



King Island Council

Our Ref: Ltr 29.10.01
Enquiries: David Laughler

21 July 2017

Mr Stuart Wright
Inquiry Secretary
Legislative Council
Parliament House
Hobart TAS 7000

Dear Mr Wright

INQUIRY INTO KING ISLAND FREIGHT SERVICES

King Island Council welcomes the opportunity to contribute to the Legislative Council sub-committee's inquiry into King Island freight services.

Sea freight is an essential service to King Island residents and businesses. It provides our fuel, our food, and the goods and materials needed to facilitate our island's economy, as well as delivering our produce to markets in Tasmania, Australia and overseas.

Council is keenly aware of the support given by the Tasmanian government since the removal of the Searoad Mersey I from the Bass Strait route, and appreciates the ongoing efforts to secure a reliable and appropriate service. However, it is clear that King Island residents and businesses require certainty about the future of this service, and Council requests that the sub-committee consider the following responses to their terms of reference in conducting their inquiry.

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

The King Island Council and community have been consistent in their requests for a reliable, cost effective and commercial shipping service for the island. Much research has been done by and on behalf of local and state government to quantify the current and projected freight task, and it is assumed that the sub-committee will be referring to that research in their inquiry.

While the Tasmanian Government have maintained the on-vessel freight cost to customers for the six month "interim period" while a longer term solution is identified, there is uncertainty about what will happen beyond that. This uncertainty is having a negative impact on our island's businesses and our residents, and Council seek the sub-committee's assistance in gaining clarity on the future of sea freight to and from King Island.

The current service provided by Bass Island Line with the Investigator II has mitigated the impact of Searoad ceasing their service to the island, but despite efforts by TasPorts to maintain prices in line with past costs, end users on King Island are seeing higher charges. For example, the island's main freight forwarder has had to increase their charges to cover additional costs they are incurring since the transfer of operations to the Investigator II. These costs include increased road transportation on King Island due to the need for repeated journeys to and from the port for each docking at Grassy, and the need to deliver to two different sites within the Port of Melbourne (Station Pier and Victoria Dock) to facilitate the separation of general and hazardous cargo that was previously all carried on the Searoad Mersey I from one location (Webb Dock East).

Any increase in costs will impact the island's ability to continue its positive contribution to the economy and reputation of Tasmania.

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

Sea freight provides almost all of King Island's ability to bring in supplies for its residents and businesses (food, fuel, materials, equipment) and to deliver its produce to market (i.e. cattle, beef, kelp, milk, cheese). As such, freight charges impact on every aspect of King Island life.

While Council acknowledges and appreciates the mitigating effect of the Tasmanian Freight Equalisation Scheme, it notes that this scheme entitles recipients to a fixed dollar amount rather than a proportion of total shipping costs. Therefore, King Island recipients receive a lower proportional mitigation of their shipping costs than their mainland Tasmanian counterparts, increasing the cost of business. It is also noted that two key imports to King Island are specifically excluded from the scheme, namely fuel, and building and construction materials and equipment.

The cost of fuel on King Island is significantly higher than seen elsewhere in Tasmania, and it can only be assumed that this is due to the additional shipping charges incurred by the provider. For example, as shown in Table 1, the Australian Institute of Petroleum reported that the Tasmanian regional average retail price for unleaded petrol in the week ending Sunday, 16th July was 136.5 cents per litre, with a reported high during the week of 139.9 cents per litre. By comparison, unleaded petrol on King Island was retailing for 160.0 cents per litre – a difference of over 15%. Fuel is a significant cost to many businesses on King Island, and therefore any reduction in the price of this commodity which can be achieved with lower shipping costs would directly benefit each of our residents and businesses.

With regard to building and construction materials and equipment, the high freight costs of these items has a direct impact on the cost of living on King Island. Businesses are required to either keep higher stock levels than their Tasmanian or Australian counterparts, or to endure extended lead times for basic materials, each of which have an impact on their cashflow. The cost of freight is then passed on to the customer, which keeps the cost of building and refurbishment high and means that house prices and residential rates are higher than would otherwise be expected in a small, regional area. To mitigate these costs, many of the island's larger employers own properties which they lease on to their staff at subsidised rents, effectively transferring this cost to the business. This means that, despite mean rents on the island being reported as lower than Tasmania, this 'reduction' in cost of living for a proportion of the island's residents is in effect an increase in the cost of doing business for their employers.

TABLE 1 –TASMANIAN RETAIL PETROL PRICES FOR THE WEEK ENDING 16TH JULY 2017

Weekly price per litre (cents)	Average	Low	High	Indexed*
Tasmanian state average	136.6	136.5	136.7	100.00
Hobart	136.6	136.5	136.8	100.00
Tasmanian regional average	136.5	136.4	136.6	99.93
Burnie	135.6	135.4	135.7	99.27
Devonport	134.7	134.6	135.0	98.61
Huonville	135.8	135.8	135.8	99.41
Launceston	137.5	137.3	137.7	100.66
New Norfolk	138.3	138.3	138.3	101.24
Sorell	139.9	139.9	139.9	102.42
Ulverstone	135.1	134.9	135.2	98.90
King Island (Currie)	160.0	160.0	160.0	117.13

* Average cents per litre indexed against Tasmanian State Average

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

It is the limited capacity of Grassy Harbour that has prevented Searoad from continuing their service to King Island with the introduction of their new vessel, the Mersey II. As detailed in Council's Strategic Plan 2016-2020, Item 2.2 – Transport, advocating for the upgrade of port facilities at Grassy is a key objective of Council. This upgrade could involve the extension of the breakwater and deepening of the harbour to allow for larger vessels, or could equally involve the improvement of land based facilities to remove some current practices that increase costs to shipping companies and customers alike. For example, with the current facilities and operating procedures, it is not possible for customers to deliver or collect general freight from the wharf while the vessel is berthed. A relatively small investment in making further use of TasPorts' existing land assets around the port, or even just reviewing operating procedures in the existing facility, could resolve this issue.

King Island businesses and individuals are exposed to higher shipping costs than their mainland Tasmanian counterparts due to the inability to de-hire containers at their local port and therefore paying hire costs beyond the delivery of goods to port. This issue has been exacerbated by the need for the Investigator II to prioritise their cargo when sailings are cancelled or delayed due to bad weather, as empty containers are generally considered the lowest priority. An examination of the opportunities to offer de-hiring of containers at Grassy port could contribute to a reduction in the overall cost of shipping freight to and from King Island.

The limited availability of lay over berths in North West Tasmania, including King Island, appears to have restricted the capacity for new providers to offer a commercial shipping service to King Island. Council requests that the sub-committee consider opportunities for government to invest in developing such facilities in the North West, thereby increasing King Island's and Tasmania's access to new shipping providers across the Bass Strait.

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

A sustainable and reliable shipping service is essential for King Island's continued existence.

The characteristics of the Investigator II means that it is not always able to sail due to weather conditions on the Bass Strait, and this means a number of sailings have been delayed or, on occasion, cancelled. This in turn means that King Island businesses are left uncertain of whether goods will be delivered to, or collected from the island as expected. For example, the shipment of cattle from King Island this week has been delayed. This means that producers are now having to find additional feed for cattle who were not expected to be on the island at a time when available feed is limited, and will not receive payment for that cattle until later than planned, which affects their cashflow.

Another impact of the responsive schedule which Bass Island Line have had to adopt has been the occasional backing up of freight in Devonport. For example, when goods are shipped from Melbourne, their arrival in Devonport can miss the departure of the Investigator II to King Island. This may be because of changes to the schedule, or because other freight is having to be prioritised because of earlier delays in the schedule. This leads to King Island businesses needing to maintain higher stock levels to mitigate the risk of deliveries not coming in as expected, impacting on their available cashflow.

5. Any other matter incidental thereto

Bass Island Line and TasPorts have been responsive to requests for information from Council, where possible, but they have not been able to provide clarity on what will happen when the Investigator II's initial term comes to an end on 31 August. This uncertainty has a significant impact on our residents' and businesses' ability to plan for their future, and it has been noted as a dissuading factor for potential investment in the island.

Council request that the sub-committee seek a clear and definite picture of the immediate and medium-term future of shipping to and from King Island. With that certainty, our island can maintain and grow its economy for the benefit of its residents, its businesses, and Tasmania.

Yours sincerely



David Laughher
GENERAL MANAGER

Allison Waddington

From: Helen Thomas <hthomas@kingisland.tas.gov.au>
Sent: Friday, 21 July 2017 12:12 PM
To: KIF
Cc: David Laughher
Subject: Submission to the Inquiry into King Island Freight Services
Attachments: King Island Council Submission.pdf

Please find attached King Island Council's submission to the Inquiry into King Island Freight Services.

Should you have any problems accessing the attached document, please contact me directly.

Kind regards,

Helen Thomas
Economic Development Officer
King Island Council

King Island - a place of opportunity, lifestyle and beauty

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