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13 JUL 2017

Mr Stuart Wright
Secretary
Legislative Council Government Administration Committee 'A' Inquiry into the King Island
Shipping and Freight Service

By email: kif@parliament.tas.gov.au

Dear Mr Wright

I am writing to provide a submission on behalf of the Tasmanian Government to the Legislative Council Government Administration Committee Inquiry into the King Island Shipping and Freight Service.

Our Government has always been highly aware of the importance of a reliable and cost-effective freight shipping service for the community and businesses of King Island.

Early in our term of Government SeaRoad Shipping announced that would move to order a new vessel to replace its ageing SeaRoad Mersey, it's smallest vessel and the one which had serviced King Island on a triangular Sunday service for the past 24 years. This announcement triggered, within Government, a formal project to ensure that King Island would have a service to replace the SeaRoad Mersey in a seamless transition, some two years into the future.

While the Government has a clear preference for a commercially sustainable market-based solution in situations such as these, should market failure occur, the Government has made a standing commitment to King Island to ensure the provision of an essential shipping service. For this reason, the Government has been working, and will continue to work, with the King Island community and the freight shipping market to deliver a secure shipping service that supports the growth of King Island. As a result of this commitment, the Island has not lost one sailing, other than short deferrals for weather on a few occasions.

As Minister, I have taken a keen personal interest in this issue and have worked proactively to facilitate a shipping service solution. The role of the Tasmanian Government throughout this process has been one of facilitation and support. The Government has worked to bring parties together, build an evidence base and clarify freight needs, and facilitate the aggregation of the freight task to maximise the commercial viability of a King Island shipping service.

The Government has also offered the market the possibility of start-up and transitional financial and in-kind support for the establishment of a shipping service.

Unfortunately, at a crucial time the private market was not able to provide a sustainable service, due in part to the inability of the major freight customers to aggregate the freight task. As a result, the Government was required to act to ensure the continuation of a King Island shipping service through a TasPorts subsidiary, Bass Island Line (BIL).

While TasPorts had been made aware some 12 months earlier that their assistance may be required as a contingency arrangement, their performance in setting up a brand new company and commercial shipping service in an impossibly short time is highly commendable.

BIL quickly identified that the only remotely appropriate vessel in Australasian waters was the TOLL Investigator that was appropriate for the service and available.

The Government has ensured that the King Island community has been provided with a seamless shipping service due to the urgent insertion by the Government of a special interim-service for some 90 days provided by SeaRoad to bridge the time gap between the commercial market failure and the first possible sailing of the TOLL Investigator.

The TOLL Investigator, despite initial on-island concerns, has delivered an extraordinary outcome to the busiest period of the year for the shipping of heavy containers of fertiliser which were required in near record numbers this season.

By mid-June every primary producer on the Island had received their ordered fertiliser consignments and had dispatched their livestock to market with a high MSA grading outcome. Overall BIL delivered a remarkable 94% on time outcome for the Island in their first months of service.

While there is no doubt that the TOLL Investigator is meeting the freight needs of the Island and that good service is assured for the medium term future, TasPorts continue to conduct a worldwide search for a replacement vessel, not just due to the size limitations of the current vessel but because of the cost of the fully crewed leasing arrangements of it.

It will therefore be clear that the Government, with the latest market information being obtained through the TasPorts subsidiary, is continuing to work on ensuring delivery of a long-term sustainable shipping service, whether it is provided by TasPorts or disposed of back into the commercial sector, in due course, which is the Government's preferred outcome.

Through engagement with key stakeholders and the shipping market, the Government has identified a number of key findings that may help to inform the Committee's consideration:

- The King Island freight task is diverse, seasonal and fragmented.
- The differing needs of freight users makes it difficult to design a service that meets all the various needs of the island and agreement among freight users has proven notoriously difficult to achieve.
- An essential shipping service will meet the majority of needs of the Island, however this will not necessarily satisfy the requirements of each and every freight user.
- The volume of freight and the needs of the market indicate that a smaller vessel with multiple calls per week would likely be preferable to a larger vessel making a single weekly call, except in lower freight cycles during the year.
- The commercial viability of a dedicated King Island shipping service is strongly related to the aggregation of all available freight, particularly livestock.
- While a landing craft type (LCT) vessel can meet the needs of the King Island service, it is likely not the completely ideal vessel type, as it has limitations relating to cargo protection and operations in heavy weather.

- The ideal type of vessel to meet the diverse freight needs and the sea conditions of Bass Strait appears to be a Roll-on Roll-off (RoRo) vessel with ramp loading. This type of vessel is not readily available at short notice and is much more expensive due to strong competition in the market.
- The known commercial outcomes of the operation of the BIL to date demonstrates that the cost of operating a stand-alone King Island shipping service is far higher than operating the service as a diversion of a broader Bass Strait shipping service. However, the fact remains that any ship involved in the regular Bass Strait shipping service will be far too large to access the Grassy Port in its current form.
- It should be noted that there is a long-range body of work being carried out by Infrastructure Tasmania on the expansion of the Grassy Port, however, the size of the current and projected freight task on and off King Island falls far short of any large scale investment proposal any time soon.
- The delivery of livestock to Tasmanian meat processors (livestock being around 60 percent of the freight task) drives the need for the shipping service to operate between King Island and mainland Tasmania and is a priority of the Government.
- There may be benefits in a service linking Victoria to King Island in a triangular inbound route to Grassy, as has been enjoyed for the last 24 years, and this is being considered as a future service option.

The following information in relation to the actions taken by the Government may also be of interest to the Committee.

When taking office in 2014, the Government was conscious of the risks posed to the future of the King Island shipping service by the planned replacement of the SeaRoad Mersey and was pleased that the now Department of State Growth was already working with the King Island Shipping Group to identify and facilitate possible solutions.

It must be noted that SeaRoad had provided a reliable freight shipping service to the King Island community for over 20 years and stated when announcing the replacement of the SeaRoad Mersey that, while the new vessel would be too large for the King Island run, SeaRoad was committed to investigating options to continue some type of King Island service.

As Minister, I visited King Island in October 2014 to meet with key stakeholders and the King Island Council's Shipping Group. At this time I committed to facilitating further discussions with SeaRoad and to obtain expert advice on the Shipping Group's preferred option for a replacement service, including verification of costs, feasibility and risks.

The Government, through my office, Infrastructure Tasmania and the Department of State Growth, worked with key stakeholders and a number of shipping service providers to progress a market based solution to the replacement of the SeaRoad Mersey. This included ongoing discussions with the Shipping Group and key livestock processors to ensure the freight needs were understood.

In January 2015, I met with the King Island Shipping Group and provided an outline of the Government's short, medium and long term actions and confirmed the Government's policy position in relation to King Island Shipping, being a preference for a market based solution operating without ongoing Government subsidy.

The Government continued to investigate potential King Island shipping service options, in particular with SeaRoad, LD Shipping and Port and Coastal Marine Services who had all indicated to Government an interest in operating the service. Throughout this time, the King Island Council and Shipping Group were exploring a new, community based shipping service including development of a business plan for a purpose-built vessel, however this was never progressed to a market process.

In April 2015 Port and Coastal Marine Services met with the King Island Shipping Group to discuss delivering a King Island Shipping Service.

In September 2015 it became clear to Government that there may be difficulties in the market in delivering a new shipping service. To address these difficulties I facilitated discussions with key stakeholders and shipping service providers and made it clear that, if agreements were not reached to deliver a shipping service in the near future, the Government would be forced act to seek proposals from the market more broadly, to identify a "preferred proponent" and then work with that proponent, possibly with some set up assistance, to secure a definite service in time for the closure of the SeaRoad service.

Subsequently, in November 2015, the Government issued a Request for Proposals (RFP) for a King Island Shipping Service, closing 29 January 2016. Four proponents responded to the RFP. Proposals were assessed against pre-established criteria centred upon quality, price and reliability by an Evaluation Panel consisting of senior representatives of Infrastructure Tasmania, the Department of State Growth and King Island Council. The Panel's assessment was supported by staff from the Department of State Growth and technical advice from Thompson Clarke Shipping. The King Island Council was also assisted with technical advice from Australian Strategic Solutions. From this process, Port and Coastal Marine Services (PCMS) was selected as the preferred proponent for the Government to work with to deliver a long-term King Island shipping service.

Between May and November 2016, Infrastructure Tasmania worked with PCMS, the King Island Shipping Group and key stakeholders to facilitate and support the introduction of the new shipping service. This included direct conversations with meat processors and livestock producers aimed at aggregating the freight task to support a new service. During this time, PCMS refined its service offering, seeking customer commitments and negotiated short term support with Government and the development of a joint venture with SeaRoad named Bass Strait Island Shipping.

PCMS invested significant time and resources into developing a King Island Shipping Service, including a joint venture with SeaRoad on port handling arrangements.

In late November 2016 I became aware that there may be some difficulties that PCMS were having in aggregating the freight task for King Island with a major shipper of cattle withdrawing a previous commitment of support. Aware that this outcome would undermine the PCMS business case with their bankers in securing an appropriate vessel for the service, which they had identified and had paid a substantial deposit on, lying in Brazil, I sought assurances from PCMS that their service could commence by the due date of 31 January, 2017.

They were advised that in the event that they could not give me that assurance, that I would need to consider emergency arrangements to provide freight services to King Island.

In early December 2016, PCMS advised that they, to their significant distress and financial loss, would not be able to meet the long agreed timeline, so the Government announced that it was enacting its contingency plans to provide an essential King Island Shipping service.

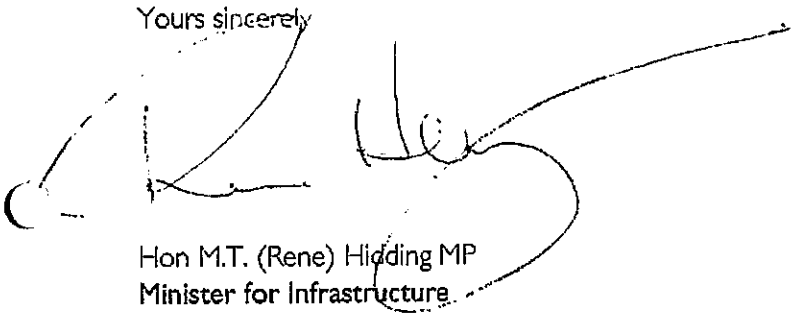
The contingency plan included urgent negotiations with SeaRoad to provide a 90 day immediate interim service while the SeaRoad Mersey was still available before being sold overseas and with TasPorts to deliver a substantive service until such time that private sector interests could buy into, or purchase, the new operating entity. For guidance, the Government can advise that there has already been stated interest from a number of commercial interests about possible investment or participation in BIL. TasPorts has indicated that while that may be welcomed in the future, it will not be progressed until the business is fully mature.

In May 2017, I requested Infrastructure Tasmania to seek independent expert advice on the construction or purchase of a new best fit-for-purpose vessel for the King Island shipping task. This investigation is running concurrent to TasPorts activity in the international vessel market in order to provide direct advice to Government to ensure all options are being considered for the long term future of the service. I am awaiting the outcome of this investigation.

In summary, the Government remains committed to the delivery of a sustainable long-term King Island shipping service and I believe that the Government has been proactive, has met every scheduled timeframe, has reacted to every circumstance with deliberate action and has worked with the King Island community, in spite of the understandable nervousness following the cessation of a 24 year regular, previous weekly service.

Please find attached a response to each of the Inquiry's Terms of Reference and copies of relevant documents and reports. I understand that TasPorts will provide a separate submission to the Inquiry. I trust that this information is of use to the Committee and would be happy to appear before the Committee, along with my Department and Infrastructure Tasmania, preferably on the same day as TasPorts appears.

Yours sincerely



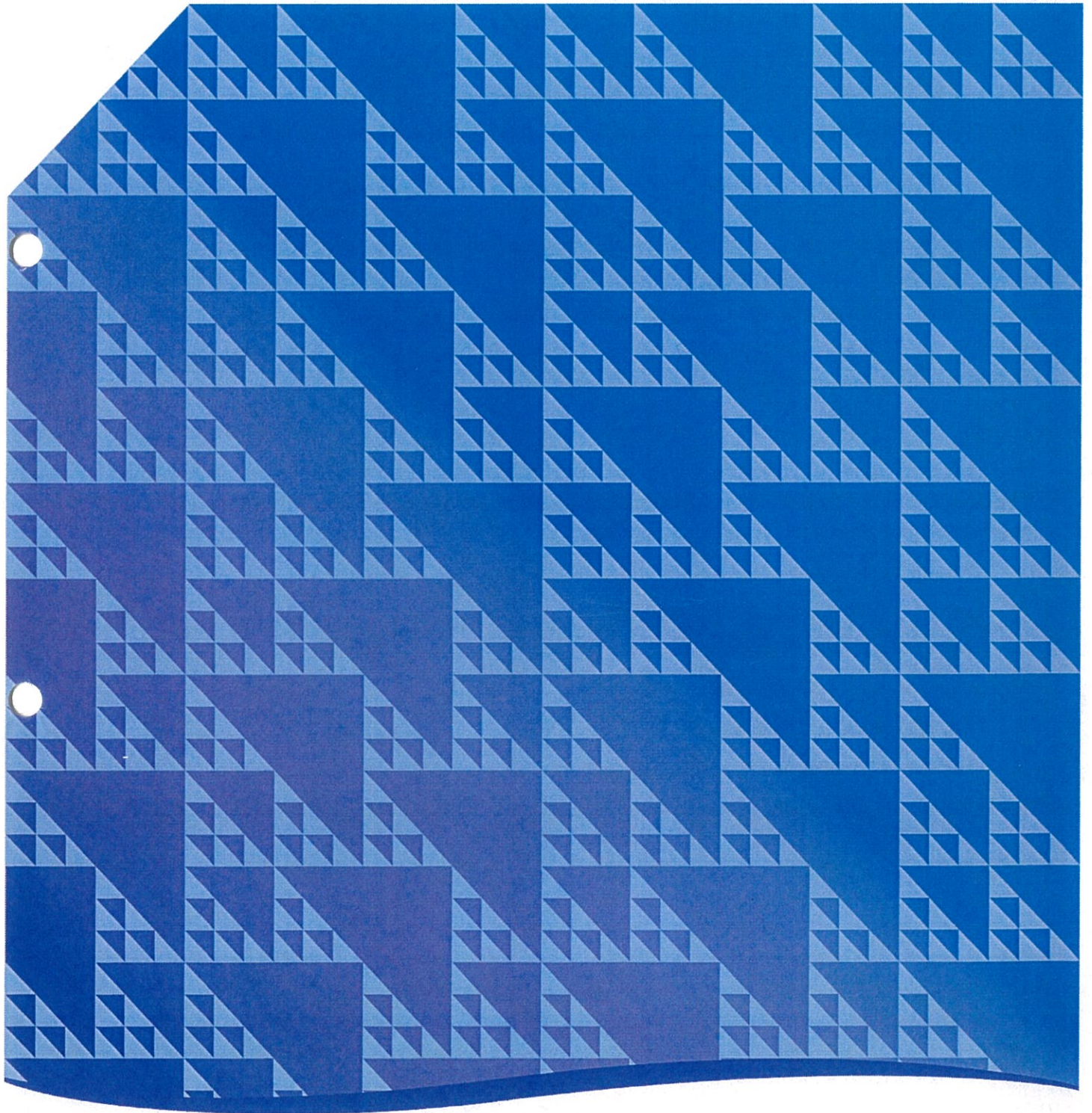
Hon M.T. (Rene) Hidding MP
Minister for Infrastructure

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Legislative Council Inquiry into the King Island Shipping and Freight Service

Tasmanian Government Submission – July 2017



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Introduction

King Island has a population of approximately 1,600 people, representing about 0.3 percent of the total population of Tasmania.

King Island moves, on average, approximately 69,000 tonnes of freight per year, representing around 2.5 percent of the overall Bass Strait freight task.

Farming is the predominant freight generating sector, with beef production and dairy processing of key significance to the King Island economy. With the closure of the JBS livestock processing facility in 2012, cattle are transported off the Island for processing. Accordingly, the King Island freight task is a combination of general freight, refrigerated freight, hazardous goods and livestock.

King Island shipping services have operated on a commercial basis without direct Government subsidisation since 2001.

Up until the replacement of the *SeaRoad Mersey I* in early 2017, SeaRoad operated a call each Sunday to the Port of Grassy as a regular diversion of its Melbourne to Devonport service.

Eastern Line, formerly LD Shipping, also provides shipping services, mainly livestock transport, between King Island and the Port of Stanley and sometimes to Victoria.

Since the closure of the King Island livestock processing facility, and until the cessation of the *SeaRoad Mersey I* service, livestock was transported by SeaRoad via Devonport to Longford for processing, while Eastern Line, via Stanley, links to the abattoir in Smithton. A small proportion of cattle is transported from King Island to Victoria.

Following the failure of the commercial market to offer a reliable and affordable King Island shipping service, the Government intervened to ensure a regular shipping service to the island continued. TasPorts, through Bass Island Line, commenced delivery of a regular shipping service after the final sailing of the *SeaRoad Mersey I*.

The role of Government in relation to King Island shipping

The Tasmanian Government acknowledges that it has a role in ensuring that essential shipping services are provided to the Bass Strait islands, including King Island.

The Tasmanian Government's clear preference is for:

- an open, unregulated shipping market;
- a commercially stable, long-term service; and
- a reliable cost-effective service that supports growth of the King Island economy.

The Tasmanian Government recognises that the absence of a regular shipping service would have extremely negative impacts for the community of King Island through increased business uncertainty, and this would stifle development on the Island.

The Tasmanian Government's policy approach to Bass Strait Island shipping is based on a preference for market-based services while this is commercially viable. The Government recognises it has a role in facilitating a commercial service outcome where possible. The Government also provides support for essential services in the event of market failure, such as the private operator subsidy arrangement for Cape Barren Island, and in the current King Island circumstances where a market testing process has failed to produce a satisfactory outcome.

Through the recent market testing process, the Tasmanian Government indicated that it was willing to provide facilitation and support in the short term to establish a service that would become commercially sustainable.

Following the failure of the market to deliver a shipping service, the Tasmanian Government intervened to ensure that a regular shipping service to King Island continued. It is the Government's intention to continue to ensure a service is provided for as long as necessary while a long term sustainable solution is developed.

I. Current shipping and freight requirements, including freight costs and other charges related to shipping to and from King Island

The shipping requirements for King Island are based on the levels of demand for products exported from and delivered to the Island, the characteristics of those products, and other relevant market considerations.

The Tasmanian Government, through the Department of State Growth and its predecessor, the Department of Infrastructure Energy and Resources, has commissioned a number of studies and reviews into King Island Shipping to inform the Government and the King Island community about shipping and freight requirements. These are outlined in detail in Section 5.2.

I.1. King Island Freight Task

In 2015-16, over 68,000 tonnes of freight was imported and exported from King Island. This equates to approximately 8,000 Twenty-foot Equivalent Units (TEU's).

The majority of the King Island freight task is imported and exported by private companies and individuals. The main exception to this is the import of fuel to the Island which is shipped by TasPorts.

The repositioning of empty containers is a significant issue, with empty containers representing the second largest import and export volumes, at around 20 percent.

The major import commodity to the Island is fertiliser, representing around one third of all import volumes. Excluding empty containers, fuel is the next highest import volume (15 percent), with hazardous goods and stockfeed each around six percent of import volumes.

Cattle exports represent around 60 percent of total export volume.

Excluding empty containers, the second largest export volume is mineral sands (around 12 percent) followed by refrigerated dairy products (five percent) and kelp (four percent).

Freight volumes are seasonal, with the highest freight demand usually experienced between February and June, peaking around March. During peak production periods, there is a need to move up to 1,100 cattle from King Island per week.

Table 1 below provides a summary of import and export volumes over the previous five years.

Table 1- King Island Freight Statistics 2011-12 to 2015-16

Year	Import (tonnes)	Export (tonnes)	Total (tonnes)	Import (TEUs)	Export (TEUs)	Total (TEUs)	No. Ships	Average Cargo per Ship
2011-12*	34,525	37,108	71,633	4,152	3,809	7,961	46	1,557
2012-13	30,845	48,425	79,090	4,161	3,949	8,110	92	860
2013-14	29,432	35,283	64,715	3,364	3,116	6,480	118	548
2014-15	35,093	40,673	75,766	4,352	3,903	8,255	146	519
2015-16	35,440	32,608	68,049	4,205	4,002	8,207	125	544

*The business conducted by King Island Ports Corporation Pty Ltd was transferred to Tasmanian Ports Corporation Pty Ltd 1/7/2011 (source: TasPorts Annual Report 2015-16).

Until recently services were delivered by the *SeaRoad Mersey I*, a 118 metre long vessel with additional services operated by Eastern Line's vessel *Statesman*. Services are currently provided by Bass Island Line utilising a 53 metre long vessel, *Investigator II*.

1.2. Future freight demand

Future growth in the freight task is difficult to predict and is dependent upon the future operations of potential large freight customers. The *King Island Shipping Study* (2013) conducted by consultant GHD provided medium (2018) and long term (2033) forecasts for the island's outbound and inbound cargo, based on potential low, medium and high growth scenarios.

Under all of the potential freight demand scenarios, the production level of mineral sands for export from the Island was a key factor, with growth levels in mineral sand production driving the medium and high economy forecasts. In the period since the completion of the *King Island Shipping Study*, outbound shipping of mineral sands has declined from the estimated peak of 2012-13. At this time, it is difficult to foresee any significant growth in outbound cargo.

1.3. King Island shipping service requirements

King Island freight is diverse and seasonal. It requires a shipping service to be flexible and to be able to operate to meet peak demand while not over servicing the market in the off-season. This implies that the ideal service would operate with a smaller vessel that operates multiple calls per week, with additional sailings during peak season.

The diverse nature of the freight task, combined with the volatility of both volumes and cargo mix over time, requires a degree of flexibility in any King Island freight service and vessel. A challenge is presented in designing a service and providing a vessel that meets all Island needs.

The King Island freight task requires a shipping service that can carry general cargo, hazardous bulk liquids, bulky and heavy containers, wheeled traffic, fuel containers, refrigerated containers, non-containerised cargo and meets the needs of livestock transport. The vessel would require ramp access and deck strength adequate for heavy minerals and fertiliser containers as well as the provision of power for refrigerated containers, the ability to drive livestock trailers on and off as well as the provision of shelter and protection from the weather conditions prevalent in Bass Strait.

The vessel size and type required will depend on the service option being considered, such as a shuttle or feeder service to mainland Tasmania, or a triangulated service, or a butterfly service with runs to both Tasmania and Victoria and taking into account the number of services offered per week.

1.4. Cattle shipping requirements

The transport of live cattle brings its own challenges and requirements, with animal welfare of primary importance.

The Department of Primary Industries, Parks, Water and Environment has established *Animal Welfare Guidelines – Transport of Livestock on Bass Strait*. These Guidelines compliment regulations applying to animal welfare, and acknowledge that transport can be stressful to livestock, with effective management practices essential to minimise any risks to livestock welfare. These Guidelines can be found at <http://dpi.pwe.tas.gov.au/Documents/Animal-Welfare-Guidelines-Transport-of-Livestock-Across-Bass-Strait.pdf>

To ensure that the premium quality of beef is maintained, it is essential that transport of cattle is managed in a way that reduces stress to the animals. In maintaining premium meat grading under Meat Standard Australia, beef producers must adhere to strict animal handling requirements. These requirements include directions relating to the total time spent by livestock between leaving the farm and being processed.

Any vessel transporting livestock on Bass Strait must be capable of handling the frequent rough conditions without endangering animal welfare and maintaining a stress free environment for livestock.

1.5. Shipping prices

Shipping prices are not regulated, and are set by the market. Up until the withdrawal of the *SeaRoad Mersey I* service, the weekly King Island call was part of the broader Bass Strait service, with this model allowing King Island freight to be cross-subsidised by Melbourne to Devonport freight volumes.

Bass Island Line, operated by TasPorts, currently provides a shipping service to King Island at rates similar to previous charges, however this is unlikely to be sustainable as the business is currently absorbing the additional costs of operating a standalone shuttle service. The Request for Proposals process undertaken by the Department of State Growth indicated that a standalone King Island shipping service would involve

higher costs and therefore it would be expected that freight rates would increase under a fully commercial model.

This was borne out by the interim service provided by SeaRoad utilising the *SeaRoad Mersey I* in February and March 2017. This service was operated by SeaRoad using a shuttle service between King Island and Devonport that linked to its new larger ship operating the Devonport-Melbourne service. The Government provided a Grant to SeaRoad to provide this interim service for 10 weeks in recognition of the additional costs that a standalone King Island service utilising *SeaRoad Mersey I* would incur. This also included the Government funding the additional transshipment costs to enable SeaRoad to maintain its pre-existing pricing structure to Island customers. The total cost of this 10 week service to Government was \$864,915, averaging almost \$90,000 per week.

Rates for port charges are set by TasPorts. A schedule of ports charges is published by TasPorts and can be found at:

http://www.tasports.com.au/pdf/port_services/Schedule_of%20Ports_Charges_2016_17.pdf

TasPorts will provide further information about the current Bass Island Line shipping service in a separate submission.

2. Impact of high freight charges on the cost of doing business and the cost of living on King Island

King Island, as a remote Bass Strait island, is highly dependent on reliable shipping services at fair prices.

Freight charges impose a significant cost on Tasmanian shippers, particularly for those on the Bass Strait islands. Reliable and cost effective transport connections with both domestic and overseas markets are crucial if primary producers and other businesses on King Island are to remain competitive.

Both the Australian and Tasmanian Governments have recognised the King Island freight cost disadvantage and have provided ongoing and transitional funding support to the King Island community.

2.1. Tasmanian Freight Equalisation Scheme

The Tasmanian Freight Equalisation Scheme (TFES) was introduced by the Australian Government in 1976. The scheme was established to offset the transport disadvantage experienced by Tasmanian shippers due to their dependence on sea transport. TFES is paid on a wide range of eligible non-bulk goods, shipped both to and from Tasmania.

The scheme was extended in 2008 to include shipping movements between the mainland of Tasmania and King Island and the Furneaux Islands. The TFES was further extended in 2016 for goods exported from Tasmania and transhipped on the Australian mainland, with an additional loading of 15 percent applicable for King Island and Furneaux Island shippers.

TFES is administered through the Australian Department of Human Services in accordance with Ministerial Directions issued by the Federal Minister for Infrastructure and Regional Development. The Ministerial Directions set out eligible goods, how assistance is calculated, claims processes and other associated administrative matters. The Ministerial Directions published by the Department of Infrastructure and Regional Development can be found at:

https://infrastructure.gov.au/transport/programs/maritime/tasmanian/files/TFES_Ministerial_Directions.pdf

The Bass Strait Islands (King and Furneaux) receive the following TFES payments on eligible goods for:

- interstate shipments to/from mainland Australia; or
- intrastate shipments to/from the main island of Tasmania; or
- northbound shipments to mainland Australia for transhipment (export).

The rate of assistance is based on the sea freight cost disadvantage, as calculated by the Bureau of Infrastructure, Transport and Regional Economics (BITRE). The amount of assistance paid will not exceed the wharf to wharf, or adjusted wharf to wharf, freight bill paid by the shipper.

The assistance payable under the King Island and Furneaux Group intrastate component of the Scheme is calculated on the basis of a TEU container or equivalent, using the same parameters and methodology applied to processing interstate claims under the Scheme.

Under TFES, the maximum amount of assistance payable for eligible goods is \$855 per TEU.

2.2. Transitional assistance for King Island beef producers

Following the closure of livestock processing facilities on King Island in 2012, the Tasmanian Government announced a business assistance package for King Island beef producers. The objective of the King Island Target 120 Program was to assist King Island cattle producers to transition their business from supplying a local abattoir to supplying processors remote from the Island. The Program included the following two initiatives:

- payment of assistance of \$30 per head of cattle transported from the Island for processing, for the period 13 September 2013 to 12 March 2015; and
- provision of support to assist cattle producers to undertake a business analysis, and to develop and implement strategies that would assist them in achieving long term sustainable production and financial viability.

AgriGrowth Tasmania, a division of the Department of Primary Industries, Parks, Water and Environment (DPIPWE), administered the Target 120 Program. Producers received a business analysis report including strategies to improve the profitability of their beef production businesses and an opportunity to attend a collaborative learning benchmarking workshop.

In total, 72 producers accessed the Target 120 Program. The assistance package for King Island beef producers totalled \$498,000 in 2014, \$828,000 in 2015, and \$35,000 in 2016.

3. The adequacy of the current port facilities on King Island and ports in North West Tasmania that service King Island

The appropriateness of port facilities is subject to an assessment of the shipping needs of the community, taking into account freight demand, vessel and service configuration and reasonable service standards.

3.1. Port of Grassy

The Port of Grassy, at the southern end of King Island, has serviced freight vessels calling to King Island since 1972. Smaller wharf facilities exist on King Island at Currie and Naracoopa however these facilities are no longer operational.

Grassy Port features a breakwater that was constructed using overburden material from the nearby scheelite mine. The breakwater and associated developments in the early 1970's facilitated the operation of the vessel "Straitsman", which was purpose built for the King Island trade.

The *Straitsman* was replaced on King Island service by the much larger SeaRoad Mersey I in 1990, noting that special conditions were placed on its operation as it exceeded the size restrictions established at the port.

Grassy Port currently features a roll-on roll-off ramp, general wharf and berthing facilities, a cargo shed, fertiliser shed, hardstand, cattle holding pens and stock races.

The operator of the Port of Grassy, TasPorts, places restrictions on the size of vessels that are permitted to call to Grassy. The most significant limiting factor at Grassy Port is the width of the harbour. This restricts the length of the vessels that can safely call to Grassy Port. The length of the wharf, and the depth of the harbour and navigation channel also limits the size of vessels. Port operation is restricted to daylight hours.

The maximum permitted vessel length at the Port of Grassy is 90 metres and the maximum vessel draft is 5 metres. SeaRoad Mersey, a vessel of 118 metres length, called to Grassy under an exemption issued by TasPorts.

In 2008, the King Island Ports Corporation and the King Island Council engaged consultant GHD to prepare a feasibility assessment of a potential expansion to the Port of Grassy, titled *Sea Link to the Future*. This assessment was based on the future expansion to allow a larger vessel to call to the Port following the likely replacement of the SeaRoad Mersey I in order to retain the same service model, being the continuation of SeaRoad calling to King Island on a weekly basis as part of its Bass Strait service.

The assessment established that the cost of expanding the port to allow a larger vessel would cost between \$40 million and \$55 million (in 2008 dollars). This is a significant cost that would require a strong business case and cost benefit analysis.

The report titled Sea Link to the Future can be found at:

http://www.kingisland.tas.gov.au/webdata/resources/files/41926_Final_Report_SeaLink_to_the_Future_KI_Port_Feasibility_Study.pdf

Due to the small size of the King Island freight task, even if the Port of Grassy was upgraded there is no guarantee that larger vessels would call at King Island or that a triangulated service would be offered by the market.

The Tasmanian Government does not currently plan on upgrading Grassy Port, and is focused on ensuring that the Island is serviced by an appropriate and sustainable long-term shipping service.

3.2. Other North West Ports

Vessels servicing King Island typically call to the North West Tasmanian Ports of Devonport or Stanley.

The Port of Devonport has been used as the primary Tasmanian Port for King Island services. The Port of Devonport can accommodate vessels up to a maximum length of 205 metres and a maximum draft of 9 metres. There are a number of berthing options, including roll-on roll-off facilities.

The Port of Stanley can accommodate a maximum vessel length of 70 metres and a maximum vessel draft of 5.5 metres. Operation is restricted to daylight hours.

The Port of Stanley was upgraded in 2013 following the closure of the livestock processing facility on King Island to enable the movement of cattle to the Greenham's processing facility at Smithton. This upgrade included new piles to support a vessel and a purpose built cattle race. A further upgrade to the roll-on roll-off wharf ramp was carried out in 2015.

The upgrade to Stanley Port has allowed for the unloading of cattle from the ship on to the wharf and straight into trucks for transport to processing. The shorter journey time between Stanley and Smithton on road is understood to assist maintaining the quality of the product.

The Port of Burnie, while not recently used for King Island shipping services, can accommodate vessels up to 260 metres in length and has a maximum draft of 11.5 metres.

4. The requirements to provide a sustainable service to meet current and future freight needs of King Island

4.1. Service configuration

The *King Island Shipping Study* conducted by GHD in 2013 identified and considered a number of possible shipping service options. As part of this analysis, several potential service variables were investigated and modelled. Service considerations included future freight demand scenarios, vessel type options, shipping service routings and frequencies, as well as operating costs. The analysis completed by GHD indicated that a triangulated shipping service, like the service provided by SeaRoad Mersey I, where vessel cost is shared between King Island and non-King Island freight, is the lowest cost service.

Analysis of the costs of operating separate shipping services, such as one service dedicated to general freight, with another dedicated to livestock indicated that a single combined service would be significantly more cost effective.

More recent analysis identified that a dedicated butterfly service, operating between King Island, Devonport, King Island and Melbourne, would be likely to be the most optimal service configuration. This would require a significantly smaller and cheaper vessel to operate, relative to a triangulated service, and would benefit from greater flexibility during peak season and allow a greater number of sailing as needed.

4.2. Vessel type, configuration and availability

The *King Island Shipping Study* indicated that that a medium size landing craft vessel would provide the lowest cost service. It was however noted that this type of vessel would be subject to a higher probability of operational impacts due to the often harsh seas encountered on Bass Strait.

More recent analysis has indicated that the most appropriate vessel for the King Island shipping service (taking into account the range of service options possible) would be:

- a Roll-on Roll-off (RoRo) vessel;
- ramp loading (stern or bow depending on vessel design) and ability to be fitted with cranes;
- capable of carrying 100-140 TEUs;
- 80-90 metres in length;
- fitted with a bow thruster and twin screw propulsion;
- capable of a minimum speed of 10-13 knots; and
- capable of catering for a mix of cargo (refrigerated, wheeled, heavy, bulky, non-containerised, hazardous, some sheltered cargo, livestock).

A Roll-on Roll-off vessel is required due to the significant volume of wheeled traffic, most notably livestock trailers.

Vessels capable of servicing the Bass Strait islands are difficult to obtain and ones that meet the diverse needs of the King Island freight service are expensive to build or modify. As noted in section 1.3, the vessel would require ramps, deck strengthening, sheltered cargo areas, power for refrigerated containers and flexibility for a range of cargo types including over size and ad hoc freight tasks.

Infrastructure Tasmania and TasPorts will continue to investigate suitable vessel options and work towards the establishment of a long-term service including port calls to King Island, Tasmania and Victoria.

4.3. Aggregation of the freight task

Although the King Island freight market is small in size, the freight task is diverse and there will always be a challenge in providing a service that meets the needs of all shippers.

Regardless of the type of vessel or the service arrangements, the market testing process undertaken clearly identified that aggregation of the freight task is a critical factor in the commercial viability of any future service. While the freight task remains fragmented and commitments from major freight customers cannot be secured, the ability of the market to provide a service with the lowest possible freight costs is significantly reduced.

In 2011, the King Island Shipping Group attempted to secure a shipping service through a market process without success, and again considered the options of running a collective freight tender process or obtaining a community-owned vessel model in 2015. The Group did not proceed based on expert advice and the difficulties in presenting an aggregated freight task.

In addition to difficulties in securing an appropriate vessel, the recent Port and Coastal Marine Services (PCMS) proposal faced significant challenges in securing customer commitments to the service, and this was a contributing factor to the eventual termination of the joint venture proposal.

5. Any other matter incidental thereto

5.1. Key milestones and timeframes

In 2013, SeaRoad announced that it planned on replacing its existing vessels with new, larger vessels for its Bass Strait service. Since this announcement, the Tasmanian Government has been working with the King Island community to progress a shipping solution for the Island.

In November 2015, the Department of State Growth issued a Request for Proposals for the delivery of a long term, commercially sustainable King Island shipping service.

Following the Request for Proposals process, the Tasmanian Government announced PCMS as the preferred proponent with which to negotiate a service.

In November 2016, it was announced that PCMS would enter a joint venture with SeaRoad to operate a King Island service. In December 2016, PCMS announced that had been unable to secure a vessel or freight customer commitments, and its joint venture with SeaRoad had been terminated.

With the replacement of the SeaRoad Mersey in late December 2016, the Tasmanian Government initiated a contingency plan for the provision of essential shipping services to King Island.

In April 2017, TasPorts acquired a vessel, the *Investigator II*, and commenced a King Island service trading as Bass Island Line. There have been concerns raised relating to the size of the vessel and the ability to ensure that sufficient stocks of fertiliser can be delivered to the Island in time for the coming season. While Bass Island Line has experienced some initial difficulties, the *Investigator II* is currently meeting the King Island freight task. Any reliability issues due to the *Investigator II*'s size are offset by the higher frequency service that Bass Island Line can offer.

TasPorts and Infrastructure Tasmania are continuing to collaborate with King Island producers and customers as they search for a larger vessel to continue the service. Longer term shipping arrangements will be further considered and will be established to ensure continuity of an appropriate service to King Island, including consideration of the option for the Government to purchase or build a vessel suited to the King Island freight task.

The Tasmanian Government remains focussed on ensuring that a long-term, commercially sustainable shipping service can operate to meet the requirements of King Island.

5.2. Summary of Studies and Reports

King Island Livestock Supply Chain Study (2012) and the King Island Shipping Study (2013)

Following the closure of the livestock processing facility in 2012, and the significant challenges posed for King Island, the Tasmanian Government and the King Island Council entered a Partnership Agreement to promote sustainable economic activity on King Island. Under the Partnership Agreement, two studies were undertaken relating to King Island shipping and freight: the *King Island Livestock Supply Chain Study* and the

King Island Shipping Study. Through these studies, a substantial information base was established in relation to King Island shipping and freight requirements. These studies are attached.

The *King Island Livestock Supply Chain Study* (Attachment A) was completed in 2012 and analysed the Island's livestock supply chain and provided guidance for stakeholders as the Island dealt with the significant increase in the movement of live cattle from the Island. The *King Island Livestock Supply Chain Study* was conducted by consultant GHD and examined all steps in the movement of livestock, from the farm to processing facilities. This Study made several findings and provided recommendations which assisted in the transition from on-Island processing to transport of livestock to off-Island facilities necessary due to the closure of the King Island abattoir.

Under the King Island Partnership Agreement, GHD was also engaged to prepare the *King Island Shipping Study*.

The *King Island Shipping Study* (Attachment B) was finalised in 2013 and prepared to assist the Tasmanian Government and King Island stakeholders identify options for a long-term, sustainable King Island shipping service. The *King Island Shipping Study* included freight demand analysis, benchmarking of comparative shipping services in other jurisdictions, and identification of shipping service options.

In terms of comparable domestic and overseas shipping services, the report indicated that on a cost per tonne basis, King Island shipping services were more costly than Bass Strait (mainland Tasmania to Victoria) services but less costly than other Australian island services. This Study found that, consistent with other services worldwide, King Island freight owners pay different levels of freight rates according to freight volumes and regularity.

Based on historic and forecast King Island freight volumes, the *King Island Shipping Study* provided advice and recommendations in relation to potential shipping service options.

Request for Proposals for King Island Shipping (2015)

Further analysis of the King Island Freight task was compiled in preparation of the *Request for Proposals for King Island Shipping* in November 2015. This analysis, based on data provided by TasPorts for 2014-15, showed that the overall freight task for King Island is around 8,000 Twenty-foot Equivalent Units (TEU's) per year. This is about 2.5 percent of the overall Bass Strait freight task.

During 2014-15, the average inbound freight (including empty containers) per week was 85 TEU, while the average outbound freight (including empty containers) per week was 75 TEU.

The *Request for Proposals for King Island Shipping* released by the Department of State Growth contains a description of the freight task, including commodity and seasonality. The *Request for Proposals for King Island Shipping* is attached as Attachment C.

Assessment of Future King Island Shipping Service (2015)

Thompson Clarke was engaged by the Department of State Growth in 2015 to advise on the strategic, operational and commercial implications of the King Island Shipping Group's preferred option; and identify any potential service models that the Government may wish to consider. (Attachment D)

Thompson Clarke's *Assessment of Future King Island Shipping Service* considered three route or service options – a replication of the triangulated service, a dedicated “butterfly” service, and a shuttle service. The report determined that:

- a triangular service, operating between Melbourne, King Island, Devonport and Melbourne, would only be sustainable if it were provided by one of the three current Bass Strait operators;
- a dedicated butterfly service, operating between King Island, Devonport, King Island and Melbourne, would require a significantly smaller and cheaper vessel to be operated, relative to a triangulated service, and would benefit from greater flexibility during peak season;
- a shuttle service, operating between Devonport and Grassy, would require a smaller and less expensive vessel than the other two options and allow up to three sailings per week; but would require transshipment in Devonport, increasing the overall cost.

Attachments

(provided as individual documents)

Attachment A – King Island Livestock Supply Chain Study (2012)

Attachment B – King Island Shipping Study (2013)

Attachment C – Request for Proposals for King Island Shipping (2015)

Attachment D – Assessment of Future King Island Shipping Service (2015)



Allison Waddington

From: Kitchener, Tina (DPaC) <Tina.Kitchener@dpac.tas.gov.au>
Sent: Friday, 21 July 2017 5:07 PM
To: KIF
Subject: Tasmanian Government Submission to the Legislative Council Government Administration Committee Inquiry into the King Island Shipping and Freight Service SRHIDDING-C17072117180.pdf; King Island Leg Co Shipping and Freight Inquiry Attachment A - Supply Ch....pdf; King Island Leg Co Shipping and Freight Inquiry Attachment B - Shippingpdf; King Island Leg Co Shipping and Freight Inquiry Attachment C - Request f....pdf; King Island Leg Co Shipping and Freight Inquiry Attachment D -Assessment....pdf; Submission King Island Legislative Council Inquiry 2017.docx
Attachments:
Importance: High

Please find attached submission and relevant attachments.

Regards
Tina

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