



**Legislative Council Government Administration
Committee 'A' Sub Committee Inquiry into King
Island Freight Services.**

Tasmanian Ports Corporation submission – July 2017



Image of the Investigator II, shipping cargo to King Island.

Executive Summary

Tasmanian Ports Corporation Pty Ltd (TasPorts) is pleased to present the following submission to the Legislative Council Government Administration Committee's 'A' Sub Committee Inquiry into King Island Freight Services.

The submission illustrates the critical role that TasPorts plays within the King Island community, specifically around port operations and trade facilitation and the more recent responsibility that Bass Island Line (BIL) now has in providing safe and reliable shipping services.

In particular, TasPorts and its subsidiary Bass Island Line (BIL) has:

- *Successfully set up a shipping service to and from King Island at the request of Government.*
- *Been both proactive and responsive to its customers to deliver a secure and consistent shipping service while dealing with the commercial challenges of the diverse and seasonal nature of a small freight task.*
- *Incurred losses by maintaining freight rates and other shipping charges to and from the Island at the same levels charged by the previous service operator SeaRoad. The losses are primarily driven by the higher costs of operating a transshipment operating model at Devonport.*
- *Determined that major upgrades to the Port of Grassy cannot be commercially justified and that the best outcome for BIL, its customers and Islanders alike is for investment in a more suitable replacement vessel that can better utilise existing port facilities, while also being capable of providing a direct shipping option to mainland Australia.*
- *To this end, TasPorts and BIL continues to search for a suitable long-term replacement vessel with a clear operating specification.*

About TasPorts

Who we are

Tasmanian Ports Corporation Pty Ltd (TasPorts) is a state-owned company responsible for ten ports across Tasmania including on King Island. TasPorts is also responsible for the Devonport Airport. We run a diverse range of port and marine operations across the state with the purpose of facilitating trade for the benefit of Tasmania.

TasPorts and King Island

King Island Ports Corporation

TasPorts operates the ports of Grassy and Currie and provides port and logistics services on King Island. This resulted from the acquisition of King Island Ports Corporation by the Port of Hobart that was then subsequently merged with other Tasmanian port corporations to form TasPorts in 2006.

Reducing port charges on King Island

TasPorts has responsibility for port pricing across the State. It is important to remember that port charges are distinct from freight charges. Port service fees are charged to the ship and its cargo for docking at a port.

Since 1 July 2012, TasPorts has:

1. **Reduced** the wharfage rate for 20' & 40' containers by **40%**.
2. **Reduced** the wharfage rate for 20' & 40' livestock trailers by **40%**.
3. **Reduced** the 'on the hoof' livestock wharfage rate/stock facility levy by **40%**.
4. **Introduced** a concessional vessel tonnage rate of \$0.30 per Gross Tonnage (GT) for vessels 90m Length Overall (LOA) or under. This is a 47% discount on the state-wide tonnage rate of \$0.57 per GT.
5. **Introduced** *Standard Terms & Conditions* of Port Access which confirm the commercial arrangements between TasPorts and its customers thus providing protection and reducing exposure for each of the parties.

Fuel supply

Fuel supply is an important service performed by TasPorts for King Island and Flinders Island. TasPorts owns fuel depots and a fuel delivery fleet on King Island. The major customer is Hydro Tasmania representing 48% of total volumes with the balance sold to private operators (i.e. service stations and agricultural businesses).

The call to establish Bass Island Line, 22 February 2017

TasPorts was requested by Government on 22 February 2017 to establish a King Island shipping service to provide for continuity of service prior to the withdrawal of SeaRoad from the route. That service would become Bass Island Line (BIL), a subsidiary of TasPorts.

TasPorts had previously been advised by the Portfolio Minister that as the Government was engaged in a process to facilitate a private sector solution for King Island Shipping, any failure of that process could result in TasPorts being requested to establish a service on behalf of the Tasmanian Government.

As a result, and following formal advice of the private sector market failure, TasPorts mobilised to setup the shipping service and the *Investigator II* was chartered. TasPorts fully acknowledge, and did so at that time, that the vessel is not optimal for the trade. However, due to its relatively close proximity in

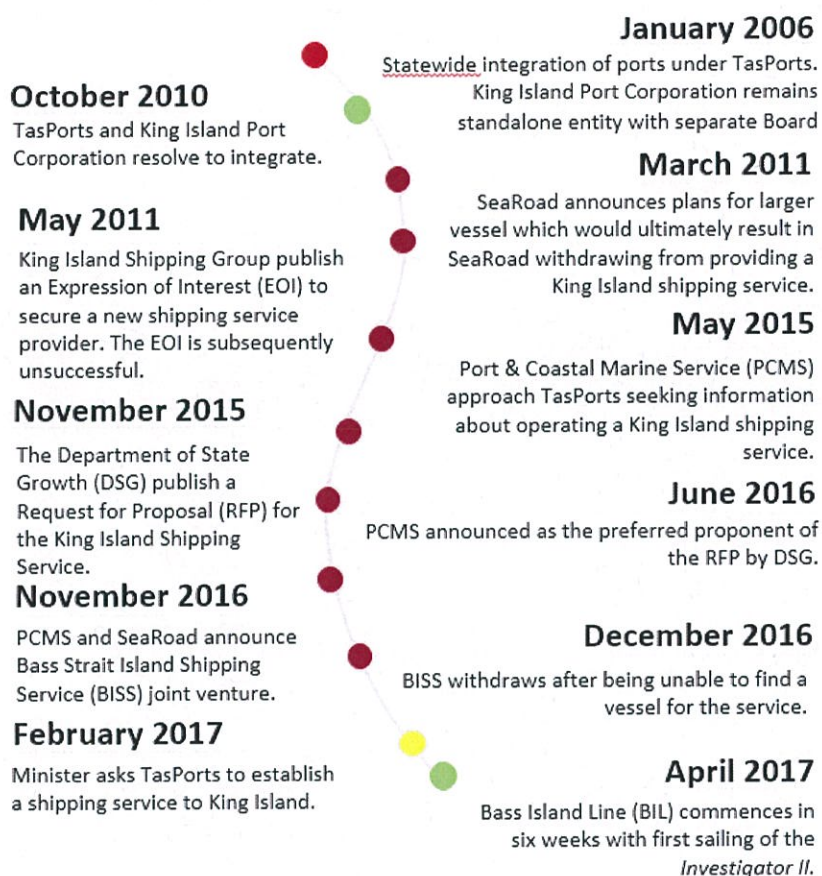
Darwin, its availability, and its compliance with Australian crewing conditions it was the best available option in order to provide a service until a more suitable vessel is secured.

Bass Island Line commenced operations on 7 April 2017, which, given the short period, is a formidable achievement.

During this 'start-up' period, and in no particular order, TasPorts:

- Located a vessel that could be ready by early April.
- Established and registered the new company Bass Island Line (BIL).
- Engaged in multiple rounds of meetings with customers and stakeholders on King Island and the mainland (Tasmania & Melbourne).
- Established a freight rate tariff (equivalent to SeaRoad's existing rate tariff).
- Established BIL trading Terms & Conditions.
- Established a booking system.
- Established a separate invoicing/finance system.
- Established stevedoring arrangements (Qube & TasPorts).
- Established depots in Melbourne and Devonport (Qube).
- Established Melbourne transshipment arrangements (TT Line and later SeaRoad).
- Sourced equipment (forks, terminal tractors, mobile crane, cradles, trailers etc.).
- Arranged vessel ramp modification.
- Appointed agents in Tasmania (Tasmania Cargo Services) and King Island (Jim McKenzie Agencies).
- Sourced several container lease companies for BIL customers.
- Appointed Polaris for vessel manning.
- Organised missing vessel equipment.
- Investigated and followed government regulations, policies and procedures.
- Established and implemented the BIL Safety Management System.
- Organised crew training for livestock & hazardous cargo carriage.
- Appointed a BIL Business Manager.

Timeline of TasPorts' involvement on King Island and in delivering a shipping service



Bass Island Line Operations

Main points:

1. As anticipated, early “teething issues” were experienced, especially in late April and early May with large volumes of fertiliser to move to King Island.
2. BIL has delivered a safe and reliable shipping service for King Island.
3. BIL has been consistently responsive to business and community needs around the shipping service.

The Six Point Action Plan

With a new vessel which had operational limitations and a brand new shipping service, a number of early “teething issues” were experienced especially in late April and early May. This legitimately caused customer concern for shippers to and from King Island. BIL worked closely with these customers and stakeholders to resolve their concerns, particularly around fertiliser.

As part of this, on Friday 12 May 2017 the Minister for Infrastructure announced that BIL would implement a “Six Point Action Plan” to tackle the issues at that time. The primary aim of the Action Plan was to ensure

BIL met King Island's fertiliser needs in time for the seasonal break, which was critical to farmers on the Island. The required build-up of fertiliser coincided with the timing of the withdrawal of the SeaRoad Mersey service and the establishment of BIL.

The first 100 days

During its first 100 days of operation, BIL has delivered a safe and reliable shipping service for the people of King Island. During this period BIL has:

- Completed 86 voyages to and from King Island.
- Provided more frequent sailings into Grassy than the previous provider.
- Increased the number of sailings per week in response to customer demand.
- Established Melbourne transshipment arrangements (TT Line and later SeaRoad).
- Pro-actively opened the port of Grassy on Sunday on three occasions to help with Receive and Delivery (R&D), i.e. collecting and returning freight to and from the port.
- Maintaining pricing at the same levels of the previous shipping provider, despite the additional costs of transshipping cargo between King Island and the Australian mainland onto other carriers.
- Enhanced the useable capacity of the *Investigator II* to maximise cargo loadings on each sailing.
- Moved 1020 general containers and 253 loaded fertiliser containers in time for the seasonal break.
- Successfully undertaken 35 livestock sailings in and out of Grassy to mainland Tasmania moving 5,395 head of cattle from King Island to Tasmania.
- Leased additional containers to help fertiliser importers, with the new supply chain arrangements. Concerns over the timing of the delivery of fertiliser imports were in fact largely a result of the container equipment supply (i.e. the insufficient number of containers in the system) and not the cargo capacity or the frequency of sailings by the *Investigator II*. BIL's initiative to lease and insert 20 empty containers into the supply chain succeeded in speeding up delivery of fertiliser onto King Island.
- Consistently moved all booked freight from mainland Tasmania to and from King Island with the exception of weather delays.
- Carried vehicles under cover of the *Investigator II* wheelhouse so that they were not exposed to salt spray.
- Resolved matters in booking cargo slots on the Bass Strait on-carriage operator during the first few weeks of service, which had been resulting in slight delays in transit times to Grassy.
- Communicated regularly with King Island customers and other stakeholders including through frequent email updates.
- Continued to lead technical due diligence and commercial negotiations in seeking to deliver a more "fit for purpose" vessel to replace the *Investigator II* as soon as practicable. (For more information on this, see the response to Terms of reference 4.)

Terms of reference 1. The current shipping and freight requirements of King Island, including freight costs and other charges related to shipping to and from King Island.

Main points:

1. A reliable shipping service is critical to the people of King Island.
2. The volume of freight to and from King Island is not large relative to Bass Strait trade.
3. The freight demands are diverse and seasonal.
4. These factors affect the commercial viability of the service.
5. Bass Island Line (BIL) is offering the same shipping prices as the previous shipping service provider, despite the additional costs of transshipping cargo between King Island and the Australian mainland on other carriers.
6. The current service is operating at a loss due to the diverse challenges of this route.

Current shipping and freight characteristics

The shipping and freight requirements of King Island are critical to the Tasmanians who live on the island and local businesses and industry. It is also recognised that key parts of the King Island economy play an important role in the wider Tasmanian economy.

At the same time, the volume of freight into and out of King Island is low when compared to overall Bass Strait trade. It is also a diverse, seasonal and with largely standalone trade. These and other factors affect the commercial viability of the King island shipping service. Taken together they act as disincentives for commercial operators to provide a King Island shipping service.

Volume: The past five years

The table 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).

It is important to place this information in context in order to gain a proper understanding of the small volume of cargo into King Island. To illustrate the point it is possible to consider, for example, the import task. During 2015-2016, 35,540 tonnes of cargo moved into King Island. During the same year, the import tonnes into Tasmania's major ports of Burnie, Devonport, Hobart and Bell Bay were *each* in excess of *one million* tonnes, with both Devonport and Burnie exceeding 1.4 million tonnes. Or to put it another way, the import task into King Island during 2015-2016 amounted to just 0.7 percent of the total import task into these five ports in a single year. It is not a large volume of freight upon which to sustain a dedicated shipping service.

Volume: Future forecast

Many factors could influence future shipping services at King Island. Bass Island Line is planning its service around the seasonal average volumes over the past five years while working closely with customers and remaining alert and responsive to the changing demands of the market. At the same time, BIL is also pursuing potential new cargoes including forestry, minerals, portable housing, other project cargoes and other freight forwarder opportunities.

Diversity of freight

The freight task for King Island is also diverse and ever changing (crossing by crossing). It includes general cargo, hazardous bulk liquids, heavy containers, wheeled traffic, fuel containers, refrigerated containers, non-containerised cargo, livestock and more.

This requires a particular type of vessel, one equipped to move heavy units like fertiliser containers but also with power for refrigerated containers, the ability to drive livestock trailers on and off and some form of protection from Bass Strait weather for vehicles.

The main products shipped into and out of King Island include:

Export

- Livestock: Most significant export volume, around 60 per cent of the total.
- Empty containers: Second largest export volume, around 20 per cent.
- Mineral sands: Around 12 per cent.
- Refrigerated dairy products: 5 per cent.
- Kelp: 4 per cent.

Import

- Fertiliser: Largest import to the island, one third of all import volumes.
- Empty containers: Second largest import volume, around 20 per cent.
- Fuel: Important import volume, 15 per cent.
- Hazardous goods: 6 per cent.
- Stockfeed: 6 per cent.

Seasonal freight

Freight volume to King Island is highly seasonal. There are usually two peak periods, driven by fertiliser and grain demand. The first is between February and June, peaking around April. The second is September to November, peaking in October.

This volatility of demand places pressures on a shipping service. It means the shipping provider has to be able to scale up to meet peak demand and then scale down again during quieter periods. Achieving that, while also making a profit is challenging.

Current shipping and freight requirements

Livestock

In 2015-16, over 47,000 live animals (including cattle, sheep and horses to both mainland Tasmania and mainland Australia) were exported from King Island. The greater majority of the live animals were cattle destined for abattoirs on the Tasmanian mainland at Smithton (Greenham) and Longford (JB Swift). We understand that King Island cattle producers are preparing to finance and build a new abattoir on King Island. The King Island Beef Producers Group represent about 80 per cent of the owners of 120,000 prime cattle.

Fertiliser

Fertiliser is the largest import cargo to King Island representing a third of all imports. The freight forwarder Jebbens Australia, at 550 TEUs per annum, handles the logistics for most of the fertiliser import containers for suppliers such as Incitec Pivot Ltd and Andrew Philbey. The next biggest fertiliser importer is Elders whose supplier is Impact Fertiliser.

Stockfeed/Grain

In 2015-16, 134 TEUs of stockfeed/grain were imported onto King Island with Melbourne based freight-forwarder P2P Logistics being the biggest single customer followed by Currie-based King Island Stockfeeds. The servicing of this commodity is particularly important during the spring peak season leading into the drier summer period.

Empty container and trailers

Most of the domestic 20' containers that bring in the general cargo imports (i.e. fertiliser, grain, consumer goods etc.) are exported empty from the island as they are unsuitable for most of the export general cargo (i.e. sand, kelp) that requires international general containers. In addition, all livestock trailers are shipped empty into the island. This empty equipment re-positioning drives high costs.

Mineral sands

The Naracoopa Mineral Sand shipped 150 TEUs of mineral sands to China during 2015-16. This volume of this export cargo is quite variable year on year with an annual export volume of 400 TEUs being at the upper limit.

Refrigerated dairy products

King Island Dairy is a very important King Island export customer shipping approximately 250 TEUs p.a. to Tasmania and mainland Australia. King Island Dairy regard the timely import of stockfeed for their dairy farmers as critical for the continued supply of milk to its business and for the welfare of stock. If feed is not kept up it impacts both milk supply to the factory.

Fuel

In 2015-16, over 240 TEUs of fuel (diesel, gas and ULP) were delivered into Grassy from Melbourne and Devonport.

Hazardous Goods

In 2015-2016, over 318 TEU of hazardous goods, gas and fuel were shipped to King Island and 10 TEU were exported off the island. BIL verify compliance with the International Maritime Dangerous Goods (IMDG) requirements including the stowage, segregation, packaging and documentation of all cargo shipped. It is considered important that agents, vessel crew and port workers are trained in accordance with the International Maritime Dangerous Goods (IMDG) Code.

Kelp

King Island Kelp Industries export dried Bull Kelp to one of the world's largest producers of Alginates. Since operations commenced in 1976 the company has exported in excess of 80,000 tonnes of dried Bull Kelp from King Island to both local Australian customers and for export to Norway. Kelp industries exported 60 TEU in 2014-2015 and 31 TEU in 2015-2016.

Horses

Along with general livestock, horses are shipped to and from King Island in double horse float trailers. BIL has applied the 'tourist rate', offering the free return for the relocation of empty horse trailers.

Vehicles

In 2015-2016, 384 vehicles were shipped off the island and 602 were imported. BIL has applied the 'tourist rate' offering a free return leg (within three months of travel) between King Island, Devonport and Melbourne. BIL has worked with the Department of Infrastructure and Regional Development to apply the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES) rebate to eligible customers.

Freight costs and other shipping charges

There are two important points worth making from the start:

1. BIL has maintained freight rates at the same level as the previous shipping service provider, despite the additional costs transshipment between King Island and the Australian mainland on other carriers.
2. BIL is committed to ensuring that the King Island shipping service can run as a commercially sustainable operation in the future.

The background to freight rates

Prior to BIL being in a position to talk to King Island customers and stakeholders, its freight rates were based on rates referenced in the 2012 Sinclair Knight Merz (SKM) report on Bass Strait shipping services. The 2012 prices were adjusted by the Consumer Price Index (CPI) to establish current freight rates. Freight rates for vehicles are based on Jim McKenzie Agency's (the King Island SeaRoad agent) published rates.

BIL subsequently received a copy of the SeaRoad freight rate schedule. It closely matched the rates from the SKM report adjusted by CPI.

Supporting customers

Bass Island Line is committed to supporting its customers and the King Island community. That is why BIL has taken the following steps to hold down freight costs and shipping charges:

1. Freezing freight rates.
2. Simplifying the rate schedule by providing consistent rates to all customers.
3. Reducing rates for shipper owned containers (\$100 per TEU discount).
4. Ensuring the full supply chain cost for transporting livestock to JB Swift's Longford abattoir did not increase through a Stanley port discharge rather than a Devonport discharge.
5. Retaining the tourist rate with its free return leg.
6. Applying Bass Strait Passenger Vehicle Equalisation Scheme or BSPVES (i.e. Federal Government subsidy) to each leg.

Building a commercial basis

TasPorts always plans. That is why we have a 30 Year Plan for the future of Tasmania's ports called TasPorts 2043. It is also reflected in our determination to lay a sound commercial foundation for the King Island shipping service. We want to see that shipping service operate as a commercially viable operation. That is why BIL is focussed on improving commercial viability of the service by reducing operating cost while maintaining existing freight rate levels.

The following areas of activity are being addressed for the medium term:

1. Replace the *Investigator II* with a more appropriate vessel in relation to capacity, flexibility, ocean going capability, schedule, manning etc.
2. New vessel to call at only one mainland Tasmania port.
3. New vessel to be able to undertake direct calls to mainland Australia.
4. The full mix of cargo to be able to be carried on the same voyage (e.g. not have livestock only voyages).

Commercial challenges of the King Island shipping service

Below is a list of some of the reasons that make running a King Island shipping service so challenging on a commercial basis for BIL:

1. The low volumes: there are relatively small volume of export/import cargo to cover the fixed costs of operating the service.
2. The diverse cargo mix: The lack of cargo standardization affects cost efficiencies compared to a pure lift on/ lift off (LOLO) service. The diverse cargo includes 20' & 40' containers, over-dimensional (OD) refrigerated containers (i.e. bigger than the standard size), livestock, motor vehicles, high and heavy (H&H) vehicles (e.g. trucks and tractors), horse floats, break bulk and project cargo.
3. The seasonal nature of the freight: The volatility of demand places pressures on a shipping service because of the need to scale capacity up and down.
4. The relatively high cost of Australian operated vessels.
5. No cross-subsidisation: SeaRoad Shipping treated the port of Grassy as a way-port diversion from their main route between Melbourne and Devonport. It could therefore be marginally costed. BIL is not currently operating in that way.
6. Maintaining charges: BIL is operating a dedicated service between King Island and mainland Tasmania at a higher cost than SeaRoad but is maintaining the same freight rate levels. This is generating shipping service financial losses.
7. The cost of positioning empty equipment: There is a high volume of domestic empty containers shipped out of King Island and international empty containers shipped into King Island.
8. The type of vessel: The *Investigator II* is not optimal for the trade but was deployed due to its availability and suitability in the short term while a more suitable vessel is secured.

Terms of reference 2. The impact of high freight charges on the cost of doing business and the cost of living on King Island.

Main points

1. TasPorts' role is to facilitate trade for the people of Tasmania and we are doing that.
2. TasPorts supports businesses on King Island by providing a range of facilities and services.
3. TasPorts has reduced King Island port costs compared to the other TasPorts' ports throughout Tasmania.
4. Bass Island Line has held freight charges even though this affects its profitability.
5. There are many factors influencing the cost of living on King Island. Freight charges is just one.

Doing business

Freight charges

Bass Island Line (BIL) ensures that the freight rates charged to its customers are consistent with those charged by the previous provider. BIL is committed to supporting its customers and the King Island community.

BIL took the following steps before commencing the service to hold down freight costs and shipping charges:

1. BIL introduced the same freight rates as the previous provider SeaRoad Shipping, despite the additional costs of having to tranship cargo between King Island and the Australian mainland.
2. Simplified the previous provider's rate schedule by providing a more straightforward and consistent set of rates to all customers with no favouritism based on volume or any other factor.
3. Reduced rates for Shipper Owned Containers (\$100 per TEU discount) to support customers in light of BIL's policy of not providing containers to the market place.
4. Ensured the full supply chain cost for the shipment of 40' livestock trailers to JBS's Longford abattoir did not increase through a Stanley discharge rather than Devonport discharge.
5. Retained the tourist rate with its free return leg.
6. Applied the Bass Strait Passenger Vehicle Equalisation Scheme or BSPVES (i.e. Federal Government subsidy) to each leg.

As discussed earlier in this submission (in the section entitled "TasPorts and King Island"), TasPorts has also worked diligently over recent years to reduce port charges (which are distinct from freight charges) while still generating enough revenue to cover operating costs and undertake required infrastructure investment.

Cost of living

King Island is a remote community in the Bass Strait roughly half way between Victoria and Tasmania. Like many remote island communities around Australia and indeed around the world, King Island needs to manage a range of factors that influence the cost of living. Freight charges are just one of those factors, albeit an important one.

TasPorts recognises that it can only affect factors over which it has some influence or control. In relation to King Island, those factors include:

1. The management and maintenance of essential port infrastructure.
2. The operation of a safe, reliable and cost-effective shipping service.
3. The delivery of goods to meet customer demand, including fuel.
4. The strategic management of Tasmania's port network (including King Island facilities).

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

Main points

1. Tasmania is well supported with port infrastructure, including in the North West.
2. Major upgrades to the Port of Grassy cannot currently be commercially justified. Port infrastructure is 'fit for purpose' for optimal vessels to service the trade.

Port of Grassy

Ports on King Island are located at Currie and Grassy. Currie is primarily a port for fishing activities. Grassy is the primary freight port.

The Port of Grassy is located on the south east coast of King Island. It has been operating since the 1970s initially to support the operation of the Island's scheelite mine. Waste rock from the nearby mine was used to form a south-eastern breakwater. A finger breakwater to the west was also constructed along with the adjacent wharf and port buildings.

Over time the port has received a number of infrastructure upgrades including the roll-on roll-off (RORO) ramp and fenders, new berthing dolphin (to support larger vessels), strengthening of the wharf decking, removal of the port crane and installation of segmental paving across the container storage yard.

The Port of Grassy currently features a RORO ramp, general wharf and berthing facilities, a cargo shed, fertiliser shed, hardstand, cattle holding pens and stock races. The berth at Grassy contains a concrete ramp for the bow or stern door of a vessel to sit on. There are no landside cranes at Grassy wharf.

The operating parameters of the Port of Grassy are listed below:

- Daylight port: Grassy is a daylight port for vessels over 35 metres length overall (LOA). Vessels up to 75m may apply for night navigation that will be assessed on a case-by-case basis following a risk assessment.
- Maximum permitted vessel length: The maximum acceptable LOA at Grassy is 90m.
- Pilotage: This is compulsory for vessels exceeding 35m LOA.
- Pilot Boarding Ground: Approximately three miles radius from the port centred on a Grassy Island light based ashore.
- Vessels over 35m LOA must have a twin screw configuration.
- Vessels over 60m LOA must have a bow thruster.
- Spring tidal range is 1.4m.
- Maximum wind strength for vessels over 35m is 25 knots.
- In the absence of specific parameters, particularly in relation to extreme weather situation, the pilot will assess existing conditions using all available resources and determine if a vessel can safely manoeuvre within the port area.
- A minimum dynamic under keel clearance of 0.6m must be maintained for vessels under way.
- A minimum static under keel clearance of 0.3m must be maintained alongside the berth.
- Berth Depths: The minimum depth at the Grassy Wharf is 5.7 metres.
- Charted Swing Basin: The charted swing basin diameter (turning circle) is 95m.

The table below outlines the current maximum permissible wharf loading at the Port of Grassy.

GRASSY - Maximum Permissible Wharf Loadings					
WHARF LOCATION	Load Type				
	Highway Loads			Forklift Axle	UDL
	Tri-Axle	Tandem Axle	Single Axle		
Grassy RO RO Wharf	YES	YES	YES	32t	15kPa
Grassy RO RO Ramp	75t	69t	YES	79t	

In 2017, TasPorts commissioned GHD to undertake a desktop assessment of the feasibility of berthing any known current and future Bass Strait vessels at Grassy Harbour.

The study provides a general understanding of the constraints posed by the existing configuration of Grassy Harbour and highlights a range of potential options that could be considered to accommodate the “new generation” Bass Strait vessels (such as *SeaRoad Mersey II*).

The study also identified the high-level order of magnitude costs to deliver such options

The desktop analysis took into account a number of specific factors including:

- Tidal levels
- Environmental factors
- Harbour layout
- Navigation channels
- Channel width and depth
- Turning circles and harbour basin
- Vessel particulars
- Wharf infrastructure and capacity

From this, a range of various upgrade concepts were developed with the resulting high level order of magnitude cost estimates up to \$160 million. This is just the capital expenditure and does not include costs such as engineering or environmental impact studies, equipment, or operational costs.

The desktop assessment would then need to be followed-up with a specific study targeted at confirming the feasibility of options.

However, based on estimated costs of up to \$160 million, there is currently no commercial business case to justify the upgrade of the port based on current or known future freight requirements.

There are in fact numerous reasons as to why a major expansion of the port is not viable, including:

1. The small volume of the King Island freight task.
2. The seasonal nature of the King Island freight task.
3. The substantial costs of a major upgrade against the likely return on investment.
4. The adequacy of current facilities for the current freight task and current shipping operations.
5. The fact that a more effective, flexible and cheaper solution exists and is being actively pursued; namely, a replacement vessel for the King Island shipping service that matches the freight task and fits within port constraints.

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

Main points

1. King Island needs a safe, reliable, cost-effective and sustainable shipping service.
2. TasPorts successfully set up a shipping service following the withdrawal of SeaRoad Shipping.
3. BIL has been consistently responsive to community needs around the shipping service.
4. BIL is managing a two-stage approach towards a replacement vessel.
5. BIL has clear specifications for the replacement vessel.

The BIL service

Since the start of the BIL operation in April of this year, a number of inaccurate claims were made about the operation of the service. For example, the persistent rumour of backlogs of freight in Melbourne and Devonport are untrue. Everything delivered to BIL was moved into the Port of Grassy. There has never been a backlog. From BIL's perspective, any claims of shortages of goods on the island are unrelated to the shipping service itself. Everything that has been booked with BIL and delivered to Devonport port was moved to King Island in a timely fashion. It is more likely that issues have arisen because of the changes that have been required to the entire supply chain process that are as a result of both new operational shipping requirements of BIL and "teething issues" in the first sailings of the new vessel. The majority of customers are now well adapted to the operational requirements of the new service while BIL continues to assist customers in activities such as the sourcing and provision of containers.

BIL has been consistently responsive to customer and community needs around the shipping service. That is why BIL:

- Continues to seek a vessel to replace the *Investigator II*.
- Increased the number of sailings per week to match capacity with demand.
- Implemented the Government Six Point Action Plan for King Island.
- Leased and introduced additional containers into the fertiliser supply chain.
- Pro-actively opened the port of Grassy on Sunday on three occasions and provided equipment and staff to help with container collection and return.
- Worked with experts and the crew to significantly increase the *Investigator II*'s useable cargo capacity to maximise cargo loadings for each sailing.
- Communicates regularly with King Island customers and other stakeholders.

It is also worth recognising that under BIL, King Island is receiving significantly more sailings every week than was delivered under SeaRoad Shipping service. When crossing of the *SeaRoad Mersey I* was cancelled there were no cargo deliveries for at least a fortnight. Under BIL, any delay is matter of days at most.

It is very important to remember that the current vessel, while sub-optimal is capable of meeting current demand on King Island, albeit with some limitations. That recognition does not alter BIL's intention to replace the *Investigator II* in the near future. But bearing in mind this understanding, it does allow for the process of finding the replacement vessel to be conducted in an informed and responsible way such that the best outcome for King Island is properly assessed before any commercial decisions are taken.

A two-stage approach

BIL is managing a two-stage approach to transition from the *Investigator II* to a replacement vessel.

Stage 1: Continued operations with the *Investigator II*

The *Investigator II* vessel is on charter for six months with a six-month option. The initial lease period of six months expires in August 2017.

The key specifications of the *Investigator II* are as follows:

- 53m Landing Craft (LCT).
- Forward loading ramp.
- Up to 60 Twenty-Foot Equivalent Unit (TEU) capacity.
- Cruising speed of 8 knots.
- With cargo oil/fuel capacity.

Stage 2: The replacement vessel

In line with the Government's Six Point Action plan for King Island, BIL is actively seeking a more fit for purpose replacement vessel to supersede the *Investigator II*.

The replacement vessel

The specifications

As discussed in response to Terms of Reference 1, the King Island freight demand is diverse and seasonal. The weather conditions in the Bass Strait are also challenging. The replacement vessel needs to respond to these requirements. It is BIL's view that the replacement vessel should also be capable of making sailings to mainland Australia as well as Tasmania.

In summary, the replacement vessel for Bass Island Line must be:

- Capable of carrying a diversity of freight.
- Capable of ensuring a very high degree of service reliability.
- Able to safely cross Bass Strait considering prevalent weather conditions in this region.
- Able to fit within "land side" infrastructure in Grassy, Victorian ports and Tasmanian ports (both Devonport and Burnie).
- Financially viable, considering both upfront and ongoing costs.

BIL has developed the following specification for the replacement vessel. These specifications ensure that the vessel is able to provide a sustainable service for all current and future freight needs of King Island.

BIL is making every effort to ensure the replacement vessel meets as many of these specifications as possible. But it is crucial to bear in mind that the vessel is highly unlikely to meet all of the highly desirable specifications.

Highly desirables		
Length overall (LOA)	Between 80-90m	To maintain DCV
Draft	<5m	For access to Grassy
Cruising speed	Minimum 10 knots	At optimum fuel efficiency
Loading	RO-RO Aft Ramp	For increased sea-keeping
Displacement	2,000 – 3,000 tonne	Commensurate with a vessel this size
Capacity	90-100 Twenty Foot Equivalent Unit (TEU)	
	Mix of cargoes	TEU, FEU, ISO, vehicles, horse floats, project cargo, bulk fuel (in hold)
	Heavy cargo to the Island, light return	
Capability	Ocean going	For Bass Strait crossing and very high degree of service reliability
Manoeuvrability	Twin screw / bow thruster	To maximise efficiency
Equipment	Remote engine room alarms/controls	To maximise efficiency, reduce manpower with better monitoring systems
Cargo	> 6 reefer (refrigerated) points (plug-in power points)	
Stable	Flume tanks	

Fuel	Diesel	
Price	Approx. \$10m - \$20m	
Should haves		
Structural	Deck Strength 10-15 tonne/m ² or 60 tonne per stack (per TEU footprint)	For double stacking of heavy containers
Survey	Future consideration of change in class requirements	
Could haves		
Loading	Ships crane	For project cargo
Cargo	Indoor garage for 5-6 cars	
Reliability	Winches (Auto Tensioner Style)	For addressing swell at Grassy

The search

BIL has been operating a parallel process to secure a replacement vessel since it started operating the shipping service. BIL has have been working with a global shipbroker and has closely considered almost 20 potential vessels during that time.

Terms of reference 5. Any other matter incidental thereto

Main points

1. BIL delivered the fertiliser task in time for the seasonal break.
2. BIL improved and expedited the Receival and Delivery (R&D) process.
3. BIL implemented technical solutions to increase the available cargo capacity the *Investigator II*.
4. BIL met all known demand for cargo to King Island, including fertiliser.

The fertiliser task

BIL completed the fertiliser task in time for the seasonal break. A target was set by customers to deliver 227 containers of fertiliser in time for the season and that target was met and indeed exceeded (actual containers moved was 253). A small amount of fertiliser continued to be booked after the target had been achieved but demand for this cargo fell off sharply at that point, as expected.

BIL recognises that some farmers have concerns that while the 227 target was ultimately met, the supply did not arrive on the island as early as they may have wished. BIL's analysis was that these concerns arose because of issues with the container supply (i.e. the insufficient number of containers in the system) and not the cargo capacity of the *Investigator II* or the frequency of sailings by the *Investigator II*. That is why BIL, at its own expense, leased 20 empty containers and placed them into the supply chain to help existing container providers (and the shippers). This initiative succeeded in speeding up delivery of fertiliser onto King Island.

BIL further recognises that some farmers may initially have hoped to achieve a target in excess of 227 containers and may have felt that this was not possible due to uncertainties over BIL's capacity as a new operator. When considering this concern, it is important to recognise that BIL started operating the service in the middle of the autumn peak period – a timing not of its choosing. As discussed already, the BIL service was successfully set up at very short notice by TasPorts in order to assist the King Island community. It is also worth recognising that BIL proved itself to be a safe and reliable operator in a very short space of time, before going on to meet the target of 227 containers of fertiliser.

BIL is working closely with customers and stakeholders to prevent a similar situation arising over fertiliser during the next peak shipping season from September to November 2017.

Going forwards, BIL expects that a replacement vessel to the *Investigator II* will mitigate the challenges experienced in the last peak season by offering a significantly increased cargo capacity.

Receival and Delivery (R&D) process

The R&D process in ports is an important part of keeping the supply chain moving. At present there is no R&D while a ship is loading and unloading at Grassy. This is a change to the previous arrangements when SeaRoad was operating because port equipment is now committed to loading and unloading cargo when the *Investigator II* is in port. BIL recently invested in a second 35T fork to be used for both R&D and stevedoring operations. This is to provide further flexibility and freight handling capacity.

In a further bid to meet customer demand, especially in relation to fertiliser cargo, BIL pro-actively opened the port of Grassy on Sunday on three occasions so that containers were picked up from the wharf, emptied and returned. This service was communicated widely to customers and stakeholders on the island (including by email, Facebook and via phone calls). This service was designed to expedite the process of returning containers to the mainland for re-filling so that customers could receive their fertiliser as quickly as possible.

Additional capacity on the vessel

BIL implemented a number of technical solutions on the *Investigator II* that saw its tonnage capacity increase by over 20 per cent to well over 600 tonnes of cargo capacity. (This is in line with the requirements of the Six Point Action Plan.) The additional freight capacity was secured by carefully reducing the amount of fuel and fresh water the vessel itself. The crew was able to safely implement this reconfiguration after becoming sufficiently familiar with the operating requirements of the vessel in the trade to Grassy.

Stanley port

In May 2017, TasPorts rejected claims that it had engaged in anti-competitive behaviour by imposing load limit restrictions on the use of Stanley port to ship freight to King Island. TasPorts clarified with the freight carrier, Eastern Line, the issue of the load limit at Stanley port at the time the matter was raised. TasPorts also informed them that they could use the roll-on-roll-off cargo (RORO) ramp at Stanley for the movement of freight containers using road trailers. TasPorts understood that Eastern Line preferred to use a loading method that carries a lower load limit and we worked with them to find possible solutions. We also made it clear that Eastern Line was (and still is) very welcome to load its containers from Stanley using a safe cargo handling method. Safety is paramount.

Acronyms and abbreviations

BIL	Bass Island Line.
BSPVES	Bass Strait Passenger Vehicle Equalisation Scheme.
DCV	Domestic Commercial Vessel - an Australian commercial vessel (generally domestic) which operates only within Australia's Exclusive Economic Zone (EEZ).
FEU	Forty Foot Equivalent Unit (a container size).
GT	Gross Tonnage. It represents the size of a vessel.
H&H	High and Heavy cargo, for example trucks and tractors.
ISO	International Standards Organisation. i.e. a standard shipping container.
KIPC	King Island Ports Corporation.
LOA	Length overall.
LOLO	Lift-on/lift-off.
OD	Over-dimensional, i.e. cargo, especially containers, bigger than the standard size.
PCMS	Port & Coastal Marine Services.
R&D	Receival and Delivery.
RORO	Roll-on/roll-off.
SKM	Sinclair Knight Merz.
TEU	Twenty Foot Equivalent Unit (a standard container size).
TFES	Tasmanian Freight Equalisation Scheme.
UDL	Uniformly Distributed Load.

Allison Waddington

From: Leigh Arnold <Leigh.Arnold@tasports.com.au>
Sent: Friday, 21 July 2017 4:41 PM
To: KIF
Subject: TasPorts submission: Legislative Council inquiry into King Island Freight
Attachments: 190721 Legislative Council inquiry into King Island Freight - TasPorts Submission - FINAL.pdf

Dear Stuart,

Please find attached the submission from TasPorts to the Legislative Council Government Administration Committee 'A' Sub-Committee inquiry into King Island Freight Services.

If you have any questions please do not hesitate to ask.

Kind regards

Leigh

Leigh Arnold | Manager Communications

Tasmanian Ports Corporation

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