

Shipping and freight

Overview and government responses to-date

- 4.1 The Indian Ocean Territories (IOT) comprise remote islands that are reliant on sea and air freight for delivery of most goods including food and building materials.
- 4.2 Zentner Shipping Pty Ltd (Zentner) is the only enterprise providing a sea freight service to the IOT. It operates a services from Fremantle, Western Australia to the IOT ostensibly every 4-6 weeks.¹
- 4.3 Residents have repeatedly conveyed their concerns to successive JSCNCET inquiries about the high cost of freight and the implications this has for local communities, business and potential development. Previous committees have consistently recognised the importance of reliable and affordable shipping service for freight to the IOT. Past inquiries have considered ways to redress concerns, including through a subsidised shipping service and investigating importing goods to the IOT from outside of Australia using international shipping operators.²
- 4.4 The Australian Government is the single largest user of the shipping service to the IOT and the previous JSCNCET recommended it use this

1 Christmas Island Service Directory, <http://www.christmasislanddirectory.com.au/Services.aspx>

2 See for example, JSCNCET, *Report on the visit to the Indian Ocean Territories, 21-25 October 2012*, June 2013, pp. 38-42; JSCNCET, *Inquiry into the changing economic environments in the Indian Ocean Territories*, March 2010, pp. 129-139; and JSCNCET, *Current and future governance arrangements for the Indian Ocean Territories*, May 2006, pp. 48-51.

position to leverage the most cost-effective service for Government and the communities in the IOT.³

- 4.5 However, government responses to committee recommendations have not resulted in any changes to the status quo, with the Government maintaining that:

Shipping services operate on a commercial basis.⁴

- 4.6 In contrast while sea freight to the IOT is not Government subsidised, air freight on a weekly air freighter service is.⁵ This service is underwritten to improve community access to fresh fruit and vegetables and other goods.⁶

Ongoing issues – high cost, irregular sea freight service, inefficiencies and monopoly

- 4.7 IOT residents have ongoing concerns about the high cost of freight (particularly by sea, but also by air), the unreliability and inefficiencies of the shipping service, and Zentner's monopoly.

- 4.8 Witnesses on Christmas Island and the Cocos (Keeling) Islands complain about the high cost and poor quality of food. Ms Valerie Coleman of Christmas Island commented on the impact this has on residents' diets:

The availability of products and produce is highly dependent on shipping to this remote area in the Indian Ocean and Toll air freight. The supermarkets can often be described as representing 'feast or famine' particularly during the wet season.

This is to be expected when living remotely. What is of concern, however, is the high price of food, the general lack of regard for use by dates and often low grade produce. This is especially noticeable with fruit and vegetables...

Islanders on low incomes struggle to eat well and I am reliably informed that many senior citizens in the Asian community live on rice and noodles.⁷

3 JSCNCET, *Report on the visit to the Indian Ocean Territories, 21-25 October 2012*, June 2013, p. 41.

4 Australian Government response to the JSCNCET *Report on the visit to the Indian Ocean Territories, 21-25 October 2012*, August 2014, p. 4 and JSCNCET, *The changing economic environment in the Indian Ocean Territories*, March 2010, p. 130.

5 Department of Infrastructure and Regional Development, *Submission 36*, p. 5.

6 JSCNCET, *Report on the visit to the Indian Ocean Territories, 21-25 October 2012*, June 2013, p. 40.

7 Ms Valerie Coleman, *Submission 5*, p.1.

- 4.9 Mr Haji Adams, a resident of Cocos (Keeling) Islands observed that the majority of Cocos residents receive Commonwealth assistance, are on low incomes and imported food 'prices are dear'.⁸
- 4.10 Mr Barry Haase, IOT Administrator said that the weekly Toll freighter by air is a great alternative to relying on sea freight and supplements fresh food intake but:
- ...is an incredibly expensive service and heavily subsidised.⁹
- 4.11 Mr Signa Knight referred to the cost of living pressures he experiences living on the Cocos (Keeling) Islands:
- ...freight costs are on the increase, and, at the moment, that has taken the bulk of [my] income to pay for stuff to the islands...
- This also applies to Freightshop. When it first started, Freightshop was charging \$4 a kilo, and then, throughout the years, it has gone up to \$6.90 a kilo.¹⁰
- 4.12 Mr Raymond Marshall, also of the Cocos (Keeling) Islands outlined the current sea and air freight costs and the infrequency of the shipping service in his submission, observing:
- Freight prohibitive pricing from shipping company
- \$11,300/container to Cocos
- \$11,300/container empty to Fremantle
- \$7,100 vehicle to Cocos
- Airfreight for food \$7.50/kg plus customs fees of \$65.
- Irregularity of service, for whatever reasons i.e. breakdowns, swell at Christmas Island, detours to Singapore.¹¹
- 4.13 On the irregularity of the sea freight service, the Department of Infrastructure and Regional Development (DIRD) stated:
- ...the regularity of the service is strongly influenced by the weather.¹²

8 Mr Haji Adams, *Submission 35*, p. 1.

9 Mr Barry Haase, IOT Administrator, *Committee Hansard*, Christmas Island, 9 April 2015, p. 30.

10 Mr Signa Knight, private capacity, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 25.

11 Mr Raymond Marshall, *Submission 29*, p. 3.

12 Department of Infrastructure and Regional Development, *Submission 36*, p. 5.

- 4.14 Mr John Clunies-Ross, a resident of Cocos (Keeling) Islands, businessman and Councillor, was critical of the high costs of delivering building materials, including cement when compared to the mainland. He emphasised that cement is crucial to enhancing and maintaining infrastructure, yet the costs are prohibitive:

Concrete delivered in Perth is under 100 bucks a cubic metre in some places. Here, in the ground, \$3, 200 because a tonne of cement is not a tonne. No, according to [Zentner], it is 1 and ½ tonnes. The fact that it only takes up half a cubic metre does not mean you get charged for half a cubic metre; it means you get charged for 1 and ½ cubic metres, because it is a little bit heavy?...He has now written that as part of the shipping code. The baseline for any development anywhere on Cocos Islands is cement, and he is punitively targeting the baseline economic movement of Cocos Islands.¹³

- 4.15 Mr Colin Bloomfield, owner of a small business on West Island of the Cocos (Keeling) Islands indicated that freight was one of his main concerns.¹⁴

- 4.16 Mr Gordon Thomson, President, Shire of Christmas Island similarly underscored the importance of freight to economic development on Christmas Island:

This relates to the expense of doing business and doing anything on Christmas Island.¹⁵

- 4.17 Mr Aaron Bowman, CEO, Shire of Cocos (Keeling) Islands spoke passionately to the topic, pointing out systemic flaws:

...Let's face it, the elephant in the room is shipping, freight: it is unreliable and it is the most expensive in the world, and the care factor is zero.

...How can we actually operate any business - I am talking about even the shire - when our holding costs are so huge?...you saw the empty freezers [in the supermarket]. Shipping here is a joke. I was told that four to six weeks is what is supposed to happen....Three months is probably more realistic, and \$12 and a ½ thousand for a container. I will give you an example. I

13 Mr John Clunies-Ross, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 21.

14 Mr Colin Bloomfield, private capacity, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 27.

15 Mr Gordon Thomson, President, Shire of Christmas Island, *Committee Hansard*, Christmas Island, 9 April 2015, p. 5.

understand someone bought a paving brick compactor 600 by 600 with a handle that folds down. When it went to the shipping company the handle was up, it was put on the pallet – nothing else was on the pallet; the handle was up – it was charged as 1.2 cubic metres.¹⁶

- 4.18 Mr Clunies-Ross also described various inefficiencies, and the impact on his business:

Everything from loss of stock from spoilage while waiting for the ship, cost of project delays, air freighting materials that could have gone by ship (if frequency was suited), weekly chartering of air cargo services, through to high stock volumes required to cope with the irregular service (and inherent extra spoilage).¹⁷

- 4.19 Mr Clunies-Ross added that Zentner charges \$12,000 a tonne to take rubbish off the island, which means that waste like aluminium is not taken off the island on the return trip to the mainland to be recycled, because the costs are prohibitive.¹⁸

- 4.20 Mr Clunies-Ross informed the Committee that Zentner does not offer discount rates for higher volumes of shipping:

If you bring up 50 containers you are on the same rate as if you bring up one.¹⁹

- 4.21 Mr Clunies-Ross observed that freight volumes in the IOT had increased in recent years, and concludes that the Commonwealth, being the largest user of the service, is not getting value for money presently.²⁰

- 4.22 Mr Bowman spoke about ways that he, as CEO of the Shire, tries to get better value freight for the local government, including bypassing Zentner's packing service:

I am sending my works manger and my mechanic to Perth for nine days – with accommodation, meal and allowance and flights...and we will save money...through our packing the ship

16 Mr Aaron Bowman, CEO, Shire of Cocos (Keeling) Islands, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 20.

17 Mr John Clunies-Ross, *Submission 6.1*, p. 1.

18 Mr John Clunies-Ross, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 21.

19 Mr John Clunies-Ross, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 21.

20 Mr John Clunies-Ross, *Submission 6.1*, p. 1.

ourselves and using every square inch. There is something wrong when I can do that and save money.²¹

4.23 Mr Bowman, Mr Haase and Mr Clunies-Ross emphasised that Zentner is the only shipping service to the IOT.²²

4.24 Mr Bowman summarised:

There is one supplier; there is a monopoly. He comes when he wants to come and does not come when he does not want to come.²³

4.25 Mr Clunies-Ross added:

The current system is that there is a bully in the yard and you are all scared of him ... he is doing us no favours and he is doing the Commonwealth no favours at all when 30 per cent of project value is in shipping the stuff here.²⁴

What are the obstacles to achieving more satisfactory outcomes, and how to overcome them?

4.26 The Committee wanted to know what, if anything, would prevent another operator from entering the market to offer an alternative to the existing service.

4.27 Mr Haase noted that a specific type of vessel is required to service Cocos (Keeling) Islands:

...they must have deck gantries because there is no crane to off-load shipping containers from the vessel onto the barges anchored in the lagoon.²⁵

4.28 Mr Haase said that the options for Christmas Island are greater because the vessels do not have to have their own deck cranes.²⁶

21 Mr Aaron Bowman, CEO, Cocos (Keeling) Islands, *Committee Hansard*, 8 April 2015, Cocos (Keeling) Islands, 8 April 2015, p. 20.

22 Mr Aaron Bowman, CEO, Shire of Cocos (Keeling) Islands, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, pp. 20-21; Mr Barry Haase, IOT Administrator, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 21; and Mr John Clunies-Ross, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 21.

23 Mr Aaron Bowman, CEO, Shire of Cocos (Keeling) Islands, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 21.

24 Mr John Clunies-Ross, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 21

25 Mr Barry Haase, IOT Administrator, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 23.

- 4.29 Mr Clunies-Ross informed the Committee that ‘self-servicing vessels,’ that is vessels with on-board cranes for loading and off-loading, were becoming increasingly common:

These vessels are now quite common through Indonesia because of the small islands throughout Indonesia....It is cheaper to take the crane with the ship than it is to build a crane in every port...so there is less fear of losing the trade to my mind.²⁷

- 4.30 So, while there used to be a shortage of ships, Mr Clunies-Ross contends this is no longer the case:

The increase in the middle classes through Malaysia has seen the self-servicing vessels double every ten years.²⁸

- 4.31 Mr Clunies-Ross said that the problem, now that the trade out of Perth has increased, is that the vessels being brought to the Cocos (Keeling) Islands are larger ones that cost more to operate. He expanded:

...they are really expensive [for Zentner] to hire. It is like taking an 80-seat bus to pick up your five mates and go to the pub. We only take up the back seat. Those ships, instead of being US \$20,000 a day to run, are US \$50,000 a day to run, so any delay in either port - and Christmas Island is a great delay port - he puts down on the ledger. That’s another \$50,000 I have to take off this to maintain my income. He has not had a choice in the ships because his relationship is not as an owner of the ship; he is only a part charter of the vessel. So, when they say, ‘We’re going up to a bigger vessel’, the financial pressure increases.²⁹

- 4.32 Mr Clunies-Ross argues that the Commonwealth Government is, at least in part, responsible for the current situation because in the past it had made a decision to use Zentner for shipment of its own freight without exploring the alternatives, including a shipping company previously operated by the Clunies-Ross family.

- 4.33 He suggests that, were the Commonwealth prepared to test the market for shipment of its own freight, it is possible that alternative operators might offer a better service:

I can have a ship on that line in eight days, I reckon, if the Commonwealth are grown-up enough to say, ‘For anyone who

26 Mr Barry Haase, IOT Administrator, *Committee Hansard*, Christmas Island, 9 April 2015, p. 30.

27 Mr John Clunies-Ross, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 23.

28 Mr John Clunies-Ross, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 21.

29 Mr John Clunies-Ross, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 23.

has a contract with the Commonwealth for anything – be it uplifts for [teachers] or removing rubbish from the island – we have a scheduled service provider, and he will give you a fixed rate for that.³⁰

- 4.34 Mr Haase advised that from his perspective it appears that the Department was apprehensive about changing the status quo, for fear that the current service, however unsatisfactory, could completely derail:

There is a great fear in the Department that suggestion of competition for Zentner will see Zentner provide a less reliable service, will come less often. If the competitor that has been engaged has been engaged for one voyage only, perhaps they then walk away and Zentner threatens to do the same. There is a great fear that this might happen, because at this stage Zentner is the only routine. It is their discretion, their rates.³¹

- 4.35 When the Committee asked Mr Haase if DIRD might be prepared to consider using another operator, in order to improve the overall service, he responded:

In principle, the proposition is reasonable that until such time as another operator is encouraged to provide a long-term, reliable service there will be no change from the current Zentner situation...

The arrangement, from a contractual perspective, would require that all Commonwealth funded movements of freight or personal possessions would go on this alternative service in exchange for a guarantee of the regularity of the service. But you might need Jesus Christ himself to negotiate that.³²

- 4.36 Mr Clunies-Ross proposed that the Commonwealth should put the shipping service for government freight to the IOT out to tender:

As a minimum, 'expressions of interest' should be invited regularly to see what alternatives are available to allow informed decisions to be made.³³

30 Mr John Clunies-Ross, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 21.

31 Mr Barry Haase, IOT Administrator, *Committee Hansard*, Cocos (Keeling) Islands, 8 April 2015, p. 21.

32 Mr Barry Haase, IOT Administrator, *Committee Hansard*, Christmas Island, 9 April 2015, p. 30.

33 Mr John Clunies-Ross, *Supplementary submission 6.1*, p.1.

Committee comment

- 4.37 The cost of freight to remote destinations by ship or by air is not cheap. The Department acknowledges the expense involved, borne by both residents and the Australian Government:
- Transporting building materials to the islands is most effectively achieved by sea freight, however this is expensive....
- The Government already subsidises airfreight and funds directed towards subsidising freight are funds which would otherwise be supporting the direct provision of services.³⁴
- 4.38 Clearly, having a reliable shipping service for transporting freight to the IOT is imperative for the communities and Commonwealth alike, as this is the most cost effective way to transport the bulk of items.
- 4.39 DIRD acknowledges that the cost of sea freight is an issue for the IOT:
- Some members of the community have indicated that the high cost of freight is negatively impacting on development and ongoing business operations.³⁵
- [While] the market to Christmas and Cocos islands is open....The market is an extremely small market. In terms of the description, it is a very thin freight route. It supports one operation. Because of that it is an expensive operation.³⁶
- 4.40 While on the Cocos (Keeling) Islands and Christmas Island it was the Committee's experience that the expense of freight and unsatisfactory nature of the service, as it stands, was one of the most frequent complaints from residents.
- 4.41 The Committee has heard, how the Australian Government as the biggest user of the shipping service, should have a vested interest in functionality and achieving value-for-money. It also has a responsibility to achieve the same for the IOT residents.
- 4.42 At Senate estimates in May 2015, the Senate Rural and Regional Affairs Committee, asked DIRD if it had ever sought expressions of interest from

34 Department of Infrastructure and Regional Development, *Submission 36*, p. 5.

35 Department of Infrastructure and Regional Development, *Submission 36*, p. 5.

36 Mr Andrew Wilson, Deputy Secretary, Department of Infrastructure and Regional Development, Rural and Regional Affairs and Transport Legislation Committee, Senate Estimates, *Proof Transcript*, 28 May 2015, p. 85.

the market for the delivery of Australian Government freight by sea to the IOT. DIRD responded:

I do not believe we have. From recollection, in my time within the organisation, I do not believe that we have worked through either the mechanics or economics of doing so.³⁷

- 4.43 In the Committee's view the Australian Government, through DIRD must be prepared to seek and then support alternatives to the status quo if things are to ever change in respect of sea freight. Enormous benefits are to be gained long-term if one or more alternative operators can offer a more reliable and cost-effective service.
- 4.44 The Committee also notes the recent notification about the Australian Government's intention to gradually reduce the weekly air freighter service, with a view to possibly terminating the service from January 2016.³⁸ If underwritten air freight services are to be reduced or disappear altogether, then a reliable, cost-effective shipping service for freight to the IOT will become more important than ever.
- 4.45 While there may be scepticism in some quarters that another provider could tender a commercially viable service, the Committee believes that an approach to the market to explore options is long overdue. The Committee recommends that DIRD call for expressions of interest in the first instance to assess the potential for other shipping operators to provide alternative services for the transport of Australian Government freight by sea to the Indian Ocean Territories.
- 4.46 Expressions of interest should address the following:
- frequency and reliability of the service;
 - on-board craneage capacity;
 - cost to transport Australian Government freight and the charging arrangements (e.g. cost-plus, versus fixed annual fee); and
 - cost to transport non-government freight and the charging arrangements.

37 Mr Andrew Wilson, Deputy Secretary, Department of Infrastructure and Regional Development, Rural and Regional Affairs and Transport Legislation Committee, Senate Estimates, *Proof transcript*, 28 May 2015, p. 85.

38 Office of the Administrator Indian Ocean Territories, *Community Bulletin Reference no. A14/2015*, 27 May 2015, p. 2.

- 4.47 The outcome of the expression of interest process, will assist DIRD to determine whether it is necessary and appropriate to follow through with a full tender process to achieve a best value for money outcome.

Recommendation 3

The Committee recommends that the Australian Government call for expressions of interest for the delivery of freight by sea to the Indian Ocean Territories for the carriage of Australian Government goods, to be followed by a full tender process if indicated by the outcome of this process.

