Strait Link

24th September 2024

Submission to the Senate Select Committee Inquiry into the Tasmanian Freight Equalisation Scheme (TFES)

Introduction

Strait Link welcomes the opportunity to respond to the Select Committee on the Tasmanian Freight Equalisation Scheme (TFES).

Strait Link has a proud history of being a vital link between Tasmania and the world, providing sea freight services between Mainland and Tasmania six nights a week.

We contribute to the Australian economy by being a key part of the supply chain, connecting Australian trade across the Bass Strait.

Tasmania is a resourceful, innovative and abundant exporter inspired by its home-grown ingenuity. Strait Link shares the same mindset providing an agile, reliable and dedicated service to help our customers thrive and grow their businesses.

Tasmanian goods and services exports now exceed $5 billion per annum, with an ambition to reach $15 billion by 2050.

Our cargo ships Tasmanian Achiever II and Victorian Reliance II operate across the Bass Strait. When introduced in 2019, the Tasmanian Achiever II was the largest cargo ship registered in Australia.

We employ over 400 people at our Burnie and Melbourne port terminals, making us a leading local employer in the northwest region of Tasmania.

Our dedication to being the supplier of choice for Bass Strait port to port services is demonstrated in our investment in people, local port infrastructure, and vessel upgrades over the years. We are committed to finding solutions and supporting the local communities where we operate to contribute to a sustainable future for future generations.

The TFES is a critical tool in supporting the competitiveness of Tasmanian trade, the Tasmanian economy and the cost-of-living for residents of Tasmania.

The TFES is important in ensuring equitable access to goods and services for Tasmanians along with ensuring Tasmanian industries can compete on a more level playing field with their mainland and international peers.

The TFES subsidies are paid directly to the Tasmanian producer or manufacturer, or the buyer of the goods who have paid the costs of shipping across the Bass Strait.

Strait Link does not receive TFES subsidiaries directly. However, with Strait Link carrying approximately 55% of all Tasmanian containerised/trailerised volume, the TFES is essential on supporting producers, manufacturers and other businesses meet the costs of shipping, and do so in a way that does not undermine the competitiveness of Tasmanian imports/exports.

Shipping between Tasmania and mainland Australia must operate as cost-efficiently as possible.

Bass Strait shipping is an essential service for Tasmania, connecting its consumers, manufacturers and producers with mainland Australia and international markets.

There are three Bass Strait shipping services - Strait Link, Sea Road, and The Spirit of Tasmania – currently compete to efficiently transport more than 500,000 TEU ('Twenty Foot Equivalent' containers) of goods and raw materials annually between Tasmania and mainland Australia.

Strait Link is the largest carrier, responsible for carrying $5.1 billion of all trade moving into and out of Tasmania, making it a critical link for the state economy.

Overview of Tasmanian Trade Operators (TTOs)

Overview of the main Tasmanian industries served and consumer goods carrier by Strait Link

In Burnie itself, Strait Link is one of the largest direct employers, employing 210 locals. Strait Link's parent company, Team Global Express, employs a further 68 local workers and is deeply committed to employing Burnie locals and contributing to the Burnie community.

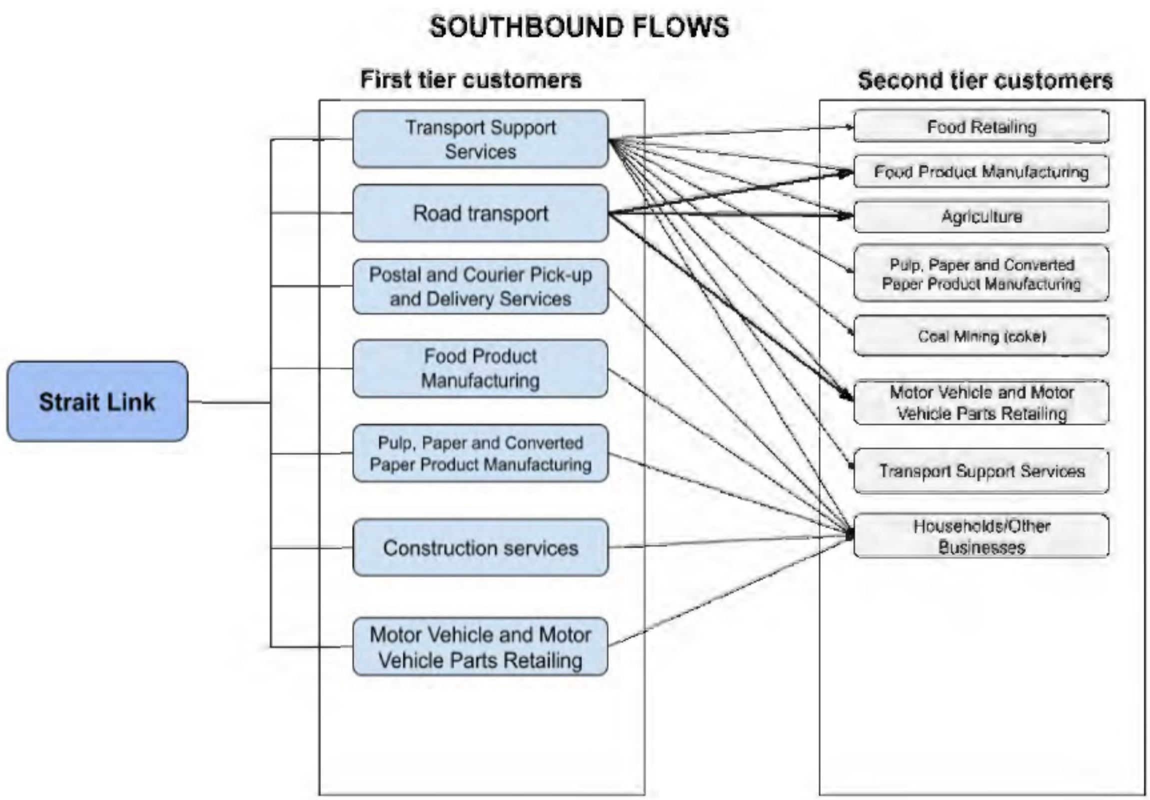
Any increase in the costs of shipping goods to/from Tasmania directly impacts the Tasmanian economy.

The cost of providing these services impacts the Tasmanian economy, both directly and indirectly. It is therefore critical that these services operate as cost-efficiently as possible.

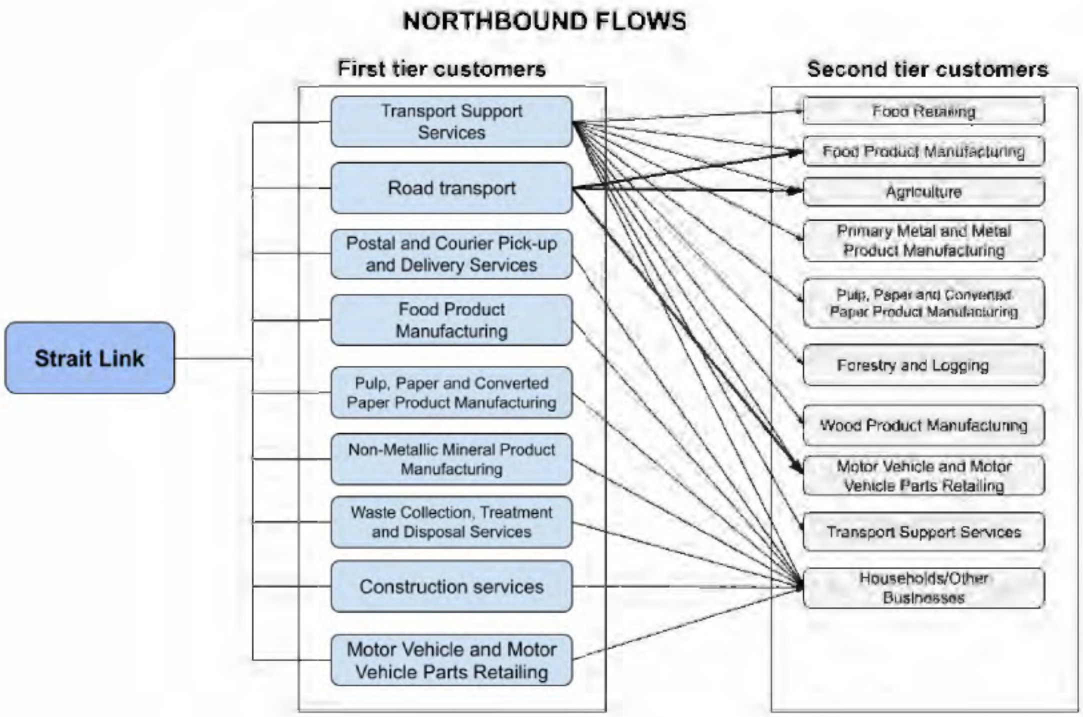
Tasmania's dependency on sea transport makes its entire economy particularly sensitive to shipping costs.

Shipping services directly impact the final retail prices of consumer goods. Raw material costs for manufacturing are directly influenced by shipping expenses, especially for imported materials. Exporting Tasmanian produce and manufactured goods fully relies on shipping costs, affecting overall competitiveness of the Tasmanian economy.

More broadly, higher shipping costs will lead to changes in pricing strategies for businesses operating within Tasmania, as they adapt to upwards pressure on COGS.



Schematic of Strait Link's relationships with customers – southbound freight (source: Lateral Economics)



Schematic of Strait Link's relationships with customers – northbound freight (source: Lateral Economics)

Between 2017 and 2022, shipping costs across Bass Strait increased by 12%, while the average TFES subsidy decreased from $769 per TEU to $699 per TEU. If the average TFES subsidy increased in line with shipping costs it would have equated to $861 per TEU by FY22.

Ongoing increases in shipping costs will place further pressure on the Tasmanian Freight Equalisation Scheme (TFES), with no guarantee the Commonwealth will be able to support further upward pressure on the Scheme's funding.

Therefore, the cost of shipping services directly influence the competitiveness of Tasmania's products and the relative cost-of-living for Tasmanian residents, the viability of key Tasmanian industries, and the sustainability of the TFES itself.

Two essential pieces of infrastructure in the Tasmanian supply chain, the Port of Melbourne and the Port of Burnie, are monopolies.

TasPorts and the Port of Melbourne each own partially regulated monopoly ports infrastructure at key nodes in this critical supply chain.

TasPorts, owned by the Tasmanian Government, controls all commercial ports in Tasmania, including the Port of Burnie.

The Port of Melbourne, privately owned by several major investment funds, controls all berths and related infrastructure utilised by the two largest Bass Strait shipping services.

This submission outlines below two significant issues relating to these ports, which will have a direct impact on Tasmania.

Both monopoly port operators are seeking to increase the revenue generated by their ports, and do so at the expense of Tasmanians.

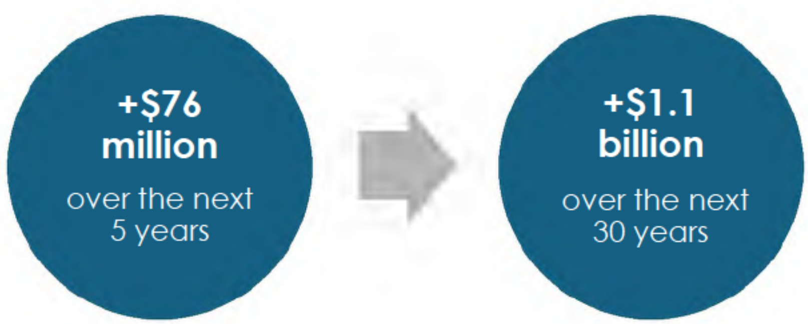
The costs of shipping to/from Tasmania are about to come under enormous pressure based on decisions by the owners of the monopoly ports on both sides of Bass Strait to extract more income from their monopoly assets. If allowed to proceed unchecked, each will reap significant financial benefits at the expense of Tasmanian consumers and industries.

TasPorts (Port of Burnie) proposed to increase its charges to Strait Link at the Port of Burnie by +$76 million over the next 5 years, starting this year.

This is a dramatic change to the way TasPorts manages and charges for access to the Port of Burnie. If allowed to proceed un-checked, the $76m negative impact on shippers and the Tasmanian economy would start being felt immediately (in the 2024-2025 financial year).

TasPorts has flagged its intention to offer Strait Link's berth to others if the price increase is not accepted now, even though there are 5 years still to run on the existing agreement (2029).

There is no alternative port infrastructure available to Strait Link, leaving it exposed to a monopoly with no apparent independent oversight or governance as to pricing or practices.



TasPorts' proposed increased in wharf costs in the Port of Burnie, all of which would be need to be passed through to shippers of goods in both directions across the Bass Strait.

Compounding the above, and as featured prominently in the Tasmanian media in recent months, Burnie's port infrastructure has fallen into disrepair with the existing wharf needing substantial repairs.

TasPorts has determined that several large operational areas of the wharf are unsafe. These areas have been marked off-limits, significantly impacting Strait Link's operations in both cost and daily capacity.

On several occasions, TasPorts has sought to blur together the issues of its maintenance obligations as the port owner with its attempts to extract additional income from Strait Link 5 years ahead of the expiry of the current agreement.

On the northern side of Bass Strait, the Port of Melbourne (PoM) has decided to prioritise growth in international shipping over shipping services to Tasmania

Strait Link and Sea Road, known as the 'Tasmania Trade Operators' (TTOs), are both currently located at Webb Dock East. Strait Link's operations at Webb Dock are directly accessible from Port Phillip Bay, enabling current daily schedules to/from Tasmania. Strait Link has made substantial investments in infrastructure at Webb Dock.

PoM wants to create additional international shipping capacity and therefore long-term revenue growth. In order to grow their international shipping income, it wants to force Tasmanian shipping operators to relocate to a new location 5.6 km up-river at Victoria Dock.

The planned location is half the size of the current footprint occupied by the Tasmanian operators, making it operationally unworkable.

The distance up-river will place significant pressure on tightly optimised shipping schedules.

The additional travel time, combined with the halving of berth capacity, will place significant constraints on the ability of the Tasmanian shipping operators to load and unload Tasmanian freight whilst maintaining the daily schedule.

The only operational solution available to the Tasmanian shipping operators to maintain and maximise freight carried on daily services is to accelerate the speed of the ships as they transit Bass Strait. This would drive up fuel expenses and emissions in exchange for neither an improvement in service/speed, nor any efficiencies to offset that increase.

In the end, those costs will be passed on to shippers, who will in turn pass those costs on to Tasmanian consumers, Tasmanian industry and Tasmanian exporters.

The Port of Melbourne has undertaken a 'Cost Benefit Analysis' (CBA), as it is required to do under Victorian law as the monopoly port operator in Melbourne. However, the CBA completely ignores any impact on Tasmania.

The Port of Melbourne's Cost Benefit Analysis methodology was deeply flawed.

No consideration at all was given the economic consequences for Tasmania. The cost and service burden imposed on Tasmanians, their cost-of-living, their jobs or their broader economy was deemed to be out of scope.

The only focus of the CBA was on the net financial benefits to the Victorian economy.

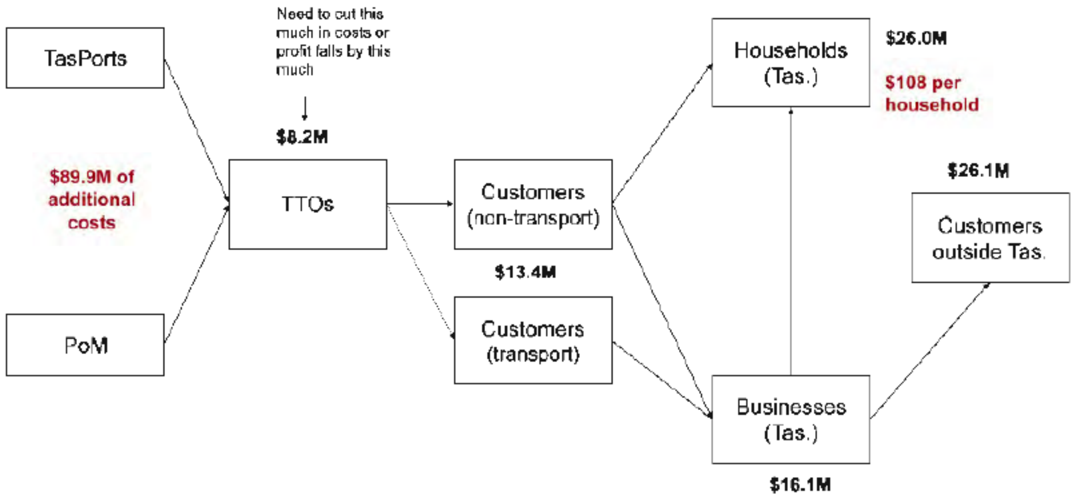
Two port operators looking to extract more value from their monopoly businesses has serious implications for our customers and the Tasmanian economy.

Independent economic analysis by Lateral Economics has confirmed that Tasmanian households would be up to $100 per year worse off and doubts as to the ongoing viability of key

Tasmanian employers would be exacerbated, with shipping costs increasing by 14%. A copy of the report is attached to this submission.

The price increases put forward by TasPorts would directly add $76 million in costs to businesses and consumers over the next 5 years, and $1.1 billion over 30 years.

Strait Link and SeaRoad may also face additional costs, both operating expenses and capital expenditures, through proposed changes at the Port of Melbourne (PoM).



Summary of annual impacts, 2024-25 dollars (source: Lateral Economics)

Lateral Economics modelled of the economic impacts of the additional charges on different groups, including TTO customers, Tasmanian households and businesses, and those in the rest of Australia.

Given the state's heavy reliance on Bass Strait shipping, the impacts are potentially significant on Tasmanian households and businesses (see figure above).

The modelling suggests the additional costs incurred by TTOs over the next ten years would amount to $631 million in net present value (NPV), increasing average freight charges by up to 14 percent.

According to the modelling, around three-fifths of the additional costs will fall upon Tasmanian households and businesses and the annual adverse impact could amount to 0.1 percent of Tasmania's Gross State Product (GSP).

The average Tasmanian household could pay over $100 more each year for household goods

As outlined in this report, changes to Port of Burnie's charging model and the PoM PCEP will add substantial additional costs onto TTOs, which will then try to recover them from customers, which in turn will attempt to recover them from their customers.

The additional costs that TTOs may need to recover could amount to $90 million annually over the next ten years. Lateral Economic's modelling revealed that this could mean Tasmanian households on average have to pay $108 more annually for goods.

This would correspond to an 0.5 percent increase in the price of a basket of goods for Tasmanians and hence an 0.2 percent impact on CPI. If all additional costs falling in Tasmania are ultimately borne by Tasmanian households–through higher prices or lower wages and profits–then the annual household impact could be up to $221.

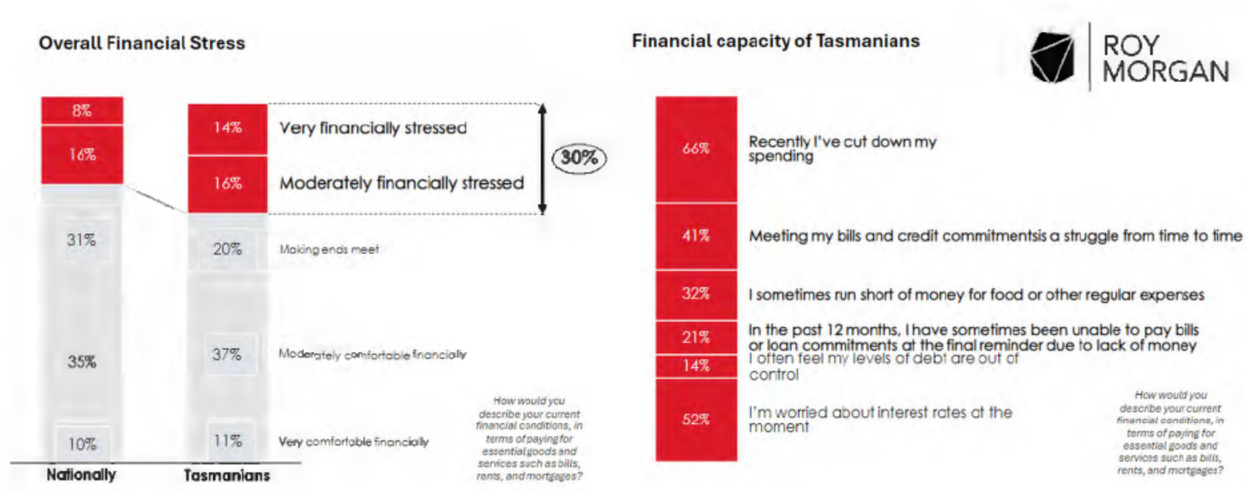
Increased shipping costs could affect the viability of some big employers

Business impacts could be more significant, if the fee increases tip some substantial businesses into unviability in Tasmania. Lateral Economics' modelling suggested there was a small, but not insignificant 5 percent chance of an additional $35 million hit to the Tasmanian economy and a 1 percent chance of a $88 million hit from plant closures or significant output reductions.

Direct cost impacts on Tasmanian business and exports

The direct flow-on effects of these cost increases will be felt not only to businesses and shoppers, but the overall Tasmanian economy in the form of manufacturing costs, export costs and jobs.

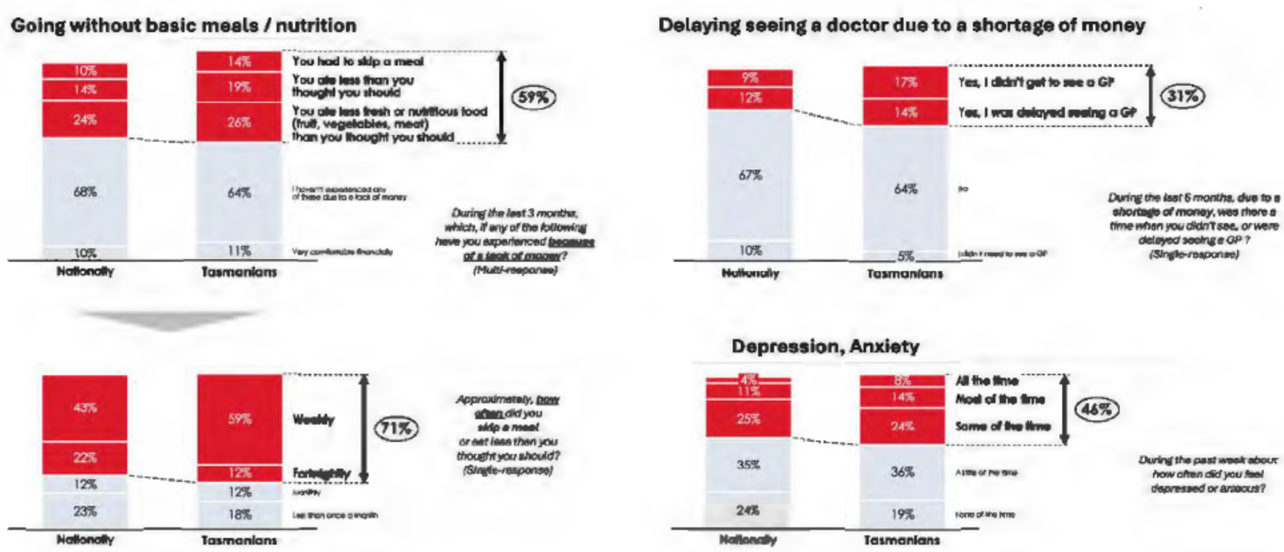
Recent research conducted by Roy Morgan confirmed that Tasmanian consumers are heavily exposed to any increase in prices of the goods and services they purchase, with no capacity to absorb any more.



Roy Morgan research demonstrating the hardships faced by Tasmanians vs the national average (source: Roy Morgan[1])

The financial pressures on Tasmanians are so extreme that many are not eating proper meals, are skipping GP appointments and suffering from extreme levels of depression and anxiety.

[1] Roy Morgan's WebBus monthly surveys (Aug 2023, Dec 2023, Feb 2024, May 2024) and Roy Morgan Single Source tracking survey (July 2023 – June 2024).



Roy Morgan research demonstrating the hardships faced by Tasmanians vs the national average (source: Roy Morgan[2])

Strait Link makes the following recommendations in order to prevent negative economic outcomes for Tasmania and the ongoing sustainability of the TFES

1. ***Major decisions by the Port of Melbourne should not ignore the Tasmanian economy or the additional burden being placed upon the Commonwealth (via the TFES).***

   The Port of Melbourne should account for consequences for the Tasmanian economy in its CBA, rather than simply consider the needs of Victoria in isolation.

   The Port of Melbourne should not move the Bass Strait Shipping lines, but rather other port users that will not add costs to Tasmania. If it does move Tasmanian shipping operators, it should fund the capital expenditure and operating cost differences required to not drive up costs for Tasmanian consumers, industry and exporters.

2. ***The TFES should be structured to reflect increases in efficient port and shipping costs over time,*** ensuring that the benefits of the TFES are not eroded in real terms and Tasmania's manufacturers, producers, and exporters are not disadvantaged simply due to the passage of time.

3. ***TasPorts needs to be made to honour its existing agreement with Strait Link and not unfairly rely on its monopoly position. If it is allowed to press ahead with its plans, the implications for the Tasmanian economy and the sustainability of the TFES are significant.***

   Strait Link and TasPorts have a long-term agreement in place with five years remaining. TasPorts must honour the agreement for its remaining term.

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[2] Roy Morgan's WebBus monthly surveys (Aug 2023, Dec 2023, Feb 2024, May 2024) and Roy Morgan Single Source tracking survey (July 2023 – June 2024).

TasPorts should not use its monopoly position to force Strait Link to accept an immediate $76 million / 379% increase in costs or risk being forced out of business in 2029. To do so would be an abuse of its monopoly position and grossly unfair not only to Strait Link, but the customers relying on cost-efficient shipping, and in turn their end customers.

Any increase in the costs of shipping to/from Tasmania due to TasPorts' increasing pricing immediately (i.e. 2024/2025) will also have direct implications for the ongoing effectiveness and sustainability of the TFES.

4. ***Negotiations for the new 2029 agreement for the Port of Burnie and changes to the Port of Melbourne operating arrangements should be undertaken with Federal Government oversight to ensure fairness for all stakeholders.***

Negotiations for the renewal of the Port of Burnie agreement and Port of Melbourne's proposed changes must be an orderly, supervised process, with appropriate government and regulatory oversight to ensure terms and pricing are fair, ensure that Tasmanian consumers, producers and manufacturers are not penalised, and ensure Tasmanian jobs and economy are protected.

Any resulting increase in the costs of shipping to/from Tasmania will have direct implications for the ongoing effectiveness and sustainability of the TFES, cost of living for Tasmanian households, and the competitiveness of the Tasmanian economy.

It is recommended that a further inquiry be held to investigate the impacts of these commercial decisions by the Port of Melbourne and TasPorts on the Tasmanian Freight Equalisation Scheme, and therefore the Federal Budget.