



Tasmanian freight infrastructure systems: Final Report

For the Tasmanian Freight and Logistics Coordination Team

15 August 2013



NB: This analysis is intended to be read in conjunction with the attached *Interim Report* and baseline forecast paper for the Tasmanian economy to 2049-50.

Disclaimer

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Comments and questions

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Summary

This report is presented in the context of three major trends in Australian freight infrastructure generally:

- **The rise of Asia** – an Asian middle class of 500 million is set to grow to almost 2 billion by 2030, and Tasmania's stated intention through its own White Paper on *Tasmania in the Asian Century* is to orient its freight infrastructure to maximise access to this unprecedented marketplace;
- **A freight infrastructure funding crisis** – nationwide, governments face the challenge of funding a vast stock of legacy economic infrastructure such as ports, roads and railways, as well as building new infrastructure, all with far insufficient taxpayer revenue, and a fiscal future in which an ageing population and reduced tax base will challenge all public funding objectives. At the same time, governments around Australia have shown an unwillingness to enter into significant debt arrangements for funding freight infrastructure projects;
- **Private sector demand for freight infrastructure investments** – the post-global financial crisis era has seen unprecedented interest from patient private capital for making long-term investments in Australia's economic infrastructure, including freight, where robust due diligence arrangements and investor certainty can be offered; this has been accompanied by an emerging public policy discussion about how governments can orient their freight infrastructure policies to capitalise on this demand and thereby create better freight infrastructure solutions for their communities.

This project commenced in March 2013 and was tasked with consulting industry and government on key freight systems issues facing Tasmania's ports, road, and rail (the analysis did not extend to pipelines). This consultation, which is summarised in this report, was supported by amongst other things future market analysis, in the form of plausible and internally-consistent demand modelling of the entire Tasmanian economy to mid-century.

As outlined in detail in the accompanying *Interim Report*, this baseline forecast suggested that Tasmania to mid-century would exhibit the following features:

- Compound annual economic growth of **1.7% per annum**, compared to mainland equivalent growth of **2.4% per annum**

- Compound annual import growth of **1.8% per annum**, export growth **1.1% per annum**

This suggested that Tasmania would move towards a more import-dependant, less export-intensive economy, and that trading aspects of the economy, such as mining, agriculture and manufacturing would shrink as a proportion of the overall economy.

The report examined what factors in freight infrastructure policy and operations, if identified and addressed, could improve on this situation. It asked why the Tasmania economy – a relatively open, trade-exposed economy on the southern doorstep of Asia – the centre of world trade – and possessed of a highly-educated population and strong natural advantage in a number of resources, was not forecast to grow more strongly.

Accordingly, the *Interim Report* considered four significant freight matters which seemed to distinguish Tasmanian freight from its mainland equivalent and which together were likely to be acting as barriers to greater Tasmanian economic growth:

- **Lack of freight asset rationalisation for greater efficiency** – In comparison to mainland Australia, in Tasmania there has been little freight infrastructure rationalisation to fewer, larger and more efficient places and networks for freight that might deliver better economies of scale, scope of services and greater competition
- **No market-driven, private funding of key freight infrastructure is available under current arrangements** – all of Tasmania's major freight infrastructure assets – ports, railways and key freight roads, which are all revolve around commercial activity – remain solely planned and funded by government agencies (In the case of roads) or by government-owned corporations (in the case of seaports and rail), taxpayer funding for these assets is increasingly scarce, funding decisions are not particularly market-driven – being made by governments and government-owned corporations rather than the freight market itself – and private investment has no path to invest in and improve on the efficiency of Tasmania's core stock of freight infrastructure assets under such arrangements.
- **Of all Australian state and territories, any inefficiencies in national coastal shipping laws impact most strongly on Tasmania** – Tasmania's island setting means that any inefficiencies in or a failure to take advantage of all of the benefits of Australia's *Coastal Trading* shipping legislation, which limits coastal trade to

Australian-flagged vessels - would impact on the efficiency of Tasmania's freight task far more than in other states, because unlike other states, Tasmanian shippers do not have access to 'substitute' freight service providers on rail or road to overcome any coastal shipping deficiencies; and

- **Much of Tasmania's domestic freight task is subsidised on a general and unmeasured basis** – this subsidy occurs via the Tasmanian Freight Equalisation Scheme (TFES), on the assumed principle that the state is uniquely freight disadvantaged in the Federation; the subsidy appears to be exercising a distortionary effect on some aspects of the freight task; it appears to be masking wider inefficiencies and dissuading investment and competition solutions to these inefficiencies from being pursued.

Building on the *Interim Report*, and with the benefit of further consultation with many interested parties - all of whom provided frank and instructive insights - this final report considers in more detail areas which, if addressed, might do the most to reduce the cost of Tasmanian freight and thereby create a stronger Tasmanian economy.

This final report sets out hypotheses on particular aspects of Tasmanian freight operations, planning and investment which, if proven through further analysis and actions outlined in the recommendations that follow, should offer net benefits to the Tasmanian economy, *via*:

- better economies of scale in freight services;
- a greater range of freight services; and
- injecting greater competitive tension into the freight market by taking steps to open the key assets and services to greater investment and new entrants.

Briefly, wider planning and reform observations discuss Tasmanian freight planning and investment arrangements, and how freight might be planned for and protected in a way that provides greater freight operational and investor certainty, while ensuring that the externality effects of freight activity on the environment, heritage, safety and public amenity are managed effectively.

A series of recommendations are offered. The recommendations outline reliable mechanisms through which state policy makers and industry can test these hypotheses and make changes on an

informed and responsible basis. Most of the recommendations are straightforward and can be implemented quite quickly.

In keeping with the hypothesis that lack of private capital investment, underinvestment in the past and lack of asset rationalisation are key themes, the recommendations have a market-led flavour. Some aspects of the recommendations will require dedicated independent analysis, or the running of economic simulations, but many issues involve market-driven due diligence of existing freight assets and testing of demand for new approaches to operations and investment. With this in mind, two annexures to the report offers a stepwise process for establishing market interest in some freight solutions, and explain what is possible under the current regulatory arrangements.

The final report makes no direct recommendations about the Tasmanian Freight Equalisation Scheme. However, the distortionary effects of this subsidy have been observable to this report, and it is concluded that the subsidy is very likely to be exerting a masking effect on some considerable inefficiencies in the Tasmanian freight system, which are discussed in the body of this document. However, fixing these problems through the direct or rapid removal of the freight subsidy would likely cause entirely inadvisable turbulence to the state economy, without addressing other underlying freight inefficiencies in the state. A more prudent approach lies in first addressing the wider matters contained in this report, which hold prospects for growing the state economy overall if attended to; this provides a much more manageable basis for attending to inefficient economic subsidy policies later.

As the *Interim Report* explained, this inquiry takes the view that a somewhat low economic forecast for Tasmania, while plausible, is not an inevitability, and close attention to key matters in freight infrastructure and its commercial access and investment needs holds prospects for making a useful contribution to changing the state economy for the better.

Formal recommendations

Recommendation 1: Consider market-driven private investment in freight infrastructure.

Recommendation 2: Establish swift and robust mechanisms for attracting reliable private investment and market demand in state freight solutions.

Recommendation 3: The Tasmanian government should consider building vital operator and investor confidence in the market's ability to invest capital in Tasmanian freight assets, by declaring major Tasmanian ports and shipping channels, rail networks and key road freight corridors open to third party access and improvement under section 111A of the *Competition and Consumer Act (2010)*.

Recommendation 4: Establish expression of interest processes for testing market-based solutions to key problem areas in freight and put in place effective due diligence structures around these assets.

Recommendation 5: Implement appropriate structures to avoid public sector 'capture' of market-based investment reform processes.

Recommendation 6: Ensure that key appointments to any expression of interest process have appropriate coordination powers.

Recommendation 7: Ensure the direct and early involvement of the Tasmanian Planning Commission Chairperson in any expression of interest processes.

Recommendation 8: Ensure an appropriate role in these processes for the public sector and government corporate road, rail and port managers.

Recommendation 9: Identify and remove likely barriers to further competition and investment in Tasmania's freight sector through appropriate review and analysis:

Recommendation 9.1: Examine the operational and economic effects of Tasmania's compliance with the *Coastal Trading (Revitalising Australian Shipping) Act 2012*.

Recommendation 9.2: Examine the merits of TT Line ferry service privatisation for improving competitive aspects of the Bass Strait freight task.

Recommendation 9.3: Review existing tenancy arrangements for ports to identify any non-competitive arrangements that might dissuade new entrants and further commercial investment in this infrastructure.

Recommendation 9.4: Review and attempt to quantify the matter of airfreight and subsidised ferry freight contestability and the potential disadvantage that this might represent to further efficient commercial growth of the Tasmanian airfreight sector.

Recommendation 9.5: Establish Port of Melbourne operational certainty and cost arrangements for Tasmanian shippers and the Tasmanian transshipment task.

Recommendation 10: Tasmania should invite commercial road access trials with more productive road freight vehicles.

Recommendation 11: Better data collation and analysis should be undertaken and maintained by the state government in both the airfreight trade and in relation to low-price, less-frequent Bass Strait trade cargo candidates.

Recommendation 12: Where practical, conduct dynamic modelling simulations to examine the likely beneficial impacts on the Tasmanian economy of the reform areas examined in this report.

Recommendation 13: Monitor the need for structural adjustment as a result of market based investments and other reform recommendations of this report.

Industry consultation on key freight system issues

The 18 members of the Tasmanian Freight and Logistics Coordination Team were consulted for their views. This usually involved site meetings, at times telephone interviews. More broadly, a much wider group has been interviewed; two Tasmanian Chamber of Commerce and Industry round table sessions have been sponsored, attracting over 20 further interested parties in Tasmanian business and local government; Northern Tasmanian Development afforded the authors a chance to speak to a further 8 local government leaders. All parties brought valuable feedback and approached the discussions from a diverse range of perspectives.

List of consulted parties:

ANL

Australian Air Express

Australian Maritime College

Australian Mines and Metals Association

Australian Rail Track Corporation

Bell Bay Aluminium

Big W

BHP Temco

Break O' Day Local Government Association

Blundstone

Cadburys

CAT

Centre of Policy Studies, Monash University

Coca Cola

Coles

Commonwealth Treasury

Commonwealth Department of Infrastructure, Transport and Regional Services

Cradle Coast Authority

Cuthbertson Brothers

Mr David Williams

Department of Infrastructure, Energy and Resources

Devonport Local Government Association

Mr Doug Dickinson

Dorset Local Government Association

Elphinstone Group

Dr Bruce Felmingham

Field Fresh

Flinders Island Local Government Association

Forestry Tasmania

Fresh Freight Tasmania

George Town Local Government Association

Harvest Moon

Hatch

Hobart International Airport

Incat

Infrastructure Australia

JBS Swift

Launceston Airport

Launceston City Local Government Association

Mr John Livermore

Mersey Valley Local Government Association

NetSeaFreight

Neville Smith Forestry Products

New South Wales Department of Treasury

Mr Ian Newman

Norske Skog

Northern Development Corporation

Northern Midlands Local Government Association

Nyrstar

Orient Overseas Container Line (OOCL)

Port of Melbourne Corporation

Regional Development Australia (Tasmania)

Searoad

Sharp Airlines

Swires Shipping

Tasmanian Chamber of Commerce and Industry

Tasmanian Department of Economic Development

Tasmanian Farmers and Graziers Association

Tasmanian Irrigation Development Board

Tasmanian Planning Commission

Tasmanian Salmonid Growers Association

Tasmanian Transport Commissioner

Tasmanian Transport Forum

Tasmanian Transport and Logistics Forum

Tasports

Tasrail

Toll Group

TT Line

Venture Minerals

Veolia

Websters

West Tamar Local Government Association

Woolworths

Mr David Young

Consultation outcomes

Honesty needed in a complex and opaque field of inquiry

A number of parties mentioned that they wanted the consultancy to produce something transparent, so that whatever the issues that might be raised, matters could be dealt with transparently and with the benefit of an objective evidence base to guide reform considerations. More than one party reported considerable frustration at the (allegedly) fragmented and parochial approaches that they felt had played too strong a role in Tasmanian freight infrastructure planning and investment in the past and which – at least in the opinions of some interviewees – had contributed to less than optimal infrastructure choices in the past that in some cases impacted adversely on contemporary cost structures for businesses on the island.

Improving Bass Strait transshipment is the state's major freight challenge

The Bass Strait transshipment trade was viewed by most as too expensive, but there was little identification of underlying causes for this amongst those interviewed.

Given its dominance of Tasmania's freight task, the transshipment trade attracted much comment. The majority of interviewees felt that the trade was too expensive, but few ventured an opinion as to why this might be (this report draws conclusions on this matter later in the report). Some parties, including some of the shipping firms, raised the prospect that the legislative arrangements around coastal shipping – or at least the application of these matters in the Bass Strait trade – are causing inefficiencies for customers. There was a sense from some interviewees that these matters might be seen as 'too politicised to raise'.

There is a high-quality but costly freight service across Bass Strait

The unavoidably 'high-cost, high-frequency' nature of the current Bass Strait shipping service was raised as a particular challenge to doing business for major retail importers

The core Bass Strait trade involves 3 main freight operators (Toll, Searoad and TT Line); each of these firms operates on a more or less daily sailing basis. The shipping firms interviewed suggested that there was little legislative requirement for their operations to be at the level that they were, but that instead their sailing timetables were in most cases responding to perceived market demand for their services.

When it was raised in interview that the state might be over-

serviced in this respect, at a cost premium to the shipper, some interviewees responded that they expected this level of service, and that they viewed high service levels as a means of reducing the island disadvantage that Tasmanian freight experienced. Moreover, some of those interviewed indicated that their logistics and stockpile cycles had become fine-tuned around anticipating a more or less daily island-mainland service.

No exporter raised the prospect that for some less time-sensitive commodities, service levels across Bass Strait might be reduced in frequency in return for a cost reduction to the shipper. However, major importers did raise this issue directly: discussions with a major supermarket and general retail product chain revealed significant frustration with the high-price, high-frequency Bass Strait shipping arrangements: more accurately, the frustration was not with the service itself, which was considered very efficient in an operational sense, but with the fact that many of the goods moved incurred the premium daily sailing freight cost, but were by their nature not goods so time-sensitive as to need to be moved each day. The lack of an alternative was a matter that these interviewees felt contributed unnecessarily to their cost pressures.

Only a handful of interviews were conducted with freight practitioners and shippers involved with Tasmania's islands. There was strong view that any lack of service flexibility or distortionary effect of subsidy is magnified for the smaller economies of Tasmania's islands, which also maintain subsidised but somewhat expensive shipping services and non-subsidised air freight services.

Cost structures are fragile; further freight efficiency is seen as vital

Tasmania's economy includes some businesses employing perhaps above 250 employees. This group of businesses is complemented by a very large amount of small enterprises. Of concern is the fact that almost all of the larger businesses interviewed for this project indicated that their cost structures were under considerable pressure and that freight infrastructure inputs were a major factor in this respect. Many businesses reported that they were in effect already 'at the top of their cost curve' and that without some form of reduction to their cost structure, this left their respective futures in the state uncertain. This sentiment was more pronounced in the sectors that appear to produce lower-value commodities with higher price sensitivities.

Some of those businesses interviewed that were part of a national or global corporation made the point consistently that poor freight outcomes contributed to their businesses being ranked in the bottom quartile of their head office reports, and

that such a position was never sustainable when boards were charged with making broader efficiency decisions about their capital, operational and new investment choices. There was considerable frustration from such companies that governments and infrastructure owners did not seem to appreciate how perilous it was for such businesses to feature consistently in the bottom quartile of global or national asset portfolios.

A direct international container trade is seen as vital but perhaps unrealistic

Those Tasmanian businesses interviewed which exported to or imported from overseas indicated that the loss of an international direct shipping service from Bell Bay in 2011 hurt their businesses very considerably, and that the renewal of a direct service would be of great benefit to their cost structures. However, there was a perhaps prevailing view that as international imports and exports to and from Tasmania via Port of Melbourne only accounted for around 10% of the current total state container trade, it was hard to see how this trade could be made commercially viable for direct shipping in future.

International exporters were the most vocal in raising the loss of a direct international shipping service to and from Tasmania in 2011, with some exporters pointing to container shipping costs to and from the same international ports rising by well over \$1,000 per container in some instances; this, it was explained, was placing significant further pressure on the cost structures of such businesses.

However, at least one international shipper who had been involved in the Bell Bay consortium service up until 2011 suggested that while securing sufficient regular container volumes from a direct Tasmanian service might be an issue, physical infrastructure constraints in Tasmanian ports were the first order challenge: this party suggested that the loss of the international trade in 2011 was to a considerable degree due to Bell Bay being simply too shallow and constrained to accommodate the sort of larger container vessel sizes that the consortium found cost-effective to employ on a typical Australia-Asia transshipment service. Evidently the Bell Bay service tried to maintain smaller vessels on this route, but that they proved uneconomical in the long run. All of Tasmania's northern ports face similar challenges as they are all relatively shallow; at the same time, advice from Tasports at the time of interview was there were no major dredging plans planned for any of the northern ports.

One international shipping firm which was at present running a non-container international service did indicate a willingness to consider a direct international container trade with a smaller

vessel that could operate from Bell Bay, although the sailing destinations and delivery schedules proposed for this service were not a matter investigated by this report. These matters are returned to later in this report.

When put to them by the interviewer, a small number of businesses agreed that notwithstanding the currently small size of international trade via transshipment, the market for direct shipping to at least the Asian 'hub' transshipment ports would benefit from at least being tested via a contestable process, to determine true market interest levels in providing direct shipping, recognising that this would also most likely involve offering full flexibility to any potential market by being prepared to consider scale upgrades to ports that might help aggregate international volumes and which might offer a better access solution to modern generation international shipping. Those who ventured this view were themselves exposed to high increases in transport costs through being forced to tranship product to Melbourne.

Several local governments in the north east of Tasmania noted their own recent efforts to secure international trade and expressed some frustration that in the absence of a state solution, they were forced to try themselves to reinstate such a trade. There was little to no awareness of channel depth being an issue amongst this group.

Current freight map: price considered more important than freight path

Shippers commented that final price of freight to their business was more important than where precisely the freight came and went from – referring to specific ports, for example – so that existing freight flows and destinations should not necessarily be considered to be set in stone if further efficiencies can be found via other locations, network rationalisations and flows

The interview process tried to establish market price sensitivity and whether – at least theoretically – achieving better cost structures by moving goods to different ports, for example, would overrule the existing paths to market for some shippers.

There was overall very little parochialism for particular ports or transport modes amongst industry, which in the majority of cases was interested primarily in price and service structures.

Industry interviewees divided into two more or less clear sub-categories: those with higher-value, time-sensitive freights (such as seafood) suggested that price was not a particular issue, but time and certainty was all important, so that they would always seek out (or maintain) the most time-efficient freight supply chain.

Others with less time-sensitive and more price-sensitive, lower-value products (such as metals) made it clear that they would be happy to follow a reliably lower-price supply chain solution, even if this meant moving to a freight destination further away from their point of production. This feedback suggests strongly that:

- There is a latent division of commodities produced in the supply chain between time and price-sensitive commodities and the respective actors will follow predictable behaviours in their supply chain solutions; and
- Existing freight destinations and freight flows could change and be supported by customers if changed destinations for freight delivered better outcomes – so that the current hierarchy of state ports, rail lines and key freight flows should not be considered as ‘set in stone’.

It should be noted that this approach was not greeted with much enthusiasm by some of those parties interviewed. Some expressed an expectation that future planning would for preference involve building on the existing stock and spread of infrastructure, by forecasting likely future throughputs in existing ports, rail lines and highways, based on recent freight flows. This is known as the ‘predict and provide’ model. At the same time, a few parties interviewed felt that Tasmania had come to ‘a fork in the road’ in its freight infrastructure and new approaches needed to be considered to drive further efficiencies from it.

Economic growth is supported, but transition risks need consideration

Local government by and large were supportive of the notion of more efficiency in freight cost structures and growth, even if this meant traditional freight paths were challenged, but the ‘transition turbulence’ of such change was confronting

Many local governments and development authorities interviewed were also posed the same question as shippers: if a move to a different port or some other freight flow could be shown to produce better outcomes for businesses and thereby grow Gross State Product, would that be more or less important than affiliations to legacy freight destinations and flows?

This feedback was interesting – most respondents indicated that while there was an obvious preference for their own region to maintain or enhance its freight infrastructure and flows, the prospect of a better Tasmanian economic performance, growth and jobs overall was something more important than parochial interest. Interestingly, there was nobody interviewed who indicated a strongly opposite view to this sentiment. Local governments did

raise the concern over how local communities and their freight tasks would transition to more efficient freight infrastructure patterns across the state and the potential need for structural adjustment in that respect was raised many times.

Little understanding of private investor interest in freight infrastructure

Current freight infrastructure funding models were not well understood but there was strong industry and community interest in prospects for private sector capital investment in freight infrastructure assets

Interviews suggested some lack of awareness around the funding constraints facing Tasmanian freight infrastructure and private sector infrastructure investor interest in these asset classes more generally. Some people did make the observation that as almost all of Tasmania’s freight infrastructure is owned, controlled, planned and funded by the taxpayer, the state had probably been under-serviced for investment in freight in recent decades: interviewees in Burnie in particular felt that very little had been done in rail or port to grow the regional economy, with most investments occurring several decades ago. Overall, local governments in particular expressed surprise and interest at the prospect that patient private capital investment might be interested in Tasmanian freight infrastructure asset investments.

Is freight infrastructure investment matching state production investment?

Agriculture in particular is concerned about a potential disconnect between positive agricultural expansions and a lack of future efficient freight solutions being provided for same

The farming sector in Tasmania has embraced the concept of ‘Tasmania in the Asian Century’ very strongly. In agriculture, dairy and horticulture, those interviewed raised concerns that very large investments in the scale and efficiency of these sectors – such as large scale irrigation developments in the midlands – would be harmed if commensurate freight infrastructure economies of scale were not developed to service these commodities in the future. Dairy was singled out as an area of particular concern: modelling forecasts for this sector revised with industry input after the *Interim Report* suggest that it would grow to about four times its current size by mid-century. Such growth could be expected to need scaled infrastructure solutions, although not to the extent of the specialised heavy freight needs of mining.

Tasmanian airfreight: a poor cousin?

Airfreight was viewed – at least by some of its practitioners – as a ‘poor cousin’ in Tasmanian freight infrastructure

Both Launceston and Hobart airports indicated that domestic airlines have shown a willingness to consider expanding airfreight solutions to and from Tasmania; such freight in principle serves to subsidise airline passenger services, at the margins: an example provided during the interviews was of a large 767 aircraft service to Cairns, which might on passenger volumes alone at times represent an unfeasibly large aircraft for this route, but which evidently is maintained on this leg, in part due to the profitable airfreight ‘back-loading’ of bananas to southern markets. However, despite some carrier interest, Hobart and Launceston airports and airfreight practitioners themselves indicated problems:

- **Contestability with subsidised Bass Strait shipping** – the availability of a significant ongoing freight subsidy to shippers using the TT ‘roll-on-roll off’ ferry service – created contestability barriers that intuitively, as far as the airports were concerned, disadvantaged air freight’s prospects for pursuing a greater efficient scale of operations and airside infrastructure investment in the Tasmanian freight market – such as the provision of cold storage logistics.
- **Poor freight data on which to base investment decisions** – further investment in airfreight infrastructure and services laboured under the received wisdom that ‘airfreight is only about one per cent of the freight task’ when it perhaps represented far more in value terms, and could perhaps offer more again in future, but that these considerations did not seem to be a priority for freight planners. They had little access to data on the sort of freight quantum and types that might be nominally interested to inform commercial decisions around airfreight service and infrastructure upgrades.
- **Island airfreight** was not subsidised, but the role of airfreight here was substantial: the principal carrier to Flinders and King Islands carried over half a million tonnes of goods to and from these islands in the last financial year. This carrier made the point that the compliance levels for a regular public transport and freight provider were higher than for charter firms, which undermined the viability of maintaining holistic and regular airfreight services to the islands.

Several advanced manufacturing firms, such as fast ferry and mining vehicle builders, were among those who indicated that the lack of better air freight services created time and cost delays for their businesses. In the case of a major North-West mining construction operation, the lack of better international air freight

links meant that millions of dollars in additional costs were borne in keeping local inventories stocked with high-cost products that could otherwise be sourced internationally on a ‘just-in-time’ basis.

Most of Tasmania’s mineral wealth has no efficient freight solution

The minerals sector freight task in particular remained far from a jointly-developed supply chain solution that could open up more cost-effective transport opportunities for more miners

Several mining and mining services companies pointed to difficulties in developing a coordinated and efficient ‘pit to port’ supply chain for the mineral-rich North-West of Tasmania in particular: an effective multi-user freight solution to an efficient port was yet to materialise. One local miner noted that ‘most of the infrastructure that did exist was over 30 years old and had not been upgraded since then’; that ‘Tasports provides no facilities for the export of bulk commodities at Burnie’, and that in any event the ‘port’s shipping channel is now too shallow for modern cost-effective bulk commodity carriers’.

Interviews with Tasports and Tasrail did not suggest that there were any major strategic investments or plans for ‘pit to port’ developments in this ostensibly mineral-rich region, although this report did not consider Tasports planning documents unless they were publicly available.

Freight subsidisation produces a wide spectrum of views

The Tasmanian Freight Equalisation Scheme produced very mixed reactions as an issue.

The Tasmanian Freight Equalisation Scheme was raised in most interviews as a headline topic. This is understandable given the dominance of this scheme in Tasmanian freight operations: much of Tasmania's domestic transshipment freight task is subsidised by the scheme, which in 2013 is expected to be worth in the order of \$130 million in taxpayer subsidy payments to shippers to and from Tasmania. The equalisation scheme produced a very wide spectrum of responses, which might be collated as follows:

"The scheme is vital to my business and if anything it should be expanded"

"The scheme is part of the furniture these days, but it is probably harming the efficiency of the Bass Strait trade"

"You couldn't just take it away overnight even if you did find a better solution: it would destroy the economy – we are set up around this arrangement for now"

"Some people are abusing the scheme and it is also having some unintended consequences, like disadvantaging some activities from occurring on the Island, as mainland value-adders can receive the subsidy to send their products to Tasmania".

"Shipping companies do well out of the scheme"

"The scheme should be expanded to international imports and exports – Tasmania is uniquely disadvantaged in freight terms and deserves export and import subsidies"

"The islands are affected adversely by the scheme, because some value-adding that could occur on King or Flinders Island is taking place on mainland Tasmania through scheme assistance".

"All that Tasmania wants – and deserves – is exactly the same freight costs that mainland businesses a similar distance from the port of Melbourne experience"

"Subsidies are not the solution to our problems and we need to focus elsewhere for solutions"

"Maybe there is a way we could use the amount of money involved in the shipping subsidy to better effect".





Context: other factors shaping Tasmania's economic performance

Beyond the broad macroeconomic factors such as interest rates and exchange values – aspects which also influence the mainland, and which therefore should not overly skew Tasmanian results – there are some general features of the Tasmanian economy which should not be lost sight of in pursuing the best possible solutions for future state freight infrastructure and policies:

- Tasmania has a very small population, meaning it does not have an internal trading economy of sufficient scale to be efficient (ie such as the USA). This forces Tasmania to be more trade-reliant than many other parts of Australia. Accordingly, export (and import) inefficiencies in the Tasmanian model would appear to hurt Tasmania more in relative terms than many other states with larger populations and internal economies, but similar to trading regions such as export ports.
- Tasmania appears to be relatively more reliant on external (ie mainland, international) capital investment for the same reason. This has implications for not only the relative rate of return for funds invested on the island, but also heightens the relative importance of Tasmania's reputation as a place to invest: continuing or augmented subsidisation of freight, for example, alongside other subsidies, can exert a 'crowding out' effect on potential private investment, and a lack of flexibility in considering 'scaled-up' infrastructure investments across commodity supply chains can reinforce outlook concerns for current and potential investors.
- Tasmania's trade with Australia and the world is at present reliant on the Bass Strait transshipment trade, which – according to a parallel report produced for the Tasmanian Freight and Logistics Coordination Team in 2013 on the efficiency of the current freight task – is operationally very efficient and offers high service levels, but is quite expensive.
- Given its reliance on capital investment from elsewhere, investment models for Tasmania should aim to attract patient capital investment in robust, market-driven projects, rather than in state-subsidised projects and investments that can tend to attract 'footloose' capital.

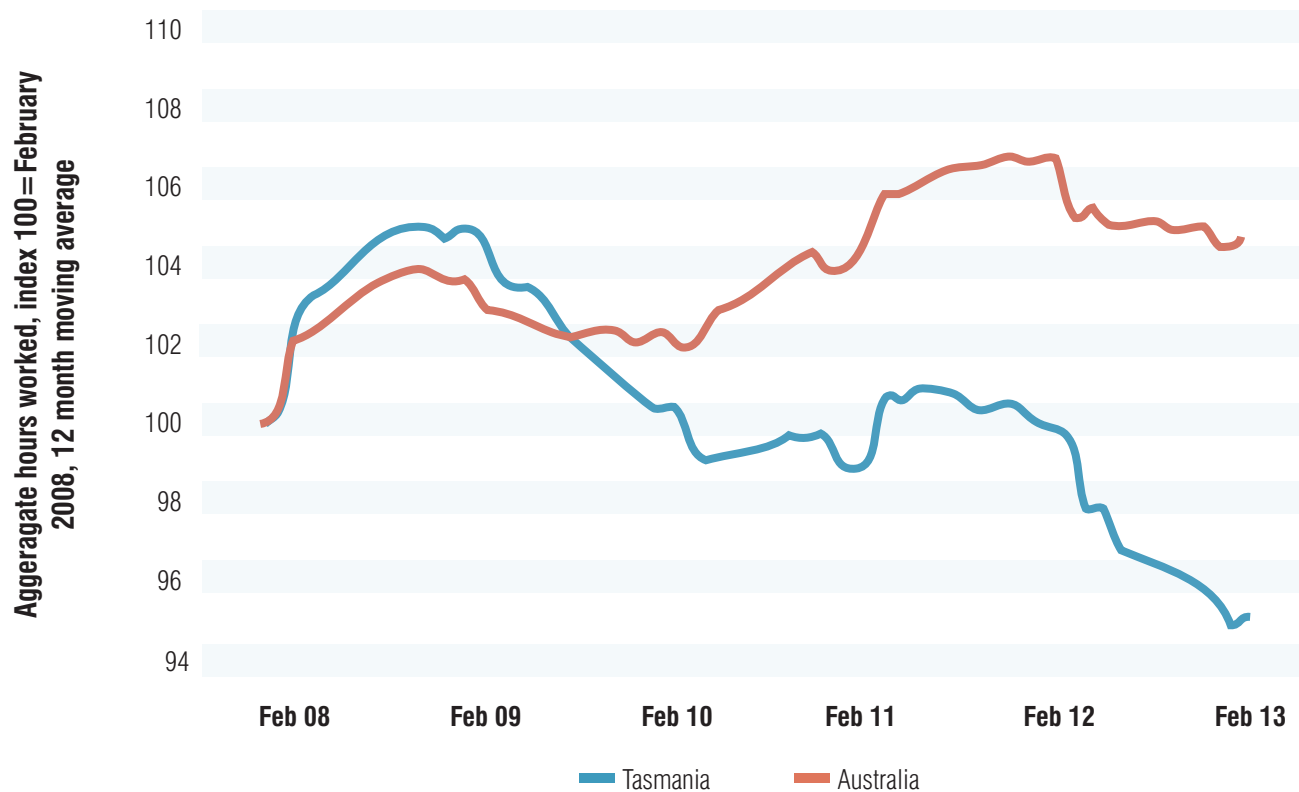
Cautionary tale: past economic performance suggests the value of ‘transformative’ change

In economic terms, Tasmania like any economy is constantly in a process of seeking its competitive equilibrium: that is, its economy will look to make efficiencies *somewhere* to ensure its own ongoing viability within the existing ‘framework’ of labour, capital, regulations, subsidies, cost structures and quality of infrastructure, etc.

If significant efficiencies are unable to be found in areas such as freight infrastructure, it is likely that the inevitable pressure towards equilibrium will find release through other elements of the cost structure – probably principally labour.

This is already the observed case in Tasmania: wages are lower than the mainland and unemployment levels higher. This is not a sustainable ‘strategy’, because labour is to a degree mobile and will tend to seek better prospects elsewhere. Indeed, this is also already happening, with net migration out of the state in evidence.

Even for those Tasmanians in work in the state, aggregate hours worked in Tasmania have dropped very dramatically against the Australian average since mid-2009, as the table below indicates.



(Source: *The Labour Force, Australia, ABS Cat No 6291. 0*)

The Tasmanian Treasury makes the fair point that as the mining boom elsewhere slows and the dollar exchange rate falls, this situation will be alleviated (ie to the extent that Tasmania has chosen not to exploit its mineral resource base as per some other states).

But the point to appreciate is that unless significant efficiencies are found in other facilitating inputs to Tasmanian business - such as freight cost efficiencies - the pressure on the economy to find its equilibrium will continue to fall heaviest on wages and the labour market.

This is a scenario to be avoided, because it is likely to produce a continuation of recent state economic results, labour migration and growing Tasmania - mainland Australia wage gaps.

Future market analysis

The *Interim Report* detailed a plausible baseline forecast of the Tasmanian economy to mid-century

This report is underpinned by a detailed baseline economic forecast of the Tasmanian economy to mid-century undertaken at the *Interim Report* stage of this project, and since updated to take account of sector growth levels that the Freight and Logistics Coordination Team felt was not plausible, such as agriculture.

This model of the economy was built through a 'bottom's up' approach. Plausible input assumptions were developed in consultation with Tasmanian government officials and then baseline growth rates were examined against the views of both industry sectors and government. Growth rates were imposed on some sectors where industry or government feedback suggested substantial points of difference from what was initially modelled, to pick up the effects of government policy, physical constraints or investment patterns across the sectors.

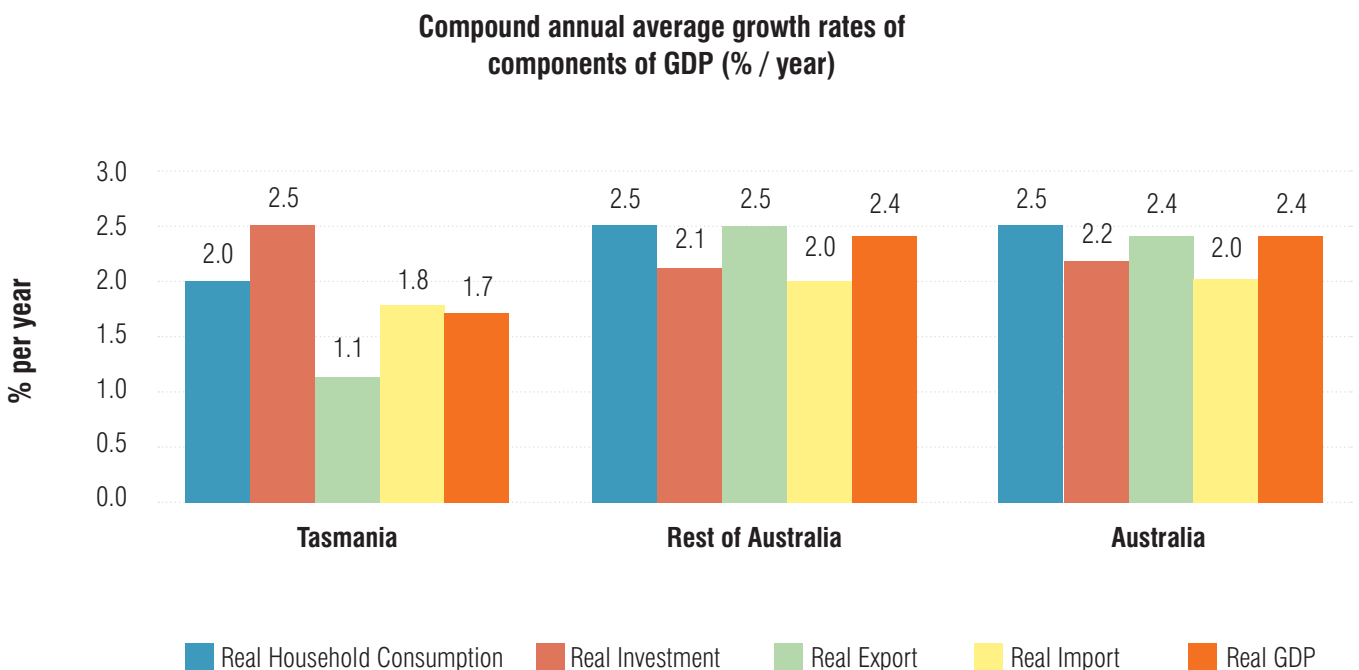
A dynamic general equilibrium model which specialises in regional modelling was refined over several months and revised with input from the Tasmanian Treasury, other government

agencies and industry sectors, to form a plausible and internally consistent base forecast of the Tasmanian economy across 4 regions and 38 of the most freight-reliant industry sectors in the state - out to the middle of the century. Where they were available, the model incorporated significant new investments in the economy, such as those being made in dairy infrastructure, for example. This forecast forms an annex to the *Interim Report*. The *Interim Report* examines this model and its baseline forecasts for Tasmania in considerable detail.

The forecast suggested that, all other things being equal,

- **The Tasmanian economy is forecast to experience lower growth than the mainland**
- **Tasmania will become more import dependant and less export-oriented**
- **Total trading elements of the economy will contract relative to the overall state economy**

Table 2: Key forecasts for the Tasmanian economy using the TERM Computational General Equilibrium regional economic model



It is not particularly useful comparing one state's growth with another and in any event, the nature of the forecasting process involves imposing growth rates on the model. The true value of the economic forecasting model produced for this inquiry is that it offers a plausible baseline of the economy ahead as a context for analysis, and, once constructed, it allows for the effects of different policy choices in the Tasmanian economy to be simulated for their likely impacts on a future Tasmanian economy.

However, the forecast in the *Interim Report* did make clear that the Tasmanian economy's growth was likely to be lower than mainland growth in the decades ahead. There are probably many reasons for this difference. The goal for this inquiry was not to suggest that attendance to freight issues would bring Tasmanian growth into parity with mainland growth. Rather, the goal is to examine from first principles how positive approaches to the state's particular freight issues might improve outright Tasmania's economic outcomes.

The path ahead

As asserted in the *Interim Report*, while it is plausible on the current basis, this report does not consider this forecast to be an inevitability for Tasmania, for two reasons:

- Economic models are sensitive to their inputs and even minor shifts to some input assumptions could change this forecast; and
- There appear to be transformative policy approaches open to the Tasmanian economy which, if addressed, hold prospects for placing the state on a stronger growth path, by reducing the cost structure of freight to Tasmanian businesses and consumers and increasing the export focus of the state economy.

This report reprises and expands on the most significant reform opportunities identified in the *Interim Report* and offers structured recommendations as to how each of these matters might best be approached to improve on the state's long-term economic performance.

Freight infrastructure in Tasmania and mainland Australia: key points of difference and implications for Tasmanian freight

This report observes four aspects of freight infrastructure and its policy that are significantly different from mainland Australia:

1. Lack of Freight Infrastructure Rationalisation in Tasmania

– Unlike the observed trend across freight assets like ports and rail in mainland Australia, there has been little consolidation and rationalisation of freight infrastructure in Tasmania. This issue is closely linked with the role of state government in Tasmanian freight infrastructure. The costly maintenance of so many somewhat substitutable infrastructure assets for a relatively small economy and small geographic area appears to be fragmenting the state freight task across many physical places, at a cost to the efficiency of the task overall.

2. Sole reliance on taxpayer fund for Tasmanian freight infrastructure

– Unlike mainland Australia, which since the competition reforms of the 1990s has begun to see more private investment in freight infrastructure like ports, Tasmania's core freight infrastructure – its major seaports and rail and road networks – are all limited to sole control and funding by the Tasmanian government and with support from state and federal governments and Australian taxpayer. Taxpayer funding for such infrastructure is scarce, and is likely to become scarcer nationwide in future, as an ageing population profile and potentially shrinking taxpayer base further limits the revenue available to governments and increases the call on available funds for competing funding pressures, such as health. Future Tasmanian governments will find it increasingly difficult to fund the large amount of legacy roads, railways and ports left to them by previous generations. Unlike mainland states, in practice Tasmania's ports, rail and roads at present do not have ready access to alternative (private) capital investment sources in this respect.

There is a second inherent risk in applying a sole public model to many substitutable pieces of commercial freight infrastructure: such funding is rightly subject to democratic lobby. As such, with the best intentions, it is unlikely that state government funding outcomes would seek to pursue major freight investments in a single place in pursuit of greater economies of scale and service level: by definition such investments come at the expense of investments in other freight assets in other places. There are clear and understandable political risks to upsetting the funding patterns and communities across other parts of the state. In this sense, the lack of a better freight asset funding model – one more responsive to commercial opportunity – is preventing more efficient freight infrastructure outcomes.

When the state's lack of freight asset rationalisation, lack of sufficient infrastructure funding and inherent challenges of the sole public funding model for freight are combined, it can be observed that Tasmania is most likely over-serviced for physical freight infrastructure, but under-serviced in terms of potential freight efficiency.

3. Efficiency or otherwise of coastal shipping laws impact much more heavily on Tasmania's freight task Tasmania, like Western Australia and Queensland, but to a considerably greater degree, is affected by national law surrounding coastal shipping and like some tasks in those states, the freight task would be impacted by any deficiencies in these legislative arrangements whether inherent in the laws themselves or as the result of a failure by the freight market to exploit the full advantages on offer in such legislation.

All states and territories in Australia have since 1912 been subject to legislation which makes provisions for Australian flagged vessels to operate more or less exclusively on the coastal shipping task. There have always been licensing and regulatory arrangements around such legislation. In 2012 this legislation was superseded by the *Coastal Trading (Revitalising Australian Shipping) (Consequential Amendments and Transitional Improvements) Act 2012*. This Act reaffirms the exclusivity of Australian-flagged shipping for coastal trading activities.

Freight activity in other states and territories has always been able to draw upon road and rail substitutes that compete with coastal shipping, in the event that the coastal shipping trade has not offered a competitive service. But Tasmania is unable to avail itself of road or rail substitutes for almost the entire volume of its freight task, which must travel by sea. In this sense, any inherent competitive deficiencies in the operation of shipping legislation affects Tasmania's economy directly and, for the most part, unavoidably.

This inquiry recognises that there are longstanding conventions and objectives around this legislation, not merely in Australia, but also overseas. It is simply observed here that legislative arrangements around coastal shipping could have a relatively significant impact on Tasmanian freight operations, if there were to be inefficiencies in these laws in practice. This matter is therefore another distinguishing feature of Tasmania's freight task and an issue worthy of greater scrutiny.

4. General statewide freight subsidisation – Tasmania receives a general freight subsidy on the basis of claimed general disadvantage. The *Interim Report* made the observation that this is not the only subsidy of freight infrastructure or operations

in Australia – there are several nationwide. However, almost all subsidies elsewhere are provided with the achievement of particular economic and social objectives in mind – such as the provision of otherwise unviable rail infrastructure to maintain a grain transport task, for example. In such cases the subsidy tends to be measured against performance criteria, regularly reviewed and sometimes robustly contested. In contrast, the Tasmanian Freight Equalisation Scheme does not appear to be subject to measurement for any outcomes.

The provision of this blanket subsidy to the interstate freight task was observed in the course of the report to create a distortion of this freight market. This distortion is most readily observed in the lack of a lower-cost, lower-frequency sailing service for non-time sensitive commodities, of which there are many, but which at present are generally forced to travel via a higher-price, daily sailing service. It is a matter worthy of further modelling simulation and inquiry, but it might be expected that without a considerable subsidy payment being on offer to offset this higher-price cost, many shippers of low value, less time-sensitive products across Bass Strait would already have worked with providers to establish a lower-cost, less-frequent arrangement.

The presence of supporting subsidies might similarly be expected to be masking the inefficiencies of operating so many ports and railways in Tasmania: without the masking effects of subsidies, the greater freight volumes, wider scope of services and general competition levels that might be expected to flow from a single port and rail investment of greater scale for the state might become more obvious.

While other states and territories and individual ports exhibit a wide range of market pricing or subsidy or levy arrangements in port and other transport charges, Tasmania's blanket freight subsidy arrangements are a first order point of difference from other interstate freight tasks across Australia.

The general subsidy issue is not unconnected with prospects for greater private investment into freight infrastructure and operations. It is likely that the observable distortionary effects of a general subsidy – which are raised in more detail in the following section – are likely to dissuade patient capital from making stable long-term investments in the state, as the market for investment is itself destabilised by the subsidy. At the same time the presence of subsidies can also tend to attract volatile and footloose freight investment, which is also not in the long-term interests of the Tasmanian economy. The following section of the report offers mode specific and operational observations on how these four factors impact adversely on the current Tasmanian freight task.

Mode-specific observations

Seaports

Oversupplied, but less than fully efficient?

Tasmania appears over-provisioned with commercial seaports, yet under-provisioned in the efficiency of these ports, with no current role for real shipping market demand or private capital investment in driving potentially greater efficiencies into Tasmania's freight task, through targeted port and sea channel infrastructure investment. This appears to have a number of limiting effects on the freight choices available to Tasmania.

The state maintains 4 major government-owned seaports (Burnie, Devonport, Bell Bay and Hobart), all of which require the maintenance of costly heavy road freight and rail linkages. Many of the services of these 4 ports appear to be substitutable.

As the Tasmanian Government's own White Paper on Tasmania in the Asian Century notes:

'Tasmania's container throughput at 384 000 TEU (twenty foot equivalent units) is not insignificant and to provide some context is larger than the port of Adelaide. However, the split between multiple ports results in Tasmania not achieving the same economies of scale as other Australian ports'

Tasmania's Place in the Asian Century – Issues Paper, Chapter 4: Can Tasmania Physically Access Asia? (August 2012)

The *Interim Report* made the similar point that if the laden containers in Tasmania – some 230,000 TEU, were to be collocated into a single Tasmanian port, then that port would rank just inside the top 25 container ports in the North Americas in 2012 (based on current *Journal of Commerce* rankings). Instead, Tasmania's containerised freight task is split predominantly between the ports of Devonport and Burnie, with other functions occurring variously across the 4 ports. The government-owned Tasports corporation refers to the northern ports as operating on a 'one port, three locations' strategy, but given the physical infrastructure costs of maintaining 3 sites, and the considerable opportunity costs that this would appear to represent for economy of scale, breadth of service and competition offerings to shippers, this inquiry did not find the 'one port, three locations' characterisation a persuasive one.

Navigable shipping depths are a barrier to securing a competitive international shipping market

At the same time, at maximum declared shipping depths of only around 11.5 metres, none of the 3 northern ports of Burnie,

Devonport and Bell Bay (near Launceston) can accommodate the sort of shipping draughts – in the order of 13-14 metres – needed to accommodate the typical modern profiles of international bulk and container vessels that would be desirable for competitive direct international services of scale.

As a result of these physical inadequacies, any international trade secured in future without attendance to channel depth constraints will likely be a far more niche aspect of international shipping, which might not offer the general scale and service levels of a more representative and therefore competitive service.

Efficient capital investment in ports is hard to achieve under the sole public funding model

The capital constraints of Tasmania's ports are obvious – at a simple level, international direct container shipping and efficient bulk and break-bulk carrying services are not available to general Tasmanian shippers in part because of the depth constraints around Tasmania's ports. As with many other ports around Australia, Tasmania's ports appear to have suffered from a lack of capital investment over many years and public funding pressures ahead seem considerable. The presence of so many ports in Tasmania complicates the equation even further for public funding solutions – interviews revealed an attachment to different ports by their regional communities that is perhaps more pronounced than on the mainland, where in most cases such ports are less directly substitutable, as they spread over considerably wider distances and in many cases more clearly reflect different economic catchments.

Traditional government 'predict and provide' models of freight infrastructure provision usually add to existing assets based on forecast analysis of historical freight traffic levels. This approach will tend to offer only very gradual, incremental freight improvements in these places. Such approaches are unlikely to make major shifts in funding priority in pursuit of better economies of scale and scope. A sole public funding model will tend to ensure that large scale investments are rare. Yet Tasmania's commodity mix, the proximity of Asian markets and private capital willingness to invest in freight assets appears to offer some prospects for significant scale and scope efficiencies, which might be on offer from 'up front' major capital investments in a single port of scale.

This is only an informed hypothesis, based on this report's observations, interviews and the observation of port and rail rationalisation outcomes globally – the following chapter offers recommendations for how this view of the port opportunities ahead could be tested in a short space of time.

Rail

Rail in Tasmania is an expensive investment which nevertheless is only securing quite low freight tonnages.

Rail network rationalisation has not occurred

In recent years the state's rail infrastructure network has not been rationalised through market demand to operate less routes that are more cost-effective, meaning Tasmania continues to maintain expensive rail connections to 4 seaports and 2 inland spurs (Melba Flats and Fingal) seemingly without even break-even traffic levels being present on most these routes. The *Interim Report* noted that with around \$180 million in taxpayer funds being spent on Tasmanian rail upgrades since 2009 and the prospect of further expenditure ahead, there is a great incentive to get rail 'right' in Tasmania.

Rail efficiency is challenged by a lack of port rationalisation

Rationalisation strategies are challenging because as the ports themselves have not first been rationalised, it is hard for rail to focus its investment strategies on a single port destination of greater volume and scale that would assist rail freight densities.

The commercial viability requirements for railways such as Tasmania's are well-understood globally

The *Interim Report* noted that the conditions governing the likely economic viability of 'short line' freight railways like Tasmania's are well understood internationally: such railways rely very heavily on securing enough freight density, and this can only be achieved through either securing more freights (usually away from road), or by limiting the size and complexity of the network, or a mix of both: in the aftermath of *Staggers Act* rail deregulation in the United States in 1980, for example, well over 200 short line railways went out of business due to the failure to achieve sufficient freight densities. As the *Interim Report* also noted, the Federal government measures the freight densities of Australian railways and Tasrail displays almost the lowest reported freight densities in the nation – even lower than some east coast country branch lines, which are maintained for the grain sector, and which themselves are the constant source of discussion over closure and rationalisation.

Past commercial failures in Tasmanian rail deserve clarity and engagement

In discussing the challenges for railfreight in Tasmania, many parties were quick to point out the failure of commercial rail operations experienced in the previous decade, which resulted in the Tasmanian government buying back rail and its operations. Many parties made the point that the privatised years saw only

asset stripping and eventual market failure. But to this report's knowledge, the previous privatisation arrangement did not allow for the new owner to consider any significant network rationalisation. In this sense, given the well-established success factors of short line railways, it is perhaps understandable that previous private attempts to operate the railway involved asset stripping from non-viable aspects of the business to support commercial prospects for some other parts of the railway.

Whether in private or public hands, the importance of network rationalisation as a means of achieving greater freight density for Tasmanian rail is likely to remain, and any future strategy for viable railfreight services in Tasmania would benefit from confronting this issue directly if efficiency is an objective.

Road

Having many ports and railheads imposes a considerable cost on the state road budget

The maintenance of so many operational ports puts a commensurate pressure on the state's road agency – and a small state taxpayer base – to maintain effective modern heavy vehicle road infrastructure to so many places. Some degree of freight road provision to multiple locations would be unavoidable, but the opportunity cost of the current road provisioning strategy is greater investment to place higher productivity vehicles on a more limited, safer upgrade network, perhaps to a single dominant freight seaport for the state.

No mechanism for commercial investment in Tasmanian roads as yet, but models exist elsewhere

In addition to this strategic matter, there are at present no simple mechanisms for transport operators to seek better road freight access in Tasmania, even where they might be prepared to pay for this privilege.

This same challenge confronts all Australian road jurisdictions, but commercial access reforms are emerging elsewhere: in some places nationwide, trucks can gain productivity advantages by carrying heavier weights, or more pallets on a trailer, or even adding a trailer to upgrade the truck combination, in return for user-pays arrangements which go toward upgrading the road to accommodate this extra wear and tear and engineering profile.

Commercial arrangements of this type have for a long time been a feature of mining vehicle access to public highways in South Australia, under deed arrangements. Victorian and New South Wales have trialled this approach and at present Victoria and New South Wales are examining opening the Hume Highway between Sydney and Melbourne to such access.

The latest road freight truck-trailer combinations such as the B-triple and the Super B-double – capable of carrying 4 x 20 foot shipping containers at once – are obvious – more freight carried by less trucks, creating less carbon emissions and a lower fuel bill. But access for such vehicles goes hand in hand with sympathetic road upgrades to ensure the new vehicle’s operation is safe and sustainable. Commercial investment models for this outcome and others discussed here are new, but in particular locations could offer significant productivity gains to Tasmania’s road freight task, in a sustainable way.

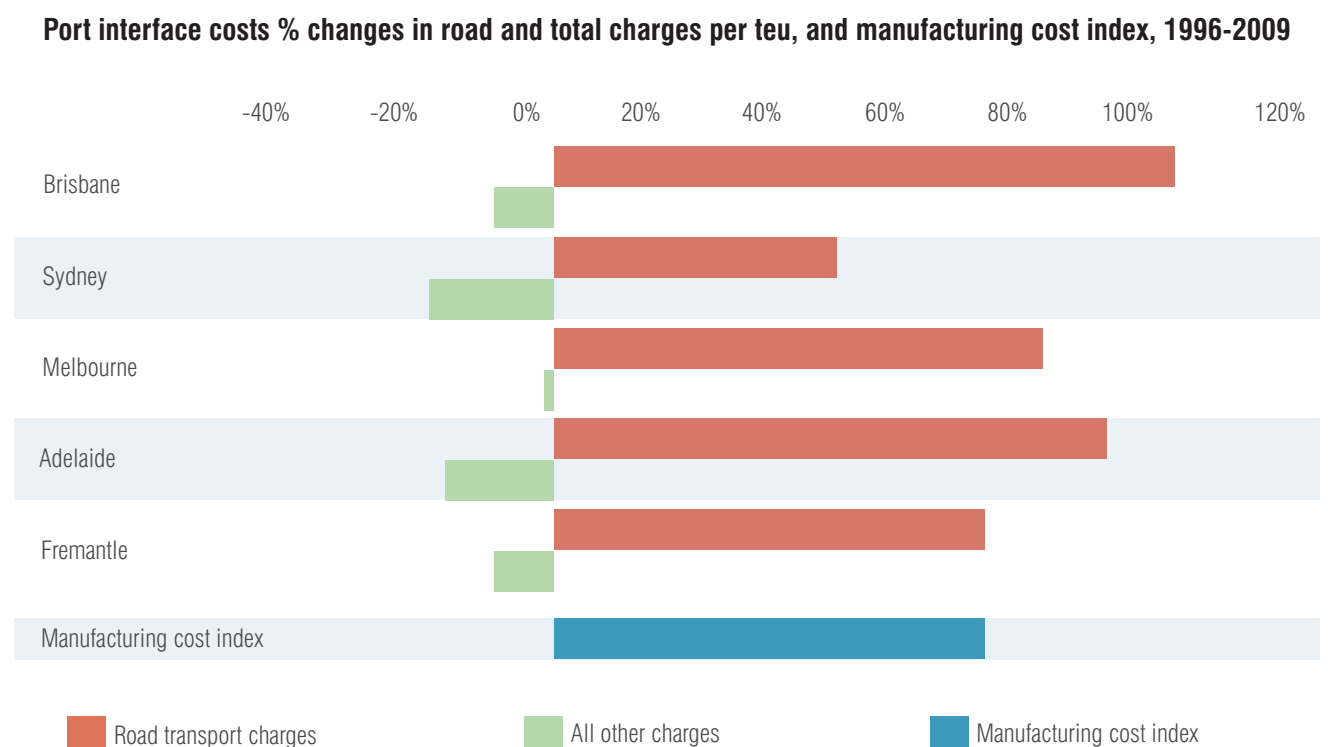
Commercial road access opportunities could play a major role in port efficiency

Perhaps just as importantly, the ability of commercial road improvement models would open up a means for private investment in ports and rail – if it were to occur in Tasmania – to improve the entire supply chain, and in so doing eliminate some of the bottlenecks that destroy state freight productivity. In this

respect, it is worth noting Infrastructure Australia’s 2010 finding in the *National Ports Strategy* that Australian port cost pressures were falling, but road cost pressures in particular were growing at alarming levels; the table below indicates this situation.

Here again, there are models for private investment in key road freight infrastructure. Infrastructure Australia in particular has led trials and policy reform thinking for how interested infrastructure investors and freight shippers could upgrade limited routes to accept access by much more efficient truck-trailer combinations (ie an extra trailer, or even an extra few pallets of goods or heavier weights on existing trailers) while still maintaining general community access to these roads.

Table 3 - How road freight inefficiencies create major cost pressures for the overall freight task



Source: Infrastructure Australia: *National Ports Strategy* Discussion Paper 2010 p. 24

Air freight

The nature of the Tasmanian economy and its stated aspirations to embrace the Asian century suggests airfreight can play a growing role in the future: the transition to advanced manufacturing and high-value food production are two areas of growth for the state where airfreight links are of relevance, and interviews with such sectors confirmed the importance and potential of these trades – and air freight's role within them. For Tasmania's islands, the matter is more fundamental: many of the basics arrive by air: one air provider interviewed had flown half a million tonnes of airfreight to Flinders and King Islands in the past year alone.

Is there a contestability challenge for airfreight in relation to subsidised ferry freights?

The growth of air freight does appear challenged by the subsidy on offer to the Bass Strait ferry, which – because of the relatively fast crossing and traceability advantage (trucks loaded in Tasmania can be driven off the ferry to Tullamarine airport with the drivers under clear instructions) the ferry has taken the place of airfreight for many Tasmanian products destined for international or interstate air freight.

Shippers using the TT ferry are often eligible for a rebate payment under the Tasmanian Freight Equalisation Scheme. Because airfreight is not open to such a subsidy, air freight might not compete with the ferry cost structure for at least some items, at the margins. The extent of this contestability issue is not clear to this report and would benefit from being examined in more detail.

Accessible data on airfreight commodity growth potential is limited

A second factor raised consistently by air freight operators, airports and airlines in Tasmania was a lack of data on offer around growth potential of air freight that would bring more clarity to their investment considerations, in things like airside cold storage capabilities. This relates in part to the contestability issue above: air freight does not appear to have much if any access to freight data on markets other than those which it already services. This again is an area where central provision of richer data could aid better investment decisions in air freight.

No investment data, analysis and planning to support future international direct airfreight

A final matter of concern – again with an eye on engagement with growing Asian markets – is the prospect of direct international airline visits. It was noted during interviews that airfreight consignments took strong advantage of a direct international service when this was last on offer by Singapore Airlines, over a decade ago. Ultimately, market demand – most likely from

expanding Asian carriers in the years ahead – will dictate the possibilities in this area, but it is noteworthy that Hobart airport at least already has much of the customs and quarantine compliance requirements in place for international air freight to occur, if direct international carrier visits began.

Given its potential as an Asian freight solution for at least some products, having greater clarity around this possibility to inform any future interested international carriers and investors would seem prudent.



Major systems issues across transport modes

Reducing Bass Strait transshipment costs

The matter of Bass Strait's perceived high prices would appear to be the biggest single issue facing state freight efficiency: on the basis of interviews and examination of trade flows, this affects the most people and the largest quantity of freight products. Even small gains here could offer a more productive economic future for the island state.

Lack of low-cost shipping options and lack of investment and new entrants in Bass Strait

The predominant inefficiency across Bass Strait seems to be a lack of a less-frequent, lower-cost freight service for the many goods that move across Bass Strait which are not particularly time sensitive: at present, these goods pay the daily sailing rate, which reflects the high service levels; obviously larger and more regular customers might be able to command some economy of scale in the price they are charged for this service relative to smaller or less frequent shippers, but the daily sailing rate appears to be a denominator for these costs.

Major importers, in particular large retail goods providers, were clear in their identification of this as inefficient for their logistics arrangements for Tasmania.

A second and interrelated matter is general appetite for investment and consolidation of port and shipping services across Bass Strait in one location, including private capital investor and new shipping interest in such outcomes.

What is stopping a more diversified service or more consolidation? There are a number of factors that appear to be at play:

No market visibility on how much freight fits into the 'low-cost' category

- Tasmanian government does not keep particular records on split of time-sensitive and non-time-sensitive goods. If this were available, it might offer some sight of the likely size of lower-cost, less frequent service that might be capable of being operated across Bass Strait. This would help potential new entrants or existing businesses to consider investment in such a service, noting that this market would probably be larger over time, as interviews revealed that some nominal customers for such a service had geared their own transport logistics to the daily service, but this might be expected to change over time as different warehousing investments were made to reflect a low-frequency service.

Lack of collocation of freight to offer service viability

- Even if the market had visibility of a likely *quantum* of low-time-sensitive commodities, the presence of multiple Bass Straits seaports in Tasmania would most likely make it harder to aggregate such freight in a single place to make such a service viable for an existing shipping line or new entrant.

Preferential legacy tenancy arrangements might discourage new tenants

- The inquiry heard from several parties about legacy tenancy arrangements at some ports in Tasmania that might be considered overly-favourable to these parties. This report made no inquiry into these matters, which in any event are confidential contractual arrangements between port provider and tenant. However, it is unlikely that aggregation to a single port and the attraction of new entrants to that port to offer additional low-cost carrying solutions would be likely to occur if the arrangements for all tenants were not somewhat equitable. This indeed is a wider matter for any new entrant considerations in Tasmanian ports.

TT Line ownership appears to act as a disincentive to further market investment and entrance in Bass Strait

- Another challenge to more Bass Strait competition and investment lies in the fact that the Tasmanian government, through its ownership of the corporatized Spirit of Tasmania ferries, is a prominent government freight provider in what otherwise is a 'commercial' market for transshipment (noting an overall freight subsidy applies).
- Outside Tasrail's above-rail services, TT Line is also the only corporatized government presence in the Australian freight market, following Queensland Rail's move to privatise its above-rail services. At present, the Tasmanian government via TT Line in effect controls around 25% of the total annual volume of freight transshipment (measured as TEU). Moreover, through its superior sailing speeds and roll-on roll-off capabilities, the Spirit vessels in effect set the standard for service on the transshipment route.
- Even with the prospect of larger transshipment volumes being aggregated in one port in Tasmania to attract further competition (such as lower-cost services for some products), it is hard to envisage that any new investor would want to risk making a significant capital investment into a sector in which the government is perceived to be a 25% market stakeholder who shows no signs of exiting, and whose approach to the future freight transshipment task –

given its corporatized nature, it is answerable to balance sheets and operating statements – is presumably to try to increase its share and/or profit from freight.

- It should be pointed out that there is no suggestion from this report that TT Line is cross-subsidising its freight services from passenger income in any way, or that the corporatized TT Line is funding its capital and operating costs from government consolidated revenue. On the contrary, TT appears on cursory enquiry to be running as a virtually privatised concern already. But for so long as it remains ‘half privatised’ under a state-owned corporatized model, TT Line might be expected to act as a disincentive to greater competitive commercial interest and flexibility of investment in the Bass Strait freight trade. It might also be expected to affect any potential future competition in ferry services, such as fast ferry catamaran solutions – a matter which was raised at interview.

Effect of coastal shipping legislative compliance on cost of Bass Strait trade and investment patterns in that trade

- Whether the many licensing and operational expectations of coastal shipping legislation impact on the overall efficiency of Bass Strait operations or on the appetite for new entrants and private investment in this trade and its infrastructure is not clear, and would need to be surveyed and analysed in more detail. However, feedback from many surveyed parties was that this matter was a significant factor in this trade, given Tasmania’s almost complete reliance on sea trade and therefore on the laws that govern that trade.

Port of Melbourne costs and future location uncertainty

- It has been suggested by many parties interviewed that transshipment through the Port of Melbourne will remain the dominant, if not exclusive, means of shipment for Tasmania into the future.
- In this context, two sub-issues have arisen around the Port of Melbourne that appear to represent some risk to the ongoing cost-effective productivity of this trade from a Tasmanian perspective:

License fee imposed on Tasmanian transshipment through Melbourne

- The Victorian government’s recent legislative decision to impose a \$75 million dollar license fee for usage of the Port of Melbourne affects Tasmanian trans-shippers directly

and considerably: Tasmania represents in broad terms something approaching one sixth of the total throughput for Port of Melbourne, which is Australia’s largest container port. Price increases fall in a distributional sense to these shippers. For example, this report understands that in some cases, wharfage on a 20ft container was almost tripled in 2012. Such increases are significant. Presumably, this flows back in part to the license fee effect. Collectively, Tasmania is the major single customer affected by this levy decision.

Little certainty or amenity visible for Tasmanian transshipment in Melbourne relocation plans

- Another matter of concern for Bass Strait freight efficiency is the lack of published and endorsed plans for precisely how and where all of the Tasmanian trade to Melbourne will be accommodated as the Port of Melbourne and the Victorian Government pursue plans to move the port function out of its current location – in the central west of Melbourne – to an alternative container facility at Hastings on Westernport Bay, to the far south east of Melbourne over the coming two decades.
- Much of the planning being undertaken by the Victorian government in this respect would appear to be confidential. It has not been clear to this report what final accommodation will be made for the Tasmanian transshipment trade in respect of these plans, or whether Tasmanian shippers will have any say in shaping where the future transshipment location might be placed. Feedback suggests that the senior management of the Port of Melbourne have indeed been engaged with Tasmania in considering long-term accommodations for the transshipment trade, but with due respect to the Port of Melbourne executive, the Port of Melbourne’s relocation is a matter for the Victorian government to rule on, and in this respect it seems appropriate for the Victorian government to offer certainty and clarity at the earliest stages to the Tasmanian transshipment trade, which is a significant part of the Port of Melbourne’s overall business.

Lack of coordinated minerals supply chain for North-West Tasmania

For a number of reasons Tasmania has not enjoyed a significant upswing in mining activity during the recent mining boom. This appears to have been a lost opportunity. The North-West of Tasmania in particular is highly mineralised.

The inquiry noted a view from the Tasmanian Treasury (*per* its April 2013 paper on structural change in the state economy) that the mining boom was in essence exogenous to Tasmania, serving principally to attract labour away from the state, and that this would pass once the boom slowed and labour returned. This was not a persuasive explanation to this inquiry: places that did participate strongly in the boom such as the Pilbara and the Hunter Valley made very significant planning, investment and coordination efforts to facilitate efficient mining: freight infrastructure was a particular focus in these cases and much of this freight investment was private and market-driven. This does not seem to have occurred in Tasmania. There are of course other sensitive environmental considerations around mining in Tasmania. As this report will discuss below, the planning and approval processes being developed in Tasmania show promise in facilitating sustainable mining infrastructure development, but environmental matters were considered outside the remit of this inquiry.

Nevertheless, considerable mineral wealth remains in Tasmania and such products will remain to some degree in demand to growing Asian economies in particular in the decades ahead. Unlocking this resource is the challenge.

The North-West of the State is the area of greatest concentrated mineral wealth. The North-West's iron ore, non-ferrous metal ore, non-metallic mining and exploration sectors already contribute over \$230 million to the Tasmanian economy in gross value-added terms, according to the Northern Research Group's most recent estimate of Tasmanian regional economic output (June 2013, adjusted).

This region is close to the Bass Strait Port of Burnie and is served by a rail line (Melba Flats), but the weight restrictions on the rail, the lack of arrangements for effective mine-to-railhead connections (by higher-productivity truck-trailer combinations, for example) and a lack of mineral stockpiling planning or capacity for larger (ie freight-competitive) bulk carriers at Burnie are all freight infrastructure barriers to realising Tasmania's mineral wealth.

Apart from either capital-starved or absent freight infrastructure, there is a distinct lack of a sense of a coordinated minerals supply chain in this region. There is no coordination body in place managing the freight task of the many mines and holdings in the area; as a result, many mineral deposits do not appear to be worked because there is no viable freight solution for the products in any case. To date, miners have mostly dealt individually with first the rail and then the port authorities, evidently with little success. Interviews suggest these efforts end in failure due to a lack of coordination and the inability of port or rail provider to see all potential paying users at once, such as would stimulate larger commercial freight investments. In the absence of this demand information, the development of this region does not appear to be a particular priority for the government-owned port or rail providers.

There are better arrangements in evidence elsewhere: they tend to involve a commitment to more open and joint behaviour by miners and a more market-driven approach by government infrastructure providers, which rather than acting as lead planners for these assets, act only as facilitators of take-or-pay contract intent from the market for infrastructure provision. Typically this also involves the presence of private capital investments in rail and port infrastructure: the Port of Newcastle and the Hunter Valley Coal Chain in New South Wales are amongst the best examples globally of this approach.

The recommendations section below offers a way forward for this supply chain that would promote greater joint behaviour and infrastructure coordination, along with the potential for market-based investments in these solutions.

Lack of an holistic competitive solution for international shipping

The absence of an international direct container or larger-scale bulk-carrier service in Tasmania is a challenge to more direct Asian market engagement.

Much has been said and written about the effects of the loss of this trade and of the challenges it has placed on Tasmanian exporters in particular – as mentioned earlier, many instances of much higher transshipment costs through the Port of Melbourne were put to this inquiry at interview. However, this report has not extended to examining what the final price effects on Tasmanian export goods have been as a result of transshipment.

Some have argued that at a fundamental level, the potential traffic levels for this trade would never be viable for Tasmania to sustain over the long term. Mostly these views are untested, or base themselves on the observed failure of past international direct services.

What is clear is that there are fundamental physical barriers to Tasmania's ability to be serviced by a commercial and representative portion of the direct international shipping market, as the state's northern ports are too shallow to accommodate the typical profile of international container vessel or larger bulk carrier predominant in these shipping lines in 2013; at the same time the Port of Hobart, which does offer deep water, has been given over on its dockside to alternative development, meaning the port would find it difficult to service larger-scale container operations.

This is not to suggest that there are not more niche services that could be attracted and retained for Tasmania employing shallower-draft vessels, without the need for modifying the shipping channel access in a northern port. However, it is reasonable to assume that the service level and economy of scale offered by such arrangements will be considerably more restricted under such an offering, and this might limit the value of such outcomes to the overall state economy.

The lack of effective international shipping opportunities in Tasmania appears to be an example of the lack of consolidation in freight assets and inability for private investment that appears to have prevailed in the state. It is notable that international shipping market themselves, combined with potential port asset investors from the private sector, have not been approached to consider alternative investments in port and related infrastructure that might unlock a representative and competitive international container and bulk service.

Freight supply chain solutions and major agricultural growth

Similar to the mining challenge, Tasmania's very large recent investments in irrigation, agriculture and dairy are major growth areas of exports which will be better served by more attention to the supply chain for transporting these goods at less cost. As discussed earlier, there was a consistent concern expressed from investors in these areas that perhaps the major on-farm investments in this respect were not being matched by facilitating infrastructure investment.

The large-scale market investments made in such sectors of late are one factor to suggest that very significant infrastructure barriers perhaps do not exist. However, it is likely that such investors have assumed that what is provided today in terms of freight solution might be the best available freight solution in any event. This does not seem to be the case, noting the availability of better productivity road freight vehicle access in particular that has been achieved in other parts of the country in support of large-sale agricultural freight tasks. The larger truck-trailer arrangements for moving grain from south western-Queensland and northern New South Wales to the Port of Brisbane come to mind. Other potential improvements are dealt with elsewhere in this report, such as direct international shipping and better airfreight outcomes. Commercial access and improvement arrangements to support such improvements are discussed in the recommendations section below.

In this area, joint behaviour and the ability for market-driven solutions and private capital investment in such solutions seems necessary. These arrangements would be somewhat unique, but given the importance of this sector to Tasmania's export future, freight infrastructure planning could learn much from the sort of supply chain coordination and commercial infrastructure provision seen in successful minerals supply chains (see directly above)

Planning, approval and protection of efficient freight operations

The inquiry also interviewed key agencies responsible for the planning and approvals processes around freight infrastructure and its development. Given that asset rationalisation and future investment were key challenges to the freight task in Tasmania, it was important that the report endeavoured to make at least some assessment of whether planning and approvals processes were capable of supporting the sort of transformative changes in freight infrastructure and operations that appear to hold merit for driving better state economic growth. Where capital markets are involved in investments, certainty and clarity around these matters become critical to lowering investor risk.

Approvals

At present, because there is no private investment or network development in major Tasmanian freight assets, all freight infrastructure projects are conceived by the public sector or government-owned port and rail corporations (through consultation with industry) and put to State and Federal governments for funding consideration. As might be expected under a sole-public funding arrangement, any project approvals processes for heritage, environmental, safety and amenity appear to be managed more or less completely by the different government agencies or government-owned corporations in charge of these freight assets: for example, successful funding of a Tasports funding bid will then result in Tasports leading the approvals and compliance process; similar in-house expertise exists within Tasrail and for road developments within the Department of Infrastructure, Energy and Resources.

Noting the major points of difference between Tasmanian and mainland freight infrastructure raised earlier in this report, the challenge for future development will be moving to an effective way for market proponents and investors to consider freight infrastructure access and investments, which does not currently occur, and as such has no clear approvals process established to support it.

On interview, the Department of Infrastructure, Energy and Resources suggested that some variation to structures would need to be developed to facilitate private sector approvals processes; at present, it was speculated that probably the only way for a private investor to work through such approvals would be for the proponent to hire a costly consultancy to bring together the different approvals processes.

This is the operational reality. A transition to a more market-friendly solution appears manageable. The legislative framework for approvals under a more demand-driven investment future looks achievable: Tasmania already has two relevant pieces of legislation surrounding approvals. As a recent national overview summarised:

'Tasmania has an integrated assessment process for major developments provided through the establishment of processes to deal with Projects of State Significance, Projects of Regional Significance and Major Infrastructure Developments.'

(State and Territories briefing paper on major project approvals reforms to Business Advisory Forum, December 2012)

In essence, state and regional significance project planning and approval laws appear to offer a single approval process for such projects, which streamlines multiple permit processes. This is an important underpinning that suggests private investment in such projects in future would face relatively low transactional risks to investment in Tasmania. These two pieces of legislation are as yet almost untested, but offer promise for the future.

Planning

Tasmania's planning sector also appears in transition to arrangements that would be more sympathetic to economically-beneficial freight infrastructure rationalisation and private sector asset investment: in the past year, reviews have seen the number of administrative planning zones rationalised from 435 to 23. The Tasmanian Planning Commission appears to be advanced in moving away from harnessing planning only to individual projects, to a more effective position of describing and protecting the 'permitted physical pathways' for significant infrastructure investment in the state, so that potential future projects have clarity around the boundaries of development and investment. For freight infrastructure this is an important step forward. Offering greater certainty and protection around freight infrastructure development in the physical places of greatest importance to the freight task, such as major ports and rail and road corridors, is a primary objective of Infrastructure Australia's *National Ports Strategy* and *National Land Freight Strategy*, which seeks to protect the most important freight corridors and places in the Federation and ensure they can be accessed and invested in for the future to underpin national economic wellbeing.

Future Tasmanian market-driven planning and approvals are likely to be brownfield, not greenfield sites and this is an advantage

Interviews on these matters also made the important observation that any future more market-driven rationalisation and/or investment in Tasmanian freight operations and infrastructure is more than likely to be a brownfield rather than greenfield planning and approvals matter. This is perhaps a legacy of Tasmania maintaining too much freight infrastructure in too many places: if market-based rationalisation and investment does occur, it will probably be on a choice of (many) existing freight assets, and this makes the planning and approvals process involved less challenging than for the sort of greenfield freight asset development seen in some other parts of Australia, such as for new seaports adjacent the Great Barrier Reef, for example.

Overall, noting the challenges to reshaping approvals to be more market investor friendly in freight assets, Tasmania's planning and approvals processes appears, on initial inspection, to be quite well-equipped to transition to the more market-responsive freight infrastructure investment solutions that might lie ahead. There appears to be a strong and recently-reformed basis for future success in these areas.



Recommendations: testing the hypotheses

The observations made in this report, while informed by considerable freight sector scholarship, observed best practice approaches in freight policy elsewhere, an understanding of historical Tasmanian freight practices and policies, many interviews with the sector itself and plausible economic forecasts for the state economy, are in the end, only hypotheses.

It is also important that the next steps in freight infrastructure reform for Tasmania are made in light of acknowledged best practice approaches to this asset class. In this respect, the recommendations that follow find agreement in Infrastructure Australia key infrastructure reform recommendations to the Council of Australian Governments in 2013: issues such as the recycling of capital to build new and more efficient freight infrastructure, 'user pays, user says' for commercial freight investments and the establishment of priority infrastructure pipelines for planning and investment are all reflected in the flavour of the recommendations that follow.

Such hypotheses require testing, in order to provide the state with a responsible basis for reform and action. The following discussion outlines the key areas for reform and how these arrangements might be developed. A more structured list of recommendations follows and finally, two annexures offer a summary of the legislative environment for pursuing these reforms – which is judged favourable – and a stepwise process for managing market-testing processes for freight infrastructure rationalisation and investment.

Recommendations in detail

Recommendation 1: Consider market-driven private investment in freight infrastructure.

The *White Paper on Tasmania in the Asian Century* itself makes the point that private investment in the state can be a major driver of future productivity.

This should extend to productive commercial investment in the state's freight infrastructure assets. Investment models could include everything from public-private partnerships to private investment through third-party access and improvement arrangements under Australia's *Competition and Consumer Act*.

Recent experience in other parts of Australia, notably in New South Wales, where the ports of Botany and Kembla were opened to long-term lease to a superannuation fund at a transaction price

of over \$5 billion, show that where effective and well-considered due diligence and scale of offering are in place, patient private capital – both foreign and domestic – is very much willing to consider serious investments in Australian freight infrastructure.

In the Tasmanian setting, given this report's observations that much of the current infrastructure appears sub-scale and fragmented, significant and patient private investment in this asset class is unlikely to be maximised if some flexibility is not also offered to the investor in terms of what invested capital can do with the asset in the future.

If for example, Tasmania's ports were to be open to private investment, it might be that such investment might wish to abandon the current three port investment strategy across northern Tasmania: instead, investors might work with international and mainland shipping and road and rail providers to at least consider solutions that would rationalise the freight infrastructure for more freight efficiency through less ports.

Private investors would also take cues in this respect from the recent commercial performance of Tasports in maintaining several substitutable ports: in this respect, Infrastructure Australia's 2012 *Review of Port Balance Sheet Capacity* showed that Tasports offered a return on equity of only 0.2%, compared with a national comparative average of 3.6% and an international comparative average of 9.2%. Similar issues would be likely to arise for Tasrail. As such, planning and investment flexibility with capital markets is of great importance for Tasmania in considering market interest in freight infrastructure investment.

Annex A to this report (attached) offers a summary of the Tasmanian regulatory environment in this respect and what flexibility appears to be open to the government in seeking market-driven operations and investment in this area.

Recommendation 2: Establish swift and robust mechanisms for attracting reliable private investment and market demand in state freight solutions.

With the above considerations in mind, and noting that there are many different funding models, this report recommends that processes be established for market-testing commercial interest in investment and operation of major aspects of Tasmanian freight infrastructure. A swift and nationally-recognised method of achieving this in a short space of time would be via third-party access and improvement arrangements under the *Competition and Consumer Act 2010*. In some cases such access might be

subject to independent regulation to ensure the interests of the community are preserved.

Recommendation 3: The Tasmanian government should build vital operator and investor confidence in the market's ability to invest capital in Tasmanian freight assets, by declaring major Tasmanian ports and shipping channels, rail networks and key road freight corridors open to third-party access and improvement under section 111A of the Competition and Consumer Act (2010)

Investor confidence in regard to the success and practicality of such processes as recommended might best be secured by the Premier of Tasmania declaring the state's key ports, rail and roads under section 111A of this Act, in a parallel process to market-driven expressions of interest processes.

This would allow for third parties – being market-based infrastructure investors and their customers – to have certainty that any potential private investments and rationalisation of freight infrastructure in the pursuit of economies of scale or scope would be supported by the state government.

It should be noted that such an outcome is entirely in keeping with Infrastructure Australia's recommendations to the Council of Australian Governments (2011-13) on an effective *National Ports Strategy* and *National Landfreight Strategy and Network*.

Recommendation 4: Establish expression of interest processes for testing market-based solutions to key problem areas in freight and put in place effective due diligence structures around these assets.

The major aspects of freight infrastructure inefficiency identified in this report are worth testing through rendering them open to market scrutiny. The intention would be to establish whether industry demand and capital investment would alter the investment or operations arrangements for the state's key freight places and networks for the better.

Simple, transparent market-led processes and robust due diligence arrangements could be established to invite freight practitioners, Tasmanian shippers, technical infrastructure expertise, potential infrastructure investors and local governments representing affected communities to come together without undue delay to consider new investment and rationalisation opportunities, which could then be pursued in a straightforward way via the third party access and improvement arrangements mentioned above.

3 freight infrastructure candidates for market-driven expression of interest processes:

Early candidates for market-testing demand in a way that deals with the main freight infrastructure challenges might be:

- **Testing the market for competitive and sustainable international container shipping** – Demand for international direct container shipping, perhaps linked to demand for private investment in a northern port for economies of scale and higher service levels
- **Development of a 'pit to port' Tasmanian minerals supply chain:** that is, better mineral sector freight infrastructure in the State's north-west, including the Melba Flats railway and the Port of Burnie and its shipping channel
- **Market-based solutions to port rationalisation in northern Tasmania** – being development of a more efficient collocated Tasmanian transshipment facility to improve the freight prices offered to trans-shippers.

All interested parties would be brought together and provided with comprehensive information about the size and shape of the current freight task and the freight prices involved in current operations. This would form the basis for considering cost-effective alternative market investments.

There might be expected to be some overlap in these outcomes. Given that the major freight infrastructure assets in the state play a role in many different sector supply chains and freight flows, perhaps only one or two such processes would need to be pursued in the end, so that other market opportunities – such as the development of better freight investments to support the irrigation investments in the midlands, or to service the heavy industries in Bell Bay, for example – would benefit from wider asset investment and rationalisation proposals from the market.

Annexure B offers more detail of the sort of stepwise process that might be conducted in this respect, using the testing of market interest in an international direct container service for the state as an example.

Recommendation 5: Implement appropriate structures to avoid public sector 'capture' of market-based investment reform processes.

There is a legitimate and important role for the public sector in a market-testing process, but that role is a changed one from past

arrangements: market testing of freight infrastructure outcomes involves a rebalancing of the roles of the public sector and the market in Tasmania that will probably be challenging.

It will be very important to avoid dissuading potential capital investment in Tasmanian freight infrastructure by making market-testing processes overly-bureaucratic. The third-party access and investment option proposed above is recommended in part because of its simplicity, robustness and potential for swift implementation, along lines clearly understood and agreed by all States and Territories via *Australia's Competition Principles Agreement*.

This sort of process is considered by this report to be superior to the development of unsolicited bid processes, which, on the evidence of their operation elsewhere, can tend to become public-sector heavy and slow in their processes; these aspects are likely to dissuade market investors, noting that the market for freight infrastructure investment by patient capital is competitive and global in nature.

Recommendation 6: Ensure that key appointments to any expression of interest process have appropriate coordination powers.

This report recommends that only eminent industry individuals without conflicts of interest in the outcomes and with experience of the sort of freight outcomes being pursued should be appointed to chair expression of interest processes in market freight infrastructure access and investment in Tasmania. A local government representative should be involved in such processes to ensure community interests are well-reflected.

In the case of market testing for international container trade operations and investment, an eminent Asia-based figure in international shipping and logistics would be a good choice for bringing a representative market test together and ensuring that Tasmania's efforts in this respect resonate in Asian freight markets. Similarly, for a minerals supply chain process, a respected industry practitioner in such commercial mineral supply chains elsewhere would be a good appointment; such individuals bring necessary market authority to these processes.

Such appointee(s) will need appropriate power of coordination, specifically Transport Commissioner powers. The powers are outlined in Annexure A.

When combined with the declaration of the assets in question for access under Part 111A of the *Act* by the State Premier, a strong

process can be advanced that will promote trust and serious engagement from capital investors and the freight sector itself as well as affected communities. By contrast, public-sector-dominated processes can quickly have the opposite effect on capital markets and market practitioners, and are therefore not preferred.

Recommendation 7: Ensure the direct and early involvement of the Tasmanian Planning Commission Chairperson in expression of interest processes.

From the outset, expression of interest processes should afford certainty around the planning and approvals environment for potential investors. Equally, any successful process must ensure that the community's interests in terms of the externality effects of investment and the potential impact on planning and approvals is well represented. Potential investors in Tasmania's future freight task will seek certainty in these matters and this will affect the cost of capital for their projects, in the risk sense.

As such, it is recommended that the Chair of the Tasmanian Planning Commission be directly involved in advising expression of interest participants on the practical planning opportunities and limitations for each process.

Recommendation 8: Ensure an appropriate role in these processes for the public sector and government corporate road, rail and port managers.

The role of government and of government-owned corporate freight asset owners would be to provide technical, data and local subject-matter expertise to interested parties for the expression of interest process. Within reason, interested market investors and operators should not feel themselves constrained by the current planning intentions and expenditure decisions of these authorities. The broader role of the government and government-owned corporates in such expression of interest processes would be to contribute to the process, as per the data room arrangements that allow interested parties to form commercial views on such investments. This could involve the results of dynamic economic simulations of the sort of freight solutions considered, in terms of their likely bottom line effects on the state freight task. Simulations are discussed below.

Recommendation 9: Identify and remove likely barriers to further competition and investment in Tasmania's freight sector through appropriate review and analysis:

In addition to these expression of interest processes, this report

has identified a series of areas which for reasons discussed in the body of this report are likely to be creating inefficiencies in the Tasmanian freight task, or which appear to restrict the future Tasmanian freight task from improved outcomes. It is recommended that suitably thorough and - where deemed appropriate - independent reviews be established to test these matters and make recommendations for their resolution - where significant inefficiencies are indeed found to exist - and where alternative arrangements promise better levels of freight efficiency for the state economy.

Recommendation 9.1: Examine the operational and economic effects of Tasmania's compliance with the Coastal Trading (Revitalising Australian Shipping) Act 2012.

An appropriate independent body should examine the workings of the Act as it relates to the Tasmanian freight task, with the objective of offering some quantification of the cost that any inefficiencies identified in this legislation might be imposing on the Tasmanian freight task and the wider economy. The examination might also consider whether any productivity-enhancing features of the recent new legislation, such as special tax treatments, have been sufficiently explained and adopted by Tasmanian shippers, and whether this might improve the efficiency of the act in relation to the Tasmanian freight task. Recommendations of such an examination might note that under this legislation, the minister responsible has the power to grant exemptions.

Recommendation 9.2: Examine the merits of TT Line ferry service privatisation for improving competitive aspects of the Bass Strait freight task.

The prospect of the government-owned corporation status of the TT line ferry service acting as a potential barrier to market investment and entry into the Bass Strait transshipment trade would benefit from being subjected to independent analysis by an appropriate authority, which ideally would then have the power to make independent recommendations to the Tasmanian Premier and board of TT Line in this regard. Such an examination might consider the merits of establishing community service obligation payments for the passenger service aspects of a privatised ferry service.

Recommendation 9.3: Review existing tenancy arrangements for ports to identify any non-competitive arrangements that might dissuade new entrants and further commercial investment in this infrastructure.

In parallel with expression of interest processes around the ports, consideration should be given to liquidating any existing tenancy arrangements at Tasmanian ports that might be assessed as offering preferential terms to existing freight tenants in the state's port assets. The scale of any payments involved in achieving this should be examined against market feedback on prospects for securing new freight entrants in these places with the current legacy tenancy arrangements in place.

Recommendation 9.4: Review and attempt to quantify the matter of airfreight and subsidised ferry freight contestability and the potential disadvantage that this might represent to further efficient commercial growth of the Tasmanian airfreight sector.

An independent review could work with the Department of Infrastructure, Energy and Resources and ferry and air freight practitioners and shippers to collate ferry and air freight data and subsidy payments for the former, to establish the extent of contestable freight disadvantage if any being encountered by Tasmanian air freight and make recommendations on these matters.

Recommendation 9.5: Establish Port of Melbourne operational certainty and cost arrangements for Tasmanian shippers and the Tasmanian transshipment task.

The Tasmanian and Victorian government should work with the Port of Melbourne and representatives of the Tasmanian transshipment sector to bring clarity to the long-term operational arrangements for Tasmanian freight at the Port of Melbourne and or its successor port. This forum might also examine the matter of levy arrangements now in place at the Port of Melbourne and their impact on interstate trade with Tasmania.

Recommendation 10: Tasmania should invite commercial road access trials with more productive road freight vehicles.

Higher productivity truck-trailer access on key Tasmanian networks offers the prospect of further freight efficiency for many shippers: the same task moved at lower cost, for less truck movements and lower fuel burn and carbon emissions.

Tasmanian road freight operators, freight consignors and consignees as well as potential commercial investors in this field should have the opportunity to propose such improved access arrangements in return for incurring an additional charge that would be calculated to cover any additional road wear or safety costs associated with the improved access, and which would be returned to that road asset as a result rather than placed in general agency revenue.

Commercial trials of such arrangements should be encouraged between the Department of Infrastructure, Energy and Resources and the Tasmanian road freight sector, noting that a number of states in Australia are pursuing similar arrangements with success, with South Australia having a significant body of knowledge to impart in this respect. Trial candidates should be encouraged, from modest additional load weight and volume to proposals for better trailer combination access to limited networks, where economically and financially viable.

Recommendation 11: Better data collation and analysis should be undertaken and maintained by the state government in both the airfreight trade and in relation to low-price, less-frequent Bass Strait trade cargo candidates.

For air freight, much of the better data and analysis needed might be expected to be collected in response to Recommendation 9.4 (above). For Bass Strait freights, the government should seek to establish - through survey if necessary - data collation and analysis of the likely volume of traded goods that are transhipped across Bass Strait which, due to their lack of time-sensitivity, might be candidates for a lower-priced, less-frequent shipping service. This data should be made publicly available to inform potential future market interest in such a service.

Recommendation 12: Where practical, conduct dynamic modelling simulations to examine the likely beneficial impacts on the Tasmanian economy of the reform areas examined in this report.

The general equilibrium model developed for this inquiry has the potential to run regional and state level simulations that model the value of effects of different freight policy interventions on the overall Tasmanian economy. Such simulations offer valuable insight to policy makers in these areas and they represent a responsible approach to public policy development, in concert with some of the expression of interest and review processes discussed above. Where possible, consideration should be given to simulating outcomes that are relevant to the market-based investment and operational solutions being considered: industry engagement should be at the forefront of the modelling process to ensure plausible outcomes.

Recommendation 13: Monitor the need for structural adjustment as a result of market based investments and other reform recommendations of this report.

It might be expected that the introduction of market capital and investment intentions into the present Tasmanian freight task

would cause some transition pressures for shippers and the community: Tasmania's freight market has not been subject to major network rationalisation in the recent past. Even if doing so could be shown to have a net positive effect on the Tasmanian economy and freight sector, there would be operational turbulence and transition costs involved for shippers, freight practitioners and the general community. New arrangements around a dominant freight port in the north of Tasmania, for example, could be expected to cause considerable downstream effects on the industries and communities that have grown up in support of other ports and supply chains.

This report sees a legitimate role for federal and state governments in considering structural adjustment assistance to accompany the sort of net economic benefits that market-driven investment rationalisation and other reforms to the freight sector recommended above might bring to Tasmania.

It would be advisable to establish oversight of the market-testing and other review processes to ensure that governments can gain early sight of the sort of structural adjustment challenges that moving to a better state freight outcome might involve. This would involve the Tasmanian government in the first instance but would also benefit from support from the Federal government, as has occurred in past structural adjustment processes in other parts of Australia. Governments should be in a position to respond early and comprehensively in this respect, rather than reacting to market-based solutions after the latter are well-advanced in their development.

Annexure A:

Changes available to Tasmanian freight infrastructure under current regulation

It is useful to consider whether or how changes in Tasmanian freight planning, investment and operation may be accommodated under current regulation of freight transport in the state.

1. The state's transport legislation is not prescriptive as to transport services

Changes to freight transport infrastructure and services in the state may be accommodated because the current regulation of the four major ports of TasPorts and of the railways of TasRail and of the freight service of TT Line neither prohibits change nor requires particular ports or railways or shipping services to be operated, whether under the enabling Acts of these companies – Tasmanian Ports Corporation Act 2005, Rail Company Act 2009 or TT Line Arrangements Act 1993 – or under the constitutions of the companies or under the current statements of corporate intent or the statements of members' (that is ministerial shareholders') expectations for the companies.

In the case of TasPorts the statement in its statement of members' expectations that it "manage state wide port facilities" would be compatible with selective management and selective investment in one but not all of the four major ports.

2. The organization of the transport companies already can require changes to their services

Changes to port or railway services may be required or necessitated so that relevantly TasPorts or TasRail does not carry out non-commercial activities in breach of the applicable statement of members' expectations or so that they and also TT Line conduct their activities in accordance with "sound commercial practice", as required under s 6(b) of the 2009 and 2005 Acts and by the principal object for TT Line in schedule 1 of the 1993 Act.

Loss making freight services or operations have to be judged against these requirements. For example in the case of TasRail annual revenue of \$30.5m shown in the 2011-2012 annual report against what appear to be operational expenses, (salary and expenses, fuel and administration) totaling some \$34.3m shows a loss. This might represent a non-commercial activity which needs to be sanctioned by the government by a change to the statement of members' expectations. Depending on the answers to these questions changes to operations may be required.

3. Freight transport costs imposed on Tasmania by regulation

A. Coastal trading licensing

Interstate transport for Tasmania, being largely by shipping, far more so than for the other states, has to be licensed under the Coastal Trading (Revitalisation of Australian Shipping) Act 2012. Conditions of licensing under that Act require an Australian crew and in effect compliance with the Stevedoring Industry Award. Similar licensing conditions applied under the previous (Australian) Navigation Act 1912. Interstate shippers from Tasmania objected to that system when it commenced to apply in the 1920s.

Interstate transporters in the other states have avoided high coastal shipping costs in many cases by using trucks and trains, which are not subject to economic regulation such as that for coastal shipping.

Foreign shipping for export from Australia is not subject to coastal trading licensing and is comparatively inexpensive compared to Australian coastal shipping.

It is at this point unclear whether the application of this legislation on the Bass Strait trade is not the problem, rather than the legislation itself. There are significant tax incentives on offer in the current legislation which might benefit from greater explanation to the market.

B. Melbourne port licence fee

A further cost imposed on Tasmania, because of its dependence on the Port of Melbourne, is the port licence fee of \$75m, indexed annually, uniquely imposed on the Port of Melbourne Corporation by the Port Management Amendment (Port of Melbourne Corporation License Fee) Act 2012 of Victoria. On 29 May last year PoMC announced an increase in container handling tariffs to pay the licence fee; for example the wharfage on a 20ft container was increased by \$21.10 to \$61.20. It appears from the announcement that a substantial part of the increase was due to the port licence fee.

The costs imposed by coastal shipping licencing and by the Melbourne port licence fee would not be incurred in direct export shipping from Tasmania.

C. Freedom of trade aspect

The costs imposed on Tasmania's interstate trade by coastal shipping licensing stand in contrast to the freedom for interstate trade, commerce and intercourse – and thus for interstate transport – stipulated by s 92 of the Australian Constitution. The

relationship between this freedom and protection of cabotage, which in part explains coastal shipping licensing, may not be a live issue for the mainland because of the decline of coastal shipping in favour of substitute transport modes. However this is not the case for Tasmania. As the accompanying report identifies the comparatively high cost of shipping on Bass Strait, the implications of coastal shipping licensing on that cost and the possibility of the freedom for interstate trade under s 92 of the Constitution reducing that cost, by opening the market, warrant further consideration.

4. Implementing changes to present freight transport arrangements

The accompanying report indicates [several fields in which present transport arrangements in the state may be changed].

A. Issues

Noting that it is the needs of producers, including exporters, and shipping lines that ultimately should determine what changes are required and that the changes would affect the government-provided ports and the railways and roads to ports, implementing change requires first a method of directly establishing the needs of the producers and the shipping lines, their contribution to any investment required in transport infrastructure and consequent possible changes in control of transport infrastructure. Secondly implementing change requires a method of actually making changes to the ports, the railways and the roads that may emerge from the established needs of the producers and the shipping lines. Thirdly implementing change may incur restructuring costs or the like.

Current transport regulation in the state would allow this sort of process of change. Each of TasPorts, TasRail and TT Line are subject to ministerial control and none of their establishing Acts, their constitutions and statements of corporate intent and of members/ expectations lock in present freight transport arrangements. Thus to the extent change requires direction from the government it can be given and these three bodies would implement them.

If there are restructuring costs this may be a matter for the Australian government. In this regard it may be noted that the Tasmanian Freight Equalisation Scheme, which is not a statutory scheme, could be easily terminated and that savings could be applied to restructuring costs and the like.

B. Transport Act 1981

Furthermore the Transport Act 1981 established a Transport Commission, also subject to ministerial control, to, amongst other

things, “regulate and control all or any means of transport by road, water or air within the State” and “take such steps and to do all such acts, matters and things as it may think necessary or desirable for effecting the co-ordination of transport services, and the improvement of the means of, and the facilities for, transport in this State” (s 5(10)(b) and (e)).

The Transport Commission is constituted by an officer of the Department of Infrastructure, Energy and Resources. The commission’s powers include the power to delegate (s 10).

Thus the Transport Act is a source of power to effect changes to freight transport infrastructure and services.

In relation to establishing the changes required by producers and shipping lines and any investment that they would be prepared to make, the powers under Transport Act should be considered.

For example a delegate of the Transport Commissioner, appointed on the basis of independence and expertise, could conduct a tender of producers and shipping lines, and possibly others, such as investors, to establish or select a port which would have enough volume for bulk, Bass Strait and export shipping and which would warrant the investment required, both in the port and in any road or railway serving the port, and new control or ownership both of the port and possibly the railway or road facilities serving the port.

C. Open access

It is also noted that the essential facilities access regime of part IIIA of the Competition and Consumer Act 2010 applies to the export or interstate trade aspects of the roads and railways serving the ports and the ports themselves. The regime allows a party seeking access to require, at its cost, an upgrade to such essential facilities. The suggested tender should anticipate such an upgrade being sought by a proponent. It is also noted that DIER’s *Tasmanian Rail Network – Objectives and Priorities for Action 2010-11 to 2013-14* mentions a “transitional access framework” which applies to TasRail.

D. Implementing changes that require new works

If new works were required on ports or railways or under an authoritative procedure, such as under the Transport Act, or by ministerial direction to the relevant government company, then the works should not be subject to further economic or purely discretionary assessment. This is very important to gain and retain the interest of investors in the works and so that they can see the true scope and cost of assessment and approval processes.

Appropriate provision is made in this regard, in for example, routine railway works not requiring planning approval (s 19(1), Rail Infrastructure Act 2007) and, for say the port of Burnie “the use or development of land within the proclaimed Burnie Wharf Area for Port or shipping purposes” not requiring a discretionary permit (cl 11. 1. 3 of Burnie Planning Scheme 1989). The anticipated works should have the benefit of provisions of this kind.

Other legislation in this field needs to be carefully considered to ensure timely assessment of physical impacts or nuisance from works.

4. Conclusions

Current regulation of freight transport in Tasmania is likely to well accommodate changes to freight infrastructure and services and any new works that may be required.

Current regulation will also accommodate any process for the market’s requirements for changes to shipping and related port and road and rail connections to be authoritatively ascertained, such as by a tender process under the Transport Act. Third party access and improvement to declared freight infrastructure by market proponents, as set out in the recommendations in this report, would also be well assisted by existing Tasmanian regulations in transport.

A move to direct export shipping from the state has the benefit of avoiding cost imposts from coastal trading licensing and from the Melbourne port licence fee.

Of course Bass Strait shipping will remain vital to the state. The high cost of that shipping identified in the accompanying report might to some extent be linked to cost imposts from coastal trading licensing. As the interstate trade of other states does not suffer these costs imposts, the licensing system might be argued to be unfair to the state. Also unlike the other states, Tasmania sees little practical expression of the constitutional guarantee of interstate trade, commerce and intercourse being “free”. There might therefore be a case for the coastal trading licensing system not to apply to Tasmania.



Annexure B

Expression of Interest in a Market-Provided Direct International Shipping Solution for Tasmania: An Example

Example of a way to establish the requirements of exporters and shipping lines and an outline for giving effect to their requirements through a market-based process

A. Task

To channel exports through a single port in Tasmania to create the volume for a shipping service directly to the market to which the exports are being sent – in accordance with the requirements of exporters and shipping lines.

B. Implementation

Broadly (i) an independent delegate of a state government official would (ii) canvas exporters and importers and (iii) shipping lines and (iv) existing arrangements.

(iv) The road or rail service to the port may require reorganisation and it would be necessary to examine whether until such reorganisation the existing road or rail service imposes additional cost on exporters and whether any of such additional cost should be subsidised.

(v) As part of the canvassing, or separately, the delegate or official could call tenders for a shipping service and related works at a port or on road or railway servicing the port. The tenderers could include not only shipping lines but also private investors.

Broadly the foregoing could be carried out, subject to consideration of the details, under the Transport Commission Act 1981. Exclusivity aspects could, if necessary, be governed by the Economic Regulation Act 2009. Market access could be granted to freight investments under well-understood third-party access and improvement arrangements under the Competition and Consumer Act (2010)

C. Independent delegate

Having regard to the magnitude of the problem facing exporters, the establishment of a new direct shipping service requires governmental powers. However those powers should be exercised by a party independent of the government and business interests in the state and independent of transport, port and shipping interests on the mainland.

Accordingly it is suggested that the governmental powers be delegated to an experienced transport administrator or

businessman or woman from overseas or with overseas connections, eminent in the shipping and logistics field.

The governmental powers could reside in the Transport Commission, which is constituted by an individual in the State Service, under s 4 of the Transport Commission Act. The commission in turn may delegate specified functions and powers, under s 10 of that Act.

D. Canvas exporters and exporters

The delegate could hold a referendum of exporters and potential exporters as to export chain elements or options put to them.

The delegate could also meet with current and potential exporters with specific export requirements to devise the most economical transport mode to a particular port. Similarly the delegate could meet with importers.

E. Canvas shipping lines

The delegate could also canvas shipping lines for their terms (volume, location, frequency etc) for operating from Tasmania to a market servicing exporters.

F. Organisation of current road, rail and shipping

Taking the results of steps D and E into account the delegate could examine the current road and rail services to the preferred port. Upgrades or requirements that exporters use one or other mode to create the necessary volumes would be examined.

Any state or Australian government requirements, concessions or subsidies as to current shipping services from Burnie and Devonport would be examined.

To facilitate integrated rail services to a port consideration could be given to integrating the control of so much of a rail line or rail service as serves the port with the control of the port.

To facilitate upgrade of any road or rail service to the port consideration would be given to an access or similar charge to meet some or all of the cost of the upgrade.

To enable a new shipping service to start before any reorganisation of road or rail services and to facilitate displacement of existing shipping services the case for any state or Australian government subsidy or transition payments would be examined.

G. Tenders for new direct shipping service

If having regard to the previous steps a new direct export shipping service was warranted the official who constituted the Transport

Commission or the delegate of the official could organise a tender for the new direct export shipping service either from a nominated port or from a single port in the state nominated by the tenderer. The tender could also nominate the road or rail service to the nominated port or seek the requirements of the tenderer as to the road or rail service.

The tenderers could be either shipping lines or other parties such as private investors with an interest in transport infrastructure.

Alternatively the step of calling tenders could be brought forward to an earlier stage, especially if greater scope is to be given to tenderers to articulate their shipping and investment preferences.

The successful tenderer for a particular port could be given the exclusive right to export from the state – assuming this is necessary to create the necessary volumes for export. Particular road or rail upgrades to the port found to be needed under step F would be put in place. Until the upgrades had been carried out, exporters who faced a particular cost burden might qualify for a subsidy or transition payment.

H. Control over exclusivity

The result would be that exports from the state would go exclusively from one port. The monopoly thus conferred would not be unusual since ports on the mainland often hold geographic or product monopolies (eg the PWCS coal loader at Newcastle held a monopoly over the export of Hunter Valley coal until as recently as late last decade) and such port monopolies are often left unregulated.

If necessary the state's export port could be overseen and regulated by the Economic Regulation Authority under the Economic Regulation Authority 2009.

An alternative method, recommended in the body of the report, would be to declare the assets in question under section 111A of the Competition and Consumer Act 2010 and invite third party access and improvement requests on this basis from interested participants in the canvassing process.

¹GHD for the Department of Infrastructure, Energy and Resources
Furneaux Group Shipping Study



