Australian Government

**Department of Infrastructure, Transport,
Regional Development and Communications**

TERRITORIES DIVISION / INDIAN OCEAN TERRITORIES BRANCH

Air and sea freight services for the Indian Ocean Territories (IOT)

Submission: response to a request from the Joint Standing Committee on the National Capital and External Territories (JSCNET) for further information outlining air and sea freight services for the IOT

July 2021

Introduction

The IOT, comprising Christmas Island (CI) and the Cocos (Keeling) Islands (CKI), are Australian non-self-governing external territories. They do not come under the responsibility of any state or mainland territory government. However, following the proclamation of the Commonwealth's Territories Law Reform Act 1992, various Commonwealth Acts and the laws of the State of Western Australia (WA) apply to the IOT.

The IOT is reliant on sea surface transport for the delivery of most food and transport of general and large items. Air freight predominantly supports the transport of smaller goods and perishable food items, though it should be noted both means are to an extent complementary.

There is currently one sea freight company providing general freight services to the IOT, Zentner Shipping (Zentner); a Fremantle based operator that services both CI and CKI. Zentner operates the commercial shipping vessel the MV BORKUM servicing the IOT on a northbound journey from Fremantle to CKI then to CI and onto Singapore, notionally every six weeks. Zentner has operated this service for almost three decades. Phosphate Resources Limited (PRL) own and operate a vessel, RED TITAN, which provides shipping of the mined phosphate product off Island and also offers one-off freight services out of Singapore to CI.

Currently two commercial stevedoring companies operate in the IOT. The Cocos Islands Cooperative Society operates on CKI and Complete Stevedoring Freight Services operates on CI. Stevedoring licences are approved and held with the Australian Government.

Virgin Australia Airlines Pty Ltd (Virgin), through its subsidiary, Virgin Australia Regional Airlines (VARA), has provided air services to the IOT under contract since 2010. VARA currently provide a twice-weekly passenger service and a fortnightly freighter service via Toll Global Logistics (Toll) to the IOT, with additional services scheduled subject to demand and budget availability. The service is challenging to operate, with remote island regulatory requirements and weather events requiring additional fuel, impacting the reliability and carrying capacity of some scheduled services.

Recent events adversely impacting sea and air freight services

In May 2021 Zentner introduced a 'Swell Surcharge' for consignments as a result of losses incurred after a significant swell season at CI. The surcharge is an additional $685 for every 20ft container and is in place for an initial period of 12 months. In early 2020, Zentner sought financial support from the Australian Government for expected losses. Subject to conditions, a funding pool was subsequently set up as part of the COVID relief and recovery fund for short term IOT shipping support. Zentner has not made a claim against this fund for losses incurred and as with some other demand driven support arrangements during COVID, the need did not materialise and market arrangements were able to continue.

COVID-19 has impacted passenger and air freight services. An outcome of the establishment of the travel zone between Western Australia and the IOT and the continuation of the closure of Australian international borders has been that the IOT has experienced higher than usual demand for passenger (in particular domestic tourists) and freight services. Air services were increased by the Australian Government to assist in meeting this demand. The consequence of the increased services, in conjunction with the swell season re-supply issues, was a shortage of aviation fuel stocks on Island throughout February to April 2021. To manage the fuel issue, a number of temporary operational changes were implemented including changes to flight schedules and reduced passenger and freight loads. This however placed further stress on air freight services, exacerbated by a significant increase in online shopping and facilitated by favourable freight terms provided through Australia Post.

Under CASA regulations, aircraft must carry sufficient fuel to land at designated 'alternate' mainland airports, the closest of which is located in Indonesia. COVID border restrictions resulted in both VARA and Toll no longer able to land at an Indonesian port, requiring these entities to hold additional fuel at the expense of freight. This resulted in a reduction in air freighter capacity from 14.5 to 12.5 tonnes.

As travel restrictions eased and international borders remained closed, there was a significant increase in demand for passenger services as residents, workers and tourists sought to travel to and from the IOT. The provision of an economic stimulus fund in the IOT also contributed to an increased requirement for freighting of materials and an influx of contractors. The Department collaborated with Virgin and other stakeholders to provide an additional 20 passenger and freight services in 2020-21, to ensure supply could continue to meet demand.

On 28 June 2021, the Australian Government announced a trial of additional Perth to CI return passenger services. These flights are being driven by the strong tourism sector, workers and contractors, and movement of residents.

Background

The Australian Government facilitates transport links between the IOT and the mainland by providing port and airport services in the IOT. Charges for port services are maintained at comparable levels to communities on the mainland however do not provide a return on investment. A commercial operator provides sea freight services between the IOT and mainland Australia with minimal involvement of the Australian Government. Freight costs are subject to competition and reflect the costs associated with shipping relatively low volumes to a remote destination. Airport fees and charges are lower than comparable WA airports, for example, the IOT airport charges a $5 per passenger levy compared to $20 through other Australian domestic airports.

The Australian Government has not considered offering a subsidy on sea freight for the IOT as it already provides significant support in the form of subsidised port fees and an underwritten air service that includes freight. JSCNCET has previously recommended that the Australian Government call for expressions of interest for the delivery of freight by sea to the IOT for the carriage of Australian Government goods, to be followed by a full tender process as required. The Australian Government did not support the recommendation, advising that sea freight is a commercial service provided by the private sector. The Australian Government is not a major user of sea freight and does not have sufficient purchasing power to drive cost reductions.

The Australian Government supports air freight between the mainland and the IOT through a contract with VARA. It underwrites air services as it is not commercially viable. The contract is similar to the Australian Government's support to remote communities on the mainland. VARA operates two flights per week for passengers, plus a fortnightly air freighter, with additional services scheduled subject to demand and budget availability.

Arrangements for Border Force flights and the capacity of those flight to carry freight to/from the IOTs.

The Australian Border Force (ABF) currently arrange charter flights to Christmas Island for a number of purposes including the transportation of detainees from mainland detention centres. Charter flights to Christmas Island are on an ad hoc basis to meet operational requirements and do not run to a regular schedule. Ongoing charter flights will be dependent on the timeframe that the immigration detention facility at North West Point remains operational.

Due to the uncertainty of arrangements for the ABF it is recommended the Indian Ocean Territories consider exploring options to tap into Whole of Government contractual arrangement to arrange flights that suit their requirements.