficient and cost-effective connections to overseas markets.

An international container shipping service operated by MSC currently calls to the Port of Bell Bay, offering a direct international shipping option for Tasmanian exporters and importers. The MSC service calls to Bell Bay on a weekly basis, connecting to New Zealand via Melbourne, and on to Singapore, Malaysia and Indonesia.

Another direct shipping route has been recently introduced, connecting Tasmania (Port of Devonport) with New Zealand (Port Nelson). The service will support aquaculture industries in Australia and New Zealand, including BioMar (one of Tasmania's largest fish food producers).

With the general trend for international shipping lines to move towards using larger vessels to achieve greater economies of scale, many of the vessels that make international calls to Australia are too large to be accommodated by Tasmanian Ports. Transshipment through the Port of Melbourne therefore forms an important part of the supply chain for Tasmanian exporters and importers, offering greater choice for shippers.

Domestic and International Bulk Shipping

Bulk carriers move large freight volumes directly between Tasmania and ports across Australia and international markets. Bulk commodities imported and exported from Tasmania include cement, mineral concentrates and ores, petroleum, logs and woodchips.

The ability of Tasmanian bulk shipping users to access shipping services at reasonable and sustainable prices is imperative to their continued competitiveness in a global market.

Intra-regional shipping

Tasmania's Bass Strait Islands, as small, remote communities, are acutely dependent on regular and reliable shipping services at fair prices.

Through Tasmanian Government-owned company TasPorts, Bass Island Line operates a weekly shipping service between the main island of Tasmania and King Island. A transshipment option to Melbourne via the Port of Devonport is also available for customers.

Bass Strait Freight Pty Ltd services the Furneaux Group of Islands, including Flinders Island and Cape Barren Island.

The Tasmanian Government maintains a role in ensuring arrangements to ensure minimum level services are met for Island communities.

Impact of maritime disruption

As an island state, maritime disruption has a significant impact on Tasmanian supply chains. There are a number of recent examples of disruption, demonstrating Tasmania's reliance on reliable and efficient shipping services.

COVID-19 pandemic

Globally, the impact of the COVID-19 pandemic led to significant freight challenges. Initial expectations that freight volumes would reduce, followed by increases in consumer demand, lockdowns and government stimulus measures - led to the disruption of global supply chains, particularly international container shipping.

In 2021 the Department of State Growth interviewed a number of Tasmanian businesses to better understand the impact of the COVID-19 on business supply chains. Although many of the impacts can be attributed to lockdowns, changes to consumer demand and reduced air freight capacity, businesses observed the following impacts of maritime disruption:

- significantly higher sea freight rates
- difficulty accessing containers and space on ships
- reduced service reliability (e.g., short shipping and missed port calls, delays due to congestion)
- a shortage of shipping containers
- increased cost of inputs due to cost of freight, fuel, labour, etc.

The flow on effects for businesses was significant. Increased freight rates in the order of 200-400 per cent were not uncommon. One business in Tasmania's logistics sector reported that international shipping rates for the import of a 40-foot container from China increased from about US\$2 500 in 2019 to US\$14 000. Another company reported its total export costs had increased from \$10 million per annum to about \$45 million.

Businesses also experienced difficulty accessing products, or low availability of inputs, including critical inputs. Lead times for ordering and importing some goods increased by an additional six months, and up to a year for some specialist equipment. The retail sector in particular faced challenges with shortages of supplies, also affected by panic buying of certain commodities such as Personal Protective Equipment, prescription and non-prescription medications and toilet paper.

Delays caused by international shipping constraints were cited as a significant factor contributing to the difficulty in sourcing inputs. Some businesses had to charter aircraft due to shipping space being unavailable for their product, with one business paying \$365 000 to bring in \$11 000 worth of chemicals.

Shipping constraints also impacted access to export markets, to the point where companies undertook significant restructuring of their markets – it is understood one company's exports went from 90 per cent of output down to 50 per cent, with plans to reduce further. A shift to local markets was not possible for all businesses, with some reducing production.

Businesses adopted a wide range of strategies to manage the impact of maritime disruption, such as:

- increasing warehousing (both imports and exports)
- shipping opportunistically (e.g. to take advantage of spot rates)
- increasing lead time for ordering inputs
- chartering flights
- finding alternative suppliers for inputs
- managing increased costs (cost reductions elsewhere, changing markets to reduce transport costs, passing cost onto customers)
- reducing production or shutdown for a period of time
- utilising government assistance options, including JobKeeper, International Freight Assistance Mechanism (IFAM) and Tasmanian Freight Equalisation Scheme (TFES)

Implementing these measures to mitigate the impact of maritime disruption came at a significant cost for business. These challenges were also exacerbated by Australia's smaller population and freight volumes making Australia a less attractive destination to shipping lines, with challenges in Tasmania compounded by the state's smaller domestic market and the added cost of Bass Strait.

International shipping service withdrawal

In 2011, the Asia Australia Alliance (AAA) shipping consortium ceased its direct international service calls to Bell Bay, while Agility Shipping cancelled its domestic service between Bell Bay and Melbourne after failing to secure a permanent berth at Port of Melbourne. The loss of services cost customers approximately \$1000 extra per container handling and transshipment fees, and increased the cost of road transport to Devonport and Burnie Ports. The 2014 Productivity Commission Inquiry into Tasmanian Shipping and Freight also heard evidence that the departure of these services had competition implications and led to an increase in freight rates.

The domestic service subsequently offered by Swire Shipping between Hobart to Sydney and Brisbane resulted in more competitive pricing across shipping lines servicing Tasmania. However, the service was short-lived. When this service was cancelled in 2018, customers were left with two weeks' notice to arrange land transport to Tasmania's northern ports, Bass Strait shipping capacity, and transshipments to markets via Port of Melbourne.

Despite significant growth in Tasmania's freight task, Tasmania's ability to attract investment from international shipping lines is limited by relatively low container freight volumes. Servicing Tasmania also requires investments in vessels that meet Bass Strait conditions and available on-land infrastructure.

Tasmania's experience is that international shipping lines do not have the same level of vested interest in maintaining Tasmanian services. Tasmania is vulnerable to blank sailings and the risk of service cancellations, which create costly disruptions for business.

This example shows that promoting competition can lead to more affordable freight; however, the cost benefits of increasing competition must be sustainable and take into consideration the long-term cost-effectiveness of providing reliable and secure services for shippers.

Conclusion

The cost, efficiency and reliability of Bass Strait shipping services are a key determinant of business efficiency and profitability. Tasmania has developed a range of targeted plans to support the effectiveness of freight and supply chains based around maritime transport, including the Tasmanian Integrated Freight Strategy.

It is understood that the establishment of an Australian Strategic Fleet has the potential to ameliorate risks of disruption to freight movement, particularly in times of regional or national emergency. The capacity to manage a Strategic Fleet to balance priorities for freight movement in different scenarios will therefore be a critical consideration for the taskforce. Noting that a high proportion of existing Australian-flagged maritime vessels currently operate to Tasmania, this consideration is likely to have additional relevance to Tasmanian-based freight movements.

At this early stage, the Tasmanian Government therefore respectfully requests that the particular characteristics and needs associated with the Bass Strait trade are given due consideration as the taskforce works through its terms of reference.

Once again, thank you for the opportunity to respond to the discussion paper. I look forward to the taskforce's initial recommendations, and I would welcome the opportunity for further engagement as the taskforce enters its second phase of work next year.

Yours sincerely

A handwritten signature in blue ink that reads "Michael Ferguson". The signature is written in a cursive, flowing style.

Michael Ferguson MP
Deputy Premier
Minister for Infrastructure and Transport