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**THE LEGISLATIVE COUNCIL GOVERNMENT ADMINISTRATION COMMITTEE A
MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON THURSDAY,
10 AUGUST 2017.**

KING ISLAND SHIPPING AND FREIGHT SERVICE

Mr IAN BERRY, RETIRED MARINE ENGINEER, WAS CALLED BY TELEPHONE
SWORN IN AND WAS EXAMINED.

CHAIR (Ms Forrest) - This is a public hearing and there is one of the minister's advisers in the room and there could be media attend at some stage but at this stage there is only the minister's adviser. Everything you say is recorded in *Hansard* and will become part of the record to be published on our website.

Mr BERRY - I understand that.

CHAIR - Yes. Everything you say when you are speaking with the committee is covered by parliamentary privilege, but should you speak to the media afterwards or anyone else, it does not cover you at that time. The evidence you give is public and if there is information you wish to provide in confidence or in camera, you can make that request and the committee will then consider it, otherwise it is all public. I think you were sent the information for witnesses.

Mr BERRY - Yes, I was.

CHAIR - Do you have any questions from that or are you okay to proceed?

Mr BERRY - No, I am quite happy to proceed provided the other members are right.

CHAIR - Yes, we are all good. We have your submission, which we have read. We appreciate your experience on the *Seafarer*, which is something I do not have, so if you would like to speak more fully to your submission and raise any other issues, then members of the committee will have questions.

Mr BERRY - As my heading says, I am a retired marine engineer and I spent a couple of years working with the Tasmanian Transport Commission on the Flinders Island and King Island runs on their vessels, the *Bass*, *Banks* and the *Rah*. The *Rah* came into service after the *Straitsman* sank in the Yarra and it remained in service while the *Straitsman* was being repaired. When that was laid up, I was then offered a job with the Burnie Port Authority. I took that job because someone else was not going to.

That is my experience as far as King Island shipping is concerned. Quite clearly, I believe the community of King Island not only needs, but is entitled to expect, a shipping service that is regular, reliable and dedicated to King Island. As you know, we insist on Bass Strait being treated as part of the national highway. It is not unreasonable for islanders to expect the stretch of

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water over to them be treated as a state road. The state Government needs to step in and do something quite meaningful as far as providing them with the services concerned.

As I mentioned in my submission, almost 50 years ago, Captain Bob Houff had the *Straitsman* designed and built specifically for the triangular service between King Island, Melbourne and Stanley. It seems to me that 50 years down the track, we have not progressed very much.

I am not going to go into volumes of cargo and so forth because it is not my area of expertise. What I do believe is the state Government should, as a matter of urgency, contract a company able to design and build a specific vessel for the run. There are companies such as Damen, which is a world renowned marine architectural company - it owns shipping yards around the world and is very well respected.

I go back to a dedicated triangular service because the leg of the voyage between Victoria and, in this case, Devonport would help support the King Island leg of the service. Talking to my mate on King Island the other night - he is one of the biggest dairy farmers there - he pointed out to dispose of his cows and bulls, they have to go to Victoria to be processed. At the moment, that stock is having to come across to Devonport and then be transshipped along the coast to Victoria. I think reintroducing the triangular service will make that King Island run more viable.

A couple of things have changed. When the *Straitsman* was on the run, she used to go up the Yarra River to 14 South. I do not believe the Yarra River would be available to have a small ship go up there anymore because things have changed so much. Now whether they go to Geelong or to Western Port, [inaudible].

To look at Tasmania, Stanley is no longer an option as a port for cargo. Burnie does not have the room for another service to come in, so we will be looking for a service going out of Devonport, even though they've got of [inaudible].

It has been suggested by a number of people that the Port of Grassy be substantially upgraded for one of the larger vessels. In my opinion, that supposition is flawed for the simple reason that we would spend a lot of money upgrading the port, but afterwards it would still have to secure a vessel to provide the service. If you look at the new *Searoad Mersey* and the soon-to-be introduced new Toll boats, they are just so much bigger that it is not practical to enlarge the Grassy port to take those vessels so you are back to vessels specifically for that run.

As to the size and configuration of the new vessel, in my opinion the old *Searoad Mersey* was almost too big for the Port of Grassy. She was right on the limit as far as size went. If the weather was unfavourable, they simply sailed past and didn't get back there until the following Sunday. Going into King Island was never *Searoad Mersey's* primary role; King Island was only secondary. Build a new vessel, make it slightly smaller- it would rarely miss sailings because of weather.

I will finish this part first but I want to come back to who would actually operate it.

In an ideal situation, an upgraded, larger version of the *Straitsman* would be the best option. Another and cheaper alternative - I don't know how many of you are familiar with the vessel that services Flinders Island, the *Matthew Flinders* - but if you look at that, it has the bridge and

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accommodation at one end of the ship. It has a stern ramp over the backend and it has high sides. It is open - the main vehicle deck is open to the weather, but protected on the side. A much larger version of that would be a cheaper option than an enclosed vessel because it would be cheaper to build and would be cheaper to run because you wouldn't have as many constraints as far as firefighting, watertightness and so forth.

In talking to friends of mine who have been in the industry for many years, none of us understands why TasPorts was given the job of running that barge across to King Island. TasPorts came about to operate ports; [inaudible] put together to handle cargo. My suggestion - which has been confirmed by others I have spoken to - is that TT-Line would be the most obvious one to run it on behalf of the state Government, but the state Government would very likely need to subsidise the TT-Line for the King Island operation. It already has people who have expertise in handling cargo, and the two services would complement one another. Insofar as moving stock is concerned, the King Island vessel would be able move stock from Devonport to the mainland if need be. That is something I would like to put on the record.

Members of the committee might not be aware of this, although I daresay people on King Island are, but when the *Straitsman* was on this run, the majority of King Island's consumable goods came out of Melbourne because it was much more convenient for the people of King Island to deal with the companies in Melbourne. As I have said before, the majority of their stock went out through Melbourne.

That's about as much as I would like to cover. I welcome any questions members of the committee may like to direct to me. Although I have been out of the industry for some time now, a lot of things when it comes to King Island shipping were the same 40 years ago as they are today. Sometimes some politicians seem to forget that while certain things that have been upgraded, most things required for King Island are still the same as when Bob Houff put the *Straitsman* into that run.

Thank you for your patience.

CHAIR - Thank you, Ian. I have a couple of questions to start with. As you are probably aware, we had hearings on King Island on Monday and Tuesday this week.

Mr BERRY - Yes, I was aware of that.

CHAIR - Those transcripts are not available yet, so you do not have the benefit of hearing what was said then, but a lot of people said a number of things you have said.

You said you believe King Island needs and deserves a regular and reliable service that is dedicated to King Island. Many other witnesses have suggested that if it is going to be a commercial operation, as opposed to a government-funded or -subsidised operation, it would not be a standalone service or, as you put it, dedicated to King Island service - rather, that the government should be providing a framework where a commercial operator can come in and operate it commercially. The evidence was put to us pretty clearly on the island that it needs to include a leg to Victoria from King Island and back, and to the Tasmanian mainland and back. Do you want to reflect on that?

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Also, you made a point about TasPorts being given the job rather than TT-Line, which actually runs a shipping service. We will ask that question later today. Do you believe the service will only survive if it is a government-subsidised and basically government-operated service? Other people's view is that the government should not provide it, that it should be a commercial operation.

Mr BERRY - I go back to my initial comment: up to a point, providing a shipping service to King Island for the people of King Island is akin to upgrading a road out to Circular Head. Other roads around the state were put in because a number of people at the end of it required a service. For people to say that the shipping service to King Island has to be commercially viable, well, yes, it does, but it has to be run efficiently and not necessarily at a profit.

I overlooked mentioning it, but one possibility is that the state Government has a ship built and then charters that ship to a commercial operator. A company that comes to mind, which I am sure would be willing to look at it, is BK Shipping. They are ship operators.

I go back to TT-Line because they are operating two ships; they have people who are capable of chasing up the cargo, they have people who are capable of doing all the paperwork that is required. It seems to me to be a much better fit that starting from scratch with someone else.

Some of the operators might have a go at providing the service, but they do not have a vessel suitable for the job, you end up with a service that is not regular and reliable. It is my view that when King Island gets back to having a ship dedicated to a triangular service, business will pick up on the island. When the *Searoad Mersey* was providing the service, it was once a week; if she missed a Sunday berthing because of weather, they have to wait another fortnight between ships. For some businesses on the island, it was not satisfactory.

Mr GAFFNEY - Ian, could you expand further on the idea of the boat travelling regularly from the island to Melbourne? There seemed to be a real push from that for many reasons, especially to do with live trade and where the market was, both import and export. Do you have an opinion on that route?

Mr BERRY - I have spoken to several master mariners who have sailed not only the King Island run but across Bass Strait. In their opinion, Westernport was the better option than Eastern Port and Geelong. I could be wrong. There may be room for the ship to go up to the Yarra, in which case that would be the go. I think the privately owned Port of Melbourne Authority, or whatever they call themselves now, clearly can't be bothered with small operators like that. They would sooner see them go to one of the outports.

Mr GAFFNEY - Further to that, Ian, I know you spoke about a dedicated run between King Island and wherever. It was put to us that it might be feasible to have a boat that operated for Flinders Island and King Island on alternate days, for example. With your maritime experience, would the same sort of vessel be able to cater for both the Melbourne-King Island and Melbourne-Flinders Island runs? Because of the different port structure, or whatever, could the same boat access both Flinders Island and King Island?

Mr BERRY - The short answer is no. Lady Barron has constraints - mainly navigational constraints - but I am not sure what the state of the wharf is like these days. Bear in mind that Matthew Gales and the vessel he uses does not use the wharf. They back up to a concrete ramp, it

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is like a boat ramp for recreational users. It locks a door down on it. If you look at the size of the ship you can get into Grassy to operate on just under 100 metres - making it about that size, while it is 'too big' for King Island, it allows you to carry more cargo between Victoria and Tasmania, where it helps to prop up the King Island leg of the operation.

Mr GAFFNEY - Thank you.

Mr BERRY - The other problem with trying to service both islands with the one vessel is that, as far as stock and other things go, you have competing interests, which is they both want the ship at the same time. If you are trying to do both ports, King Island would end up with, at best, a once-a-week service just through the logistics. Let's assume you go through Devonport: to go to Devonport, Flinders Island and back again, you are running into three days; Devonport to King Island is a similar sort of thing - finding a sale across, turn around and go back. To give you an idea, *Matthew Flinders III* has a deadweight tonnage of only 375 tonnes. That horrible little barge, the *Investigator*, they have running across there at the moment, which is recognised as being a bit small, is rated at 861 tonnes. You will need a total of 1000 tonnes to service King Island successfully. The *Straitsman* was rated at just on 1000 deadweight tonnes. Not being a naval architect or a master mariner, I suggest something around 2000 tonnes would give you a bit of flexibility at peak times and it also allow you to carry freight right across the strait.

CHAIR - We are running out of time; we have another phone witness in a couple of minutes.

Mr GAFFNEY - Ian, can you get a little bit closer? You are starting to fade away.

Mr BERRY - Sorry, I have it on speaker phone so I can hear.

Mr FARRELL - Ian, my question is around long-term planning for the island. We have heard through this process that since the abattoir closed down, the freight task to and from the island has changed. There is more tourism now on the island than there was because of the golf courses. Some have mentioned that maybe if there were a better port facility, some of the larger cruise ships might call into King Island and there is a potential customer base there. I wonder, based on your practical experience, what are your thoughts around that?

Mr BERRY - Yes, and I had this discussion - not specifically about cruise ships - last night with Tony Gunn. He is an ex-King Islander and a master mariner of note. He reinforced the point that it would be so tremendously expensive to upgrade Grassy harbour to make it safe - well, in this instance, for cruise ships - it would just be prohibitive. When you look at the physical shape of the harbour at the moment, to make it bigger, you would actually have to shift that breakwater right out. The biggest problem with the port is that the sou' westerly swells come up, sweep up round the bottom of the island and come up into the harbour, so you would also be looking at major breakwater work.

CHAIR - Thank you. We probably need to leave it at that unless you have any closing comments you'd like to make.

Mr BERRY - No, I think I have probably bored you enough.

CHAIR - No, we appreciate your historical knowledge.

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Mr BERRY - Hopefully there's a couple of snippets of information there that have come up from the past. I realised when I was trying to get some information that so few of us are left who were around when the *Straitsman* was operating, and that's what it was built for. Industry-technology was used on that service.

CHAIR - Thank you so much for your time and your submission.

THE WITNESS WITHDREW.

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Mr BRETT McGLONE, AREA SALES MANAGER, INCITEC PIVOT FERTILISERS

CHAIR - Just to explain the process, Brett. This is a public hearing, and members of the public, including the media, may attend. There's no-one here at this stage in person, other than one of the minister's advisers. That is just so you know who is in the room. The evidence you give will be public and published as part of the *Hansard* transcript, once it's available. Because you are outside the jurisdiction, parliamentary privilege doesn't actually apply. If you want to give us some in camera or confidential information, you can request that and the committee would consider that. Otherwise, it is all public. Do you have any questions at all before we start?

Mr McGLONE - No, all good, thanks, Ruth.

CHAIR - We have your submission and we would welcome your contribution to it. As you are probably aware, fertiliser is an important input for the King Island farmers and one of their major import costs. I am sure you are very well aware of the challenges.

Mr McGLONE - Yes.

CHAIR - I will let you speak to your submission and make any further comment. I am sure the members of the committee will have questions.

Mr McGLONE - Thanks, Ruth. Incitec Pivot has been providing fertiliser to the King Island community for over 50 years. We have in typical seasons, depending on farmers' finances and climate, generally sent around between 6000 and 8000 tonnes per annum from our Geelong works to Grassy. On one occasion we sent that in a bulk shipment. Some 12 years ago we sent a small ship bulk, but due to lack of infrastructure on the island, we have sent all our inputs over in containers. This was with the *Searoad Mersey*, the last however many years, in containers from our Geelong works; these were trucked from Geelong and then shipped to Grassy with that service.

We hired the *Searoad Mersey* for two special sailings just prior to their discontinuation of the service, to get a big surplus of fertiliser over onto the island in the autumn. As you are probably aware, fertiliser is applied predominantly in the spring and the autumn so we do have two peak shoulders. We hired the *Searoad Mersey* to do a couple of special sailings to try to get as much product there as we could. However, we could only get so many containers and then we had the issue of getting the empties off once we dropped them over there full.

The new service commenced - I'm not sure of the date - and then we started to get a backlog of product that we could not get over to the island. I think at times we got up to 60 containers ordered which we could not get moved across in what we'd say was a timely fashion. We were getting between six and eight to 10 containers a week moved, and we were taking orders of 20 and 30 a week.

We also faced an increase in cost. This was due to, I believe, the Bass Island Line following the previous SeaRoad costing without looking at a few extras such as Devonport wharfage, the container hire and increased road freight. This, compounded with a decrease in the amount of tonnage we could put in each container, increased the cost per tonne from around \$140 to nearly \$160 per tonne to get the product from Geelong to Grassy in bulk.

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CHAIR - That is in bulk in the containers, though?

Mr McGLONE - Yes, in bulk, so it is loose in the containers. It is in no packaging containers.

CHAIR - A couple of questions on that. A number of farmers have been doing comparisons, as they do, to try to reduce their import costs. The fertiliser, for example, goes to Flinders Island in the 1 tonne bags and that is landed in Flinders Island at less than half the price, \$60 a tonne.

Mr McGLONE - That is correct, between \$60 and \$80 a tonne, yes.

CHAIR - Is that your product and do you deliver that?

Mr McGLONE - Yes. That is product which we deliver from our Scottsdale depot. It is handled about six times by the time it is bagged, lifted onto trucks, unloaded at the Bridport Wharf and run onto the deck of the *Matthew Flinders*, I think; it is unloaded over the other side with forks and sacks on the side of the road and then picked up and put onto trucks for despatch. It is a very inefficient service but it is very cost-effective compared to ours -

CHAIR - So why the difference in the cost?

Mr McGLONE - That is what we would all like to know. I do not know whether it is - the initial freight rate, which was set by Bass Island Line, was just a mirror cost of the previous SeaRoad costing. That is, of course, broken down to different elements - being road freight, Devonport wharfage and Grassy port costs. There are a lot of built-in costs, so I guess I am not really in the business to comment which of those costs are true or correct, or which have been built up over the years.

CHAIR - So, Brett, when you are getting your product to Flinders Island, I imagine there is wharfage cost on Flinders Island, at Bridport or port costs or something -

Mr McGLONE - Yes.

CHAIR - We do not have trains in Tasmania because the number of times you have to handle something on and off a train or a truck or whatever involves a cost, and if you have short distances, it does not stack up. If we were to ask TasPorts - and we will - how these costs are established in terms of the freight costs, we obviously need to ask how they break down their costs, including what component is road and wharfage, and what and where were the stevedoring costs. What other questions do we need to ask them to fully understand the price structure?

Mr McGLONE - Yes. TasPorts would not have any influence - our freighting agents are Jetsons so Jetsons are contracted to carry and cart our full containers from the Geelong works to the Melbourne port. There is a cost associated with that, but that is going to be the same with whichever freighter we put it on. Then there is the cost charged by Bass Island Line to get that container across the water and to King Island, which includes some of TasPorts' costs. We need a breakdown of the cost incurred by Bass Island Line.

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CHAIR - Are there any other hidden costs, because it is a bit hard to know why there is such a difference. Unless you ask exactly the right question, you do not always get the answer you are looking for.

Mr McGLONE - Yes, that is right. I did send - and I should have it with me - the breakdown to a couple of King Island guys. I will see if I can find it.

So the old SeaRoad rate was \$3351 a container. Since the new company has come in, we have seen \$177 per container for container hire. I am just trying to find another rate here. Our rates from Geelong to Grassy is a sea freight of \$2566.

CHAIR - That is going via the Tasmania mainland?

Mr McGLONE - Yes, that is via Tasmania. So \$2566 sea freight - \$185 for the container hire, \$168 for King Island port fees, \$96.50 for Devonport wharfage, \$100 for our shipping agent and \$370 for the Victorian road freight leg.

CHAIR - So, some of those aspects, like the shipping agent, the Victorian road freight, the Devonport wharfage -

Mr McGLONE - We never used to prepare the Devonport wharfage fees so that has come in.

CHAIR - That used to come direct, yeah. Wouldn't that still apply to the fertiliser going to Flinders Island?

Mr McGLONE - No. The product that goes to Flinders is despatched from our depot at Scottsdale and road freighted to Bridport.

CHAIR - Okay. So there is not a landing charge; it is a charge as you leave the port as opposed to getting delivered to it.

Mr McGLONE - Right, yes.

CHAIR - That is what you are suggesting, yes?

Mr McGLONE - Yes.

CHAIR - It comes into Devonport, doesn't it, to go to your holding bay? When the fertiliser is bound for Flinders Island, it still comes in through Devonport?

Mr McGLONE - Yes, but we will probably bring that in a bulk shipment from overseas.

CHAIR - Okay.

Mr McGLONE - At the moment we are unloading urea and muriate of potash off overseas vessels. We bring that into Devonport, then we road freight it to Scottsdale, put it on a truck, send it to Bridport and ship it over.

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That same vessel probably docked in Geelong last week and loaded x-amount of tonnes over there, and is the product that would then go in a container across to Grassy.

CHAIR - Okay.

Mr McGLONE - We are looking at \$3485.60 per container. Our average shipping weight was 21.5 tonne.

CHAIR - Are they 24 tonne containers?

Mr McGLONE - Yes, but we were limited to that. Apparently the weight has been lifted recently. We were initially requested that they be 21.5 tonne payweight. That increased that cost per tonne because we had to divide that \$3500 by the tonnage in each box. That has been lifted. We were told there were constraints on the crane lifting the containers.

CHAIR - The crane in Devonport?

Mr McGLONE - I believe so.

CHAIR - There is no crane on King Island.

Mr McGLONE - No. I believe it was the crane handling the boxes at Devonport.

CHAIR - If a triangulated service or butterfly service went from Victoria - presumably Geelong - direct to Grassy, do you have an idea of what the costing would be?

Mr McGLONE - Again, it would come Port of Melbourne, and we would have no idea of what the commercial operator. We only hand that the freight cost on. We have to add it on to our quoted price. We make nothing out of the freight.

CHAIR - If a ship went into Geelong and shipped from there, would that cut out the Port of Melbourne? Is that possible?

Mr McGLONE - The other option would be, and I guess you are talking here of this - a bulk ship. We would have to look at some infrastructure upgrades on the island so we could handle some bulk products. That would be a ship that would hold, say, 5000 tonnes of bulk fertiliser, which we could fill at Geelong and run straight over to Grassy, where we would unload it in bulk and put it straight into a shed as we do at Devonport at the moment.

CHAIR - Okay.

Mr McGLONE - That would cut that freight rate back to somewhere around \$30 or \$40 a tonne.

CHAIR - Is there no capacity then for a roll-on, roll-off vessel at Geelong to do containerised?

Mr McGLONE - I doubt there would be at Geelong, sorry. I am not familiar, but most of port at Geelong is for bulk unloading and loading of grain, woodchips and fertiliser, I believe.

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CHAIR - We can always check with the Geelong port.

Mr McGLONE - We have also suggested the use of the Stanley port. We could do something similar to what we do out of Bridport and Scottsdale. We could load containers or bulk bags at our Wiltshire depot, which is 15 kilometres from Stanley port. We have had no success with that to date.

CHAIR - What discussions have you had around that, to date?

Mr McGLONE - It has been above myself, but we have spoken with both provider contractors such as Les Dick and Bass Island Line, but we seem to come into weight restrictions in what we're allowed to take over Stanley Wharf. I am not in a position to comment on that. I have not seen any direct emails on that.

CHAIR - There would have been some communication with TasPorts around that.

Mr McGLONE -Yes, I believe so.

CHAIR - Okay, we can ask TasPorts.

Mr FARRELL - In the past there was on-island storage of fertiliser. We have seen the shed on the wharf, which is in need of an upgrade. Is storing it on the island a possibility?

Mr McGLONE - Yes, for sure. Did you meet with Peter Boling by any chance?

CHAIR - No, we haven't.

Mr McGLONE - Peter was, for quite a few years, chairman of Grassy Port, King Island Port as it was. Peter was one of the early pioneers in getting the shed built. The shed was built in early days by a charge over all fertiliser carted onto the island. The charge was collected by the marine board, which built the shed to give us holding stock on the island. If you ran into problems with shipping, weather or mechanical breakdown, we could have some fertiliser held on the island. We have been in a commercial agreement with TasPorts for a number years over the lease of the shed and they have, as you are aware, decided to stop using the shed for fertiliser. I think it is going to be demolished. I am not sure. We are in negotiation with several different commercial operators about building a substantial shed on the island to handle it. It is an integral part of our business to be able to hold bulk fertiliser on the island to cover times of big despatches. We need a good shed facility on the island and hopefully we can find a commercial operator who is prepared to put up the money and build that sort of facility.

If we get a decent facility like that we may in the future be in the position of looking at bulk shipments on to the island. To bring a vessel in we have to find the correct vessel, and we would need to bring in up to say 5000 tonnes, which the current infrastructure on the island would not handle.

Mr FARRELL - Do you envisage the storage being on the wharf itself as it is currently or could it be at another location? The question you just answered was about the restrictions with the type of vessel you can then get into King Island.

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Mr McGLONE - Yes, I guess the shed infrastructure would be built off the port. I believe some land close by the port is available, but it would be outside the existing port fenced area. It would be whether we could have it close by, or on another property close by, because there is a weighbridge and different infrastructure at the port that would be handy to use. The second question about the size of the ships, we would have to find a coastal-type vessel, with self-discharging capacity and correct draught and so on, that we could bring into Grassy. These are not kicking around everywhere and the current international vessels we bring to Devonport and Geelong would be too big for the current Grassy Port.

Mr FARRELL - So that would be similar to what is needed for the general freight, a more purpose-designed vessel?

Mr McGLONE - Yes, but there are vessels around that would hold 5000 tonnes that are self-discharging, whether they have cranes with holds or grabs they could grab the fertiliser out of holds. There may be the possibility to backload, whether it is scheelite or sand or something like that, off the island and back out again in a bulk form, not a containerised form.

Mr FARRELL - Thank you.

CHAIR - Brett, this is one of the key questions: the freight task on King Island overall is not large; it has seasonal variations obviously, particularly in terms of fertiliser in autumn and spring. From evidence we have received, it seems that for a freight service to be viable, we need to consolidate the majority of the freight. This includes the live cattle going both ways on and off the island as well as fertiliser and other general cargo such as vehicles and things like. Is it possible to have a vessel that does all this, but still meets the requirements? They are saying you really need a roll-on, roll-off vessel. There is no crane on King Island. Sure you could ship one over at great expense, and it would stay there. Is it possible to have all these things so we have one service that does everything?

Mr McGLONE - Yes, for sure, Ruth. If we could have a private operator, seeing the ports are getting out of sheds, with enough shed capacity we would be prepared to have consignments stop on the island. Instead of a farmer ordering a box of fertiliser to be sent over, we could send 10 containers a week, for instance, and have it in consignment stock and build up a stock of fertiliser ready for the spring rush. Currently we have very little fertiliser on the island. Once the weather dries up and everyone wants 4000 tonnes of fertiliser, we are back into this having to send 50 containers a week. If we can send 10 containers a week over this quiet period, have them sitting there on consignment, then when our farmer customers come along, there is product there for them.

CHAIR - Yes.

Mr McGLONE - We are happy to run with a container vessel, but we are just battling when superphosphate is worth \$300 a tonne with the farmers paying \$160 a tonne. All of a sudden, he is paying \$460 a tonne for superphosphate on his farm whereas a Circular Head farmer is probably paying slightly over \$300 per tonne for the same product. They are very similar farming types and climates, so the King Island farmer is paying a huge -

CHAIR - And you only get the same price for your beef at the abattoir.

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Mr McGLONE - Then they have to pay \$100 to send that animal over here to Peter Greenham as well, don't they?

CHAIR - Yes.

Mr McGLONE - There is no hidden cost now in our policy; we just have to hand that \$160 tonne straight over.

CHAIR - Okay, that has really helped us to understand the logistics. Obviously there is no easy solution otherwise it would have been done. The current vessels on the route - the *Investigator* and Les Dick, I believe, has a couple of ships - are any of them currently capable of this task?

Mr McGLONE - The *Investigator* handled the task but it took a fair jar from both Duncan McFee and lots of other individuals. In the early piece we used to follow them up to Agfest [inaudible], we were hardly seeing any product being moved. It wasn't until a lot of people got into a lot of ears that we saw some product moved. The vessel was capable of moving the product. A backlog built up that maybe should not have built up at the time. It was not until people put a lot of pressure at some higher levels that the product started to move. The *Investigator* was brought in; as Rene mentioned, it was the only vessel they could find at the time and it moved the majority of the product we wanted to move.

We have not done any final figures as yet, but we are probably about 1000 tonnes down for the year over what we should have moved over there, so about 15 per cent. If the vessel had been running a little bit earlier and running to capacity from day one, we would have had the product over there. In a longer term sense it is probably not the ideal vessel for the run, but we need to find an operator who is prepared to find the correct vessel to put on the run at an effective cost.

CHAIR - Could the *Investigator* transport it from Victoria? There is a lot of comment that it just would not handle the in and out of the Victorian leg, if that were deemed to be important and necessary.

Mr McGLONE - I am not sure what about Victoria, but we would be more than happy to fill containers and load them out of Stanley if we had the opportunity. It would make it a considerably shorter sailing - use it as roll on, roll off vessel out of Stanley and have a shorter, quicker sailing from Stanley to Grassy, as Les does for the cattle. With the current vessel I could see that would be a real possibility in cutting costs and time.

CHAIR - They are much more sheltered waters there through the islands until you get out right to the tip.

Mr McGLONE - That is correct, and you can quite often see it bobbing along the coast here. It does not travel far off the coast.

CHAIR - Is there anything else you would like to add? Do you have any suggestions of our approach to TasPorts, the Bass Island Line and even the Government for questions we should be asking them?

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Mr McGLONE - Off the top of my head, I guess the transparency of this \$2566 per container charge copied from the old SeaRoad rate: how that number was derived. That seems to be a number they copied off SeaRoad. Probably the way it has been run with the hiring of the crane at Devonport, the true cost may be higher than that. We need to have a look at the true cost of operating it out of Stanley if we could, even if they were just dedicated fertiliser runs over at those peak times, whether we could do short sharp runs out of Stanley with the true cost of that service. Then we would not have to worry about bringing the containers across on the TT-Line. This is where it seems to have caused the bottleneck: this three-week turnaround on the containers by the time we get the empties back to Geelong, get them filled, get them over on the TT-Line and then ship it from Devonport to over here. It is all about the time.

CHAIR - You talked about the \$2566 charge carried forward from the *Searoad Mersey*. You may not be able to comment on this, but there has been some evidence that there was a period where the *Searoad Mersey* had been taken off the line, that certain things went on and it looked like there was a solution but there was not. The *Searoad Mersey* continued for a little longer but they put a 30 per cent premium on the price. Are you aware whether that is the case?

Mr McGLONE - I am not aware of that, Ruth. Our freight rate has remained very similar for the past two or three years. The only thing that changed was a fuel surcharge, which varied up and down slightly, but it was not huge. Our freight rate on fertiliser for the islands for at least the last two years was \$142 per tonne. That was our charge to the end user, the farmer.

CHAIR - You did not have an increase in those last few months of *Searoad Mersey's* operation?

Mr McGLONE - No, I am sure we did not.

CHAIR - Including those sailings where you tried to get a fair bit over?

Mr McGLONE - No, I believe we were still at the same rate, \$142 per tonne.

CHAIR - That is the rate picked up by Bass Island Line? Is that right?

Mr McGLONE - Yes, that is correct. We then had to add on top of that the container hire at King Island, additional fees then bumped that up to \$160 a tonne, combined with the decrease in the container weight.

CHAIR - A higher price per tonne?

Mr McGLONE - Yes.

CHAIR - That is very helpful, thank you, Brett. Is there anything else you would like to add before we finish with you?

Mr McGLONE - I think that's all good. Thank you very much for the opportunity.

CHAIR - We appreciate your input. As you know, in small communities there are rumours about things, and it is always hard to get to the bottom of it.

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Mr McGLONE - Sure, Ruth. King Island is a great place. I have been going over there for over 20 years. I really like the place. It is so hard for someone like me with a farming background to see the costs being put onto the King Island community in general for the whole service. It must be a very hard place to do business.

CHAIR - If you think of any other questions that would be good to put to TasPorts or the Government regarding the whole pricing structure, feel free to send them through by email to Natasha.

Mr McGLONE -That would be great.

CHAIR - Thanks for your time and input, we appreciate it.

Mr McGLONE - Thanks. Bye.

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Mr HIMANSHU DESAI, DIRECTOR, MIDAS TECHNICAL SERVICES, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR - Welcome to the committee hearings. We appreciate you taking the time to come and appear before us. For your information the committee is a public hearing so the members of the public come in or out during the session. It is all transcribed by Hansard and the transcript will form part of the public record when we publish that on our website. Everything you say is protected by parliamentary privilege while you are in front of the committee, but does not extend beyond your appearance here. If you want to give us any information of a confidential nature, you could make that request to the committee and the committee would consider that.

You have had the information sent to you regarding the information for witnesses. Do you have any questions before we start?

Mr DESAI - No. In case there is something which I do not want the public to know, I can request it.

CHAIR - Yes. If you would like to give us information in that regard, it would be good to talk about all you can talk about publicly first and then we can do that at the end in one session. If it is approved by the committee, that information will not be made public; it is kept separately and only available to the committee.

We received your submission and have all read that. We appreciate the time you have taken to put a submission in, having the knowledge and experience in the area you do. I invite you to speak to that submission and any other further comment you wish to make. then the committee will have questions for you.

Mr DESAI - I did not come from the same education system as Australia, there maybe a few phrases which will be different so please excuse me in this.

CHAIR - That is fine.

Mr DESAI - I am a marine engineer and about two years back I was working in Bass Strait on one of the oil platforms, servicing an oil platform from a supply vessel. This is when I came to know about *Searoad Mersey* finishing up and the possibility of another vessel coming in. This is what the skipper of the vessel told me. We discussed it for a few days but because I was working elsewhere, I did not get the chance to get into it. Last September, I learned there is this project going on so I thought I might able to help in some way. I have the technical knowledge and ideas I wanted to discuss so I got in touch with Port and Coastal Marine Services.

They were not really keen because they thought everything was straightforward, so that was it. I went overseas doing spare supply and consultancy. When I came back I learnt Port and Coastal Marine Services could not do the job so *Searoad Mersey* was doing the extra run for the next three months until the February 2. I tried to get in touch with the Department of Infrastructure, Mr Garcia, but the lady there told me he was not in town and asked me to send him an email that she would forward to him. I never heard from them.

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In the meantime I was in touch with the shipping group because the council told me the right people to talk to is the shipping group. I got in touch with the chairman on the shipping group.

I said I had a plan so, on 21 February this year I visited King Island. I met with the shipping group chairman; he gathered up a few of the committee members and we discussed it. I always had doubt about the landing craft. That landing craft is not the suitable kind of vessel for Bass Strait, especially when you take the livestock.

CHAIR - Why do you say that? What are the failings of that vessel?

Mr DESAI - She is a very flat-bottomed and shallow vessel. She will rock and roll quite a lot. Usually they are not as powerful because they are meant to land on the beaches. No landing craft has high-powered engines. Going through water, it would be like a bob in rough weather. I suggested there are a couple of vessels I know around the coast; within a day or two they can come in case you need any help with livestock on this landing craft. To me, it is quite stressful for the animals - that is my personal view on it. I suggested I can supply a couple of vessels as I was in touch with some of the shipowners around here. Apparently, they had already committed to this landing craft so they knocked it back. When I talked with a TasPorts official - he was at senior level - he told me, 'It is all stitched up. We are doing this landing craft for six months and after six months, we may do it for another six months or we may finish with it.'

CHAIR - On that point, before you go on, the minister said this is a six-month, very much interim, solution. I think most people recognised it wasn't suitable for the task, but it was all the government seemed to be able to source at the time. If that is the case, you would expect to take a period, probably months, to source a more appropriate vessel. When you were discussing the options and the potential access you had to other more suitable vessels, during this six-month period that the *Investigator* was -

Mr DESAI - It was even before the *Investigator* started, I had been in touch with overseas brokers and shipowners. I have suggested a few vessels and I have given them my submission. One kind of vessel, instead of the stern door, has a stern ramp for the cattle. I had a meeting with the transporter and he said he can't afford to do any other thing except the trailers had to be rolled onto the vessel. So that was the type of vessel I was looking for. I had about three or four offers from different brokers and shipowners that I hoped had a vessel that meets the operating criteria. Because TasPorts said they would be now looking after it and they had full authority to take whatever vessel they want, early in March I suggested to TasPorts this is the kind of vessel that can carry 80 containers. Basically, from what the report says, it takes about 70 containers a week of general cargo in either direction. Eighty would have been just right, in case you are a little more or less, and this can carry a little bit more in case you have a few more empties to carry. Fully loaded, it can carry 80 containers, 20-footers, but if there are some empties, there is enough capacity for it to carry some more on the higher tier also.

There are two different ways I was told: one is the triangular route that goes from, say, either King Island to Devonport and then to Melbourne, or from Devonport to King Island and then go to Melbourne - that is called triangular routing. Another is called a butterfly route, where one vessel goes from King Island to Melbourne, comes back to King Island then goes to Devonport. These kinds of vessels can do butterfly routes quite easily and they are very economical on fuel as soon as the load on the engine is reduced if you want to go at a slower speed. They load the livestock at about 2 o'clock in the afternoon and they want it at Devonport at 6 o'clock in the

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morning so that by 7 o'clock they are out and by 9 o'clock they are already wherever they have to be. This is what the requirement of the livestock transporter was. If I am not running at full speed, I shut down and it runs only on two engines or one engine, depending on what speed the skipper of the vessel needs. These are quite fuel-economical vessels. I was made an offer for a brand-new vessel, something similar to this one, and so I suggested to TasPorts in March that this is what I will do but they said no, they are committed to [inaudible] so I sent an email to the official from TasPorts with whom I was in touch, saying that they do not really need it now and it is better I do not enter into competition with TasPorts because both of us will lose money and it is a fact. So I said 'Okay, I will lay back and once TasPorts finishes this emergency run of six months we will consider it.'

In May it was all over the papers that this fertiliser issue had developed. The shipping group was complaining that they are not getting sufficient fertiliser before 31 May. Now, incidentally at that time there was a vessel called *Yarrabah*. She had just been sold by an Australian company to an Indian company to a shipwrecking yard. She had enough room on the deck and the back to carry 40 containers and she was small enough to go into King Island. She could go directly to Geelong, next to the Pivot factory there. Most of the fertiliser - 70 per cent I believe - is coming from the Pivot factory and the rest of it is coming from Elders and Philbey's so she can go straight to Lascelles Wharf in Geelong to load up the containers. But at the last minute I got an email from the official in TasPorts that the wharf will not be able to take a crane because we had already suggested a crane that was quite competitive compared to the rest of the crane operator hiring companies. They said that to have a 26-tonne container to be lifted, you require a crane that has about a 90-tonne capacity or something because then there is a bit of difference there. But apparently it did not work out because the wharf cannot take the weight of the crane with its counterweights. When you are lifting weights, you require counterweights at the back so with those counterweights the whole thing would have been about 130 tonnes and apparently the wharf on King Island is not capable of holding that crane.

I was a bit surprised in this particular situation because there is a private boat in Port Anthony in South Gippsland. On that boat they have about the size of about this area they have a pad that can carry 300 tonnes. So a similar thing is quite easy if the planning is done right now. What is happening is everything is focused on the *Searoad Mersey*. It was supplying it to the island.

I said 130 tonnes is quite easy, they are using a plane in Devonport which is 300 tonnes. I thought I had this, but apparently I had an email saying it cannot be done because they do not have the capacity on the wharf to put the crane. The wharf would sink or whatever happens and collapse. That was knocked back and now I have this message saying the submissions are due on Friday. I sat down and pointed a few things and now I have a project. If you are interested, I can go on a little bit more.

CHAIR - To give a bit of context we will not be choosing a shipping service in the committee, but we can certainly identify what the key issues and needs are. People have raised things like an upgrade of the port in Grassy generally to allow bigger ships in. You have raised the issue of strengthening the wharf in Grassy to take the crane. Other people have talked about the importance of a roll-on, roll-off service as opposed to a crane service. They have been imperative, but universally there has been much agreements there needs to be a King Island-Victorian butterfly-type service as you described it. I would be really happy to hear what sort of options you see. It will be up to the government to address what they do with the Bass Island Lines.

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Mr DESAI - I understand - the committee will get the idea and the Government will read what the committee says. In 2011-13 the consultancy firm GHD surveyed King Island shipping comparing it with the Shetlands, New Zealand and other places like Lord Howe Island, New South Wales. I went through the report and they said they are looking at \$80 million per year to run a service. If you take today's tariff, there is just over \$8 million as income for all the freight. There is a huge shortfall if you go the ways suggested. I did a few sums and found out that if a *Searoad Mersey*-type of crew are employed, what the master and crew is paid is almost \$4 million plus or \$4.5 million almost, including the victualling, superannuation and all those other expenses. You are looking at \$4.5 million, or 15 per cent of it going towards only the crewing of the vessel - forget about the stevedoring and all those costs - so it is not a viable option to balance the books. My plan is to balance the income and the expenditure.

If the vessel is doing a butterfly run and a once-a-week service to King Island, then for two days she is working and for five days she is sitting idle. If we can gainfully employ the vessel and get some income out of that, your income increases to match the expenditure.

My accountant warns me never rely on subsidies for anything. That is where government can step in [inaudible]. If I am to do this job, they should support this also to do some extra work instead of having the subsidy the islands are getting now.

CHAIR - Has the government asked you to provide your idea of a solution?

Mr DESAI - No. Because to tell you frankly, I am not on the original list of expression of interest, initially two years back or three years back. I was not anywhere on the horizon at that time. I came to know only about two years back. I am not on the list, so nobody wants to talk to me.

CHAIR - Let me talk this through a little bit; other members may like to come in. We clearly have a problem in that King Island needs a reliable, regular and consistent shipping service at a price that does not put the people on the island out of business.

What we hear is that the government had Port and Coastal Marine Services with a solution. The islanders were pretty pleased about it and everyone thought that was good. They had known for quite a while this was coming down the line.

That fell over at the last minute for reasons which we are yet to fully understand and maybe never will. Then they said *Investigator* was the only ship available. That was brought on. You got in touch around that time.

If the government is serious about only having this as an interim service, I am struggling to understand that and it is a question for government. I am interested in what your thoughts are: why wouldn't they open up to anybody who may have a solution?

You might not get the gig, so to speak, but unless you look at all the options. Would you have access to a roll-on, roll-off vessel that would fit into the port that could undertake the task?

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Mr DESAI - Yes. Obviously at the end of it, and I am looking at a different kind of vessel here, the one in red right at the back of it. Right now they have those. Instead of those, you can fit a ramp going down.

CHAIR - It is the same effect?

Mr DESAI - Yes. It will have the same.

CHAIR - How long is this sort of vessel?

Mr DESAI - About 78 metres.

CHAIR - That will fit in.

Mr DESAI - Out of that 78 metres, you get a clear deck of about 55 metres.

CHAIR - Is there an undercover deck on this one?

Mr DESAI - There will not be any undercover deck. If you look at where the photograph is taken, that is a plain deck and there is accommodation about 40 metres higher than the deck. That will protect vehicles and all. Usually you would put it right in front.

CHAIR - Yes. That is one of the concerns for the islanders. They send a black vehicle over and it is white when it gets there.

Mr DESAI - Yes. If they try to claim insurance on it, the insurance company wipes it and says this ship had salt spray. I have been on ships like this. At the backend of the vessel there might be a little bit of spray, but in the front you never have any spray coming because that is where the accommodation protects it.

This particular kind of ship has sides about 3 metres high, so the bottom containers are also quite safe. If you have trailers with livestock on them, they also do not get the spray.

I have been on ships like this and usually the spray is only towards the back of the ship and from only one side. You do not have it from all the sides, unless you are going straight into the sea, where none of these routes will take you. If you prevent only the spray on the livestock towards the back of it, these ships can be easily modified. Instead of buying a new ship - which is what a lot of people are thinking, and Port and Coastal were going to buy a ship; you have so much capital expense if you look at the GHD, 35 to 40 per cent is only going towards finance and the mortgage -

CHAIR - Would you be looking at a ship under charter?

Mr DESAI - Yes, I would be looking at a ship under charter because who knows when the scheelite thing will come up and then you need more.

CHAIR - Or an abattoir comes online and you have less live cattle.

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Mr DESAI - Yes, so you have it for one or two years, then you can recharter the vessel. You can have a 1 + 1 option - one year you are guaranteed, and after one year you can go for one year. There are so many oil industries down, there are so many ships available. They are sitting idle in Singapore or Dubai or places like that; you can find miles and miles of ships laid up there. That is where chartering might be a better option, I believe. Why buy a cow when you can buy the milk?

CHAIR - As you say, the freight tasks have changed. If the explosion in tourism occurs, lots of buildings for accommodation will be needed on King Island; that will then change the freight task again.

Mr FARRELL - You have asked a number of questions here. It seems you are not getting any hearing through the Department of State Growth; they won't respond to your phone calls. There is an email here that says there is no point pursuing Allan Garcia any further because the state Government has given TasPorts the authority. Where do you think your options are? What would you do if you wanted to put a proposal forward to the government?

Mr DESAI - That is why I am here - basically I am saying somebody has a good idea and is trying to balance the books, not to get a subsidy. That is exactly what my plan is; that is what I am doing and working on. I already have somebody who is helping me with some of the loose ends. But I cannot draw a perfect picture until I know what the stevedoring charges are in King Island and Devonport because that is all under TasPorts. TasPorts will not give it to me because it is commercial in confidence. That is the elephant in the room.

CHAIR - You have not approached TasPorts then? Or have you?

Mr DESAI - I have approached TasPorts in recent times and I was told that they are already looking at it for their submission - what a future vessel must have, should have and could have; they have a whole list of things in there.

Mr FARRELL - Did you get any hearing with Infrastructure Tasmania at all?

Mr DESAI - No. I have not done it yet, but once I finish this, I will give them a call. Once the hearing is completed and they go through it, they may have something to discuss with me. This was an opportunity I have taken to at least put my thoughts in public.

Mr FARRELL - From this last email you received, it looks like it has all been handed to TasPorts to sort out now. I don't know what right of reply you have.

CHAIR - Except for dealing with TasPorts, but TasPorts has not responded.

Mr DESAI - TasPorts gave me the breakup of how many freight containers are going in and out of the island. That was quite good. I married it with the tariff and SeaRoad tariff, and on that basis, I know what income I can expect out of it.

CHAIR - We will see TasPorts this afternoon. We will ask some of these questions about where they are at and looking at the solution for the future. There are many people who would suggest that perhaps TasPorts shouldn't be running a shipping service. A number of people have said that. It shouldn't really be the government's responsibility; in many respects, it should be an

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unsubsidised, commercially viable service, which is ideal in the ideal world. That would be a great solution if we could get that. I am sure you have read the TasPorts submission?

Mr DESAI - Yes, I have.

CHAIR - They have outlined all the requirements they have. There are a lot of dot points.

Mr DESAI - Most of them when you run a ship, it is part of it.

CHAIR - You have to have a booking system or it doesn't work. From the information we have from TasPorts, you put in an expression of interest there? Is that how it is working?

Mr DESAI - I have been in touch with them. I said, 'Your six months is up, have you anything else?' - 'No, we are looking at another vessel. We are looking at this.' It just stopped there. Now I will be talking to the departments of Infrastructure and State Growth. I will see if I can get to open the door there. The whole idea is that government officials look at it from a different angle. Everyone wants to buy a ship and run a ship, there was one about a roll-on, roll-off vessel to buy. Now roll-on, roll-off vessels are not easy to get.

CHAIR - That is what they said. They are in short supply.

Mr DESAI - If you have the right PSV doing the right thing, then PSVs are quite stable, they can go in the North Sea and areas like that.

CHAIR - What are they called?

Mr DESAI - PSVs - platform support vessels. If you have an oil rig and an oil platform in the middle of the ocean, like in the North Sea or in Bass Strait or in Western Australia, these vessels are supposed to go in even in 5 or 6 metres of swell. They can go and supply if they have to. There is a limit - I think they don't go in more than a 5-metre swell because it becomes hard then. Smaller vessels also run through cyclones. I know this area because I have been going east, west, north and south in Bass Strait.

I have done a fair bit of my homework. If we can sit down with somebody who can make a decision, that would be good for the island community. Right now, every two years, 10 years, they might do it all over again, but here there is a structure already in place. That is what I am offering.

CHAIR - We hear what you have to say about your capacity to meet what appears to be the identified needs of the service to King Island, Victoria and mainland Tasmania. We do not fully understand where TasPorts is at with that, but we will be talking to them later today. We encourage you to keep the dialogue going.

Mr GAFFNEY - Have you had the opportunity to talk to the islanders on the island about this?

Mr DESAI - Yes.

Mr GAFFNEY - On how many occasions?

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Mr DESAI - Yes. I visited once when the announcement was made that they would have the *Investigator* starting from 2 April.

Mr GAFFNEY - What group did you talk with?

Mr DESAI - I talked to the King Island Shipping Group, Greg Morris. Greg Morris had six or seven other committee members also.

Mr GAFFNEY - What was the feedback from your suggestion?

Mr DESAI - The feedback was they are also looking at something similar. I have already mentioned in my letter saying it will be good if they also become part of the management. Now, unfortunately, from what I heard from everywhere else is with the shippers on the island, there are so many different ways they are pulling. Somebody wants it this way, somebody wants it this way and then all the time there is no sort of leadership.

CHAIR - It would be difficult if people like yourself went out and actually engaged a vessel. Competition is one thing, but we have to accept the freight task is not huge on King Island. A lot of our witnesses have suggested it needs to be a service that fits part of a larger freight task, not just the King Island freight task, because that would be very hard to be financially viable.

Mr DESAI - Yes. The five days for a vessel to sit idle and only work for two days, it would go to Melbourne and come back or go to Devonport and come back.

CHAIR - If it was going Melbourne-King Island, King Island-Devonport, Devonport-King Island or whatever.

Mr DESAI - Will there be enough cargo to call at King Island more than once a week if you are taking the 80 containers?

CHAIR - It depends on the size of the vessel.

Mr DESAI - Right now they can carry 72 containers. Mostly they carry empties, because they are going three high and the crane may not be able to carry that.

Mr GAFFNEY - Well, apparently three weeks before April 1, you will have plenty of work. That was the fertiliser.

CHAIR - That is right and in the spring it will happen again.

Mr GAFFNEY - They could not get their stock to their island.

Mr DESAI - That is when I said. 'Okay, there is a stop. You can go with this vessel called the *Yarrabah*.' She is ready and the temporary licence has been bought too because she had already changed from Australian flag back to a foreign flag. You require a temporary licence to work in Australia, so we did all that and all water training and last minute they said no. The wharf cannot -

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CHAIR - The crane was not suitable.

Mr DESAI - The wharf cannot support the crane.

CHAIR - That is another solution. You have a smaller vessel that does the run and meets the needs of the freight task on King Island, but in the shoulder and low freight times have a back-up service during the peak. The challenge is having that back-up service available at the peak.

Mr DESAI - Yes. It becomes hard. *Investigator*, if you choose to continue with her, is not capable of going to Melbourne. She can go only to Devonport and only on good days. The limitation of *Investigator* is that she cannot go to Melbourne.

CHAIR - I imagine there would be similar challenges with a crane at the Stanley Wharf. Have you visited the Stanley Wharf at all?

Mr DESAI - No, I have not visited Stanley. It is too small for my kind of ship to go there.

CHAIR - Okay, so Burnie?

Mr DESAI - Burnie, I have been, yeah.

CHAIR - Burnie could manage it?

Mr DESAI - Burnie can manage, but Burnie does not have any roll-on, roll-off capacity. Burnie can manage it.

CHAIR - But they have only the cranes though?

Mr DESAI - Only the cranes, but then on King Island, they cannot have cranes so it is...

CHAIR - It is a bit of a circular argument.

Mr DESAI - They had \$20 million from the federal government a few years back, but I do not think anything has been done to improve King Island.

CHAIR - The King Island Port did.

Mr DESAI - No, not for King Island, for Tasmanian ports from federal government. I do not know.

CHAIR - How long ago was that now?

Mr DESAI - It is in one of the submissions somewhere.

CHAIR - It might have been TasPorts. I think it was.

Mr DESAI - I do not think TasPorts would have said it. Somebody private would have said it.

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CHAIR - I cannot remember who it was.

Mr DESAI - I do not remember because during the last three or four days I have been through 20 submissions.

CHAIR - Is there anything else you want to add?

Mr DESAI - I think we have covered a fair bit of what needs to be done. Whether I do it or somebody else, it does not matter, but this is what I see needs to be done. I have this technical know-how; I was a technician in a ship company with a new boat for which I had to set everything up, so I have an idea of how to do it, to think outside the square, and, if there is an issue will sort it, I sort it out the best way I can.

CHAIR - Thank you for that and thanks for your interest.

Mr DESAI - Thank you very much for hearing me out and giving me the opportunity.

THE WITNESS WITHDREW.

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Mr RENE HIDDING, MINISTER FOR INFRASTRUCTURE, TASMANIAN GOVERNMENT, WAS CALLED AND EXAMINED.

Mr ALLAN MICHAEL GARCIA, CHIEF EXECUTIVE OFFICER, INFRASTRUCTURE TASMANIA, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR - Welcome, minister, and thank you for appearing for the committee. You do not need to be sworn but the other two at the table, if you would not mind making the statutory authority.

Mr HIDDING - Mr Wilson will be advising me so we will swear him in if I feel we need to sub him in.

CHAIR - All right. I do not need to explain to you the process of the committee. Thank you for your submission. I must admit it was a very comprehensive submission with a very extensive covering letter, which is quite refreshing to get. We acknowledge that and thank you for that. We welcome further comments on your submission and any further information you would like to raise with the committee. I am sure we will have questions for you following that.

Mr HIDDING - Thank you, Chair. What took place which led to the need for a new shipping service quite early after I became minister has been well canvassed. We announced we would not be proceeding with a plan for the TT-Line to get into the commercial freight market. Within days of that, the operator said he would order a new ship and the arrival of that ship would trigger the King Island situation. He said it publicly and to me; he told the islanders that we should plan for around March of last year when his new ship would be on the line and his old ship would be sold.

We had a decent time frame to work to, but we started on it immediately. It was a long process. I have to say I was fairly confident. In fact I was quite confident that what I perceived to be a \$10 million business, which is a small-to-medium enterprise these days, would be of interest to shipping companies. Quite a number of shipping companies had a good look when we went to the market and chose not to submit an expression of interest over concerns of aggregation of freight.

In my very first meeting with the shipping committee over there, they said to me, 'Minister, what is going to be the issue here?' I said, 'The issue will be, unless you people can aggregate your freight into a one solid \$10 million dollar business, it is going to be very difficult to attract somebody'. They said, 'We are confident about aggregating freight and we work with them on that as well. We work well together to aggregate freight as much as we can.' Sadly, at the very end, at the bitter end, it became obvious that the freight disaggregated with one of the major beef companies, indicating they would continue with their existing arrangement and therefore could not commit to the new service. That and a couple of others, as was explained to us by then PCMS; there were a couple of other ship acquisition issues to do with the ship in the Brazil harbour, notwithstanding the fact that they had expended in the order of \$1 million to deliver a shipping service, their bankers were doing the covenants and they were distraught at having to advise us that they were pulling out.

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We then triggered a plan B. Plan B was in play from day one. We knew that; in fact I told the shipping committee from day one. When they said, 'Minister, if you can't find someone, what happens?' I said, 'Well, then the Government will have to stand a service up'. They were a bit surprised by that. I went straight to the endgame: 'You will have a service. It will either be provided by the private sector or, if not, then we have to stand something up.'

We did have, sadly, a very short time in which to do it because of the circumstances of the collapse of the business case of the commercial business model. But plan B was well advanced. I had mentioned to TasPorts that I would be looking to them as the government's shipping operator. After all, they run quite a fleet of tugs, ships, boats and all sorts of things. I indicated to them that while I was confident of a good outcome commercially, I might end up having to call them in with some urgency. They were not shocked; they were unpleasantly surprised because they were given a task such as this in an impossibly short period. To assist with that, Infrastructure Tasmania's Mr Garcia on my right negotiated a short-term deal for the *Searoad Mersey* while it was still on the market and available. It was a three-month deal. It is extremely expensive to run a vessel like that just on a short haul. After all, it is a Bass Strait crossing vessel and to run it on a one-day-a-week short haul was very expensive, but we did that for 90 days at a cost because of our commitment. It did not miss a sailing. King Island, for all the concern expressed, has not missed a sailing. There have been some adjustments due to weather, naturally, with that smaller ship and we will get to that, but it has done a very good job and the island has not missed a sailing.

CHAIR - On that point, minister Hidding, what was the cost of that?

Mr HIDDING - Can you recall, Mr Garcia?

Mr GARCIA - I do not recall it offhand, but we can certainly get something back to you.

Mr HIDDING - I have seen a document on that.

Mr GARCIA - It was a commercial arrangement. To date it has not been public.

Mr HIDDING - We can certainly give the overall number because there is a budget number. It will come up at Estimates. Let us see what we can provide to you the committee, but it will come up at Estimates.

CHAIR - Estimates are a long way away.

Mr HIDDING - I am sorry, I am talking Government Business Scrutiny. I am sorry; it will not come up with GBS estimates, because we paid it out of our island shipping emergency fund.

CHAIR - Which is only a small number in the line item in the budget papers. It is obviously more and we will have to wait until next year's budget Estimates to hear about it.

Mr HIDDING - No, I am happy and not avoiding it. I will provide it to you, but if we can do that separately? Have you a number?

Mr GARCIA - The cost overall is \$890 000 for 10 sailings.

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CHAIR - That is on *Searoad Mersey* for that extra time?

Mr HIDDING - Yep. It was a three-month period. Now, just understand -

CHAIR - Three-month period?

Mr HIDDING - Yes, 90 days.

Mr GARCIA - Three-month.

Mr HIDDING - That is how long it was going to take to get the *Investigator*. TasPorts was told, 'You are in'; they had to find a ship, find a crew, come up with an arrangement and get it here from Darwin. The 90 days were since it was purchased, while that vessel was still on the market. In the middle of it, we had the benefit of a couple of sailings, where it had to go back on the run commercially while the new ship went off and had the anti-fouling fixed in a Sydney dry dock. We got it at a very friendly rate. A couple of services in the middle of it, but \$890 000 for 10 sailings was the commercial rate.

CHAIR - That is for the sailings that did not include the ones they had to go across the strait anyway, is it? These are the additional sailings they had to do?

Mr GARCIA - Yes, indeed so there were 10 exclusive sailings if we can call them that. The two sailings they did were of their own volition, so there was no cost to us of those two sailings and the others were additional over a month.

CHAIR - So it was for 10 sailings basically?

Mr GARCIA - Ten sailings.

Mr HIDDING - We paid for 10 sailings, which were from Grassy to Devonport. That highlighted the cost of a large vessel. They are very expensive to run - in the older vessels in particular the fuel solidifies if you switch the engines off. You have to heat them up so you can run the whole time. They are very expensive vessels and, let us say, the emergency service. We call it the first interim service and then the second vessel arrived. It is important we hold this in our minds. I will go right through to where we believe we will end up.

The first emergency service was that 90 day service by SeaRoad. The second interim service is the *Investigator*. I suspect it has been well canvassed, but TasPorts looked around Australasia - Indonesia, Papua New Guinea and those places. The only vessel in good shape, which was fully licensed, registered to use and did not need things fixed, was Toll *Investigator* and so they grabbed it. It took them only a few sailings to get the hang of exactly how many heavy containers they could get on. Somebody said earlier there was concern it could only carry 16 containers. Well, it was not; it was carrying 30 to 50 containers. Some empties, but with the heavies, they had up to 40 containers a time on board. That is why it had its 90 per cent on time sailing record. We absolutely accept it was somewhat of a shock for the island that the vessel was arriving two or three times a week, rather than one big vessel once a week. All the trucks had to operate on that day, so it was quite a change of routine.

Let me now go to the third vessel, because there are likely to be four vessels in this story. It would be a miracle if one day there is a commercial failure and then you go straight to a fix that is

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the vessel for the next 20 years. That would be a fable because there is no such thing as a perfect vessel out there, but the third vessel will be entirely different.

I am able to tell you today that Tasports has narrowed the international search to two vessels with capacity and financial considerations being advanced at this stage.

It is completely commercial because if one has the view they could gain them on price, well, it is a very competitive market out there. We are close. I am confident as minister that we will say goodbye to the *Investigator* this calendar year. Wherever a new vessel comes from, it has to come from there and no doubt have some changes before it comes on line, so we will say goodbye to the *Investigator* this calendar year. It will be replaced by a much bigger, much more fit for purpose vessel.

CHAIR - And with what sort of service?

Mr HIDDING - It will be a much larger vessel, in the 80 metre-type range. I take it you will explore this with Tasports themselves, but it would be of a size where it would be one day a week. One service in and triangulated. I know this committee is very interested in King Island's connection with mainland Australia; obviously there is a fair bit of interest in that.

CHAIR - Is triangular and butterfly or just one direction?

Mr HIDDING - That is something that BIL would need to work out, but I will finish the story on the ships and then we will get back to that.

So it will be a triangulated service; it will be capable of a triangulated service. In a moment we will talk about the issues around a triangulated service. The next step is that vessel that will arrive this calendar year, all things being equal, is also an interim vessel. This is not something I asked BIL to do; I asked Infrastructure Tasmania to engage our contracted maritime consultants, Thompson Clarke Shipping Consultants from Sydney, who do all the government consulting. They have been working on Maria Island ferry, Bruny Island ferry and Flinders Island issues. Thompson Clarke is doing a major body of work for us right now on what an ideal vessel for this service would look like.

It is timely to do this because right now we are finding out that what they have had for 24 years has been this large vessel coming in there on a Sunday morning and leaving on a Sunday afternoon. It was a bit unclear exactly what because it was commercial. They were holding a lot of this information in and all that is known now, and so what would a new build vessel look like in an ideal world.

We will be provided with a set of proposals, a price frame between that and where and how you would get it built. We should have that on hand in two months' time, about 60 days from now. That will become the subject of a major consultation with the King Island community, King Island Council and King Island Shipping Group - all the major players. So the major shippers, the beef companies, the beef growers, everybody on the island will have an opportunity to have input into whether Thompson Clarke's version. Everybody will have a slightly different version of what the generally agreed ideal ship for King Island will look like at the end of the day. That becomes an issue for consideration by government - its cost, and its funding options and operational options.

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Ideally we would transition the shipping service back into the commercial market with the potential assistance of public funds to achieve this perfect vessel for King Island. I am saying 'perfect', because I would be the last person to say that is the perfect vessel, because on King Island there are many different views. I am not sure if you have worked that out. That will be a matter for the island and freight customers to determine.

That I would see as the last and final ship. Because that whole process is likely to take 18 months to two years, TasPorts now has to find - and they have narrowed it down to two ships - a ship that will at least do a very good job for the next two years.

That is the history and the prognosis for where we are. This calendar year the *Investigator* goes, the last interim vessel comes on and then we start talking about what a new ship would look like.

That brings me now to the issue of ports. For the last 20 years, inputs into the beef industry on King Island, such grains and fertiliser - all heavy stuff - has come in direct from Victoria on the mainland. On the back of that, hardware and building supplies, and also foodstuffs, have been coming in direct from there because that was the Sunday morning arrival of the *Searoad Mersey*. It was also coming in from mainland Australia. Very little was coming in direct from Tasmania because it had to go to Melbourne before it arrived there. Inputs onto the island, but particularly inputs into the beef industry, have traditionally come from mainland Australia and therefore the systems are pretty well welded to that. With heavy bulk inputs such as fertiliser, we have seen how awkward it is to have to get it to Tasmania and then over to the island, in spite of the fact that it was well handled at the end of the day in very tough circumstances by BIL, who themselves put on extra containers when it wasn't even their job to do so.

Inputs have come from mainland Australia but outputs, which is the beef, have gone to mainland Tasmania. That supports about 1000 direct jobs and leading to indirect jobs in the meat processing industry in Tasmania, at Smithton and Longford.

I can inform the committee that as late as this morning, I thought I should follow up on my robust relationship with both of those shippers; I speak to them regularly. I went to the very top of their companies and asked, 'Where do you want the cattle you purchase on that island to go?' Both of them said that they want 100 per cent of their cattle on the Tasmanian mainland. I haven't been able to get hold of the transcripts from your hearings on King Island, but from what I understand, from the evidence you have received, people have a different view about that. They would be the people selling the cattle. However, they have an opportunity to sell it to anyone and use commercial shipping, other shipping. There is Les Dick's shipping that can get cattle to the mainland as well.

CHAIR - Can I clarify that, minister, on behalf of the committee and the people over there who gave us evidence? I don't recall anyone suggesting they wanted to sell cattle to the mainland for meat. There were people selling cattle to the mainland as stud bulls. To offload a bull or a number of bulls and house them on a dock is fraught. There was no suggestion of that. The other ones who were really keen to direct ship to the mainland of Australia were the sheep growers because they can't get them slaughtered in Tasmania. In fairness to the producers over there -

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Mr HIDDING - Thank you for that because that is at odds with what they have been telling me directly. This has not been a matter for this committee to comment or adjudicate on, but quite a number of individuals over there and growers have said to me that they would like the facility to be able to sell to the mainland as well to moderate prices. I understand that. However, the two major customers, which is 80 per cent of the freight task, want 100 per cent of their cattle onto the Tasmanian mainland.

CHAIR - Which could well change if an abattoir is built, particularly an export abattoir.

Mr HIDDING - Of course, on the island.

CHAIR - The freight task would start again and then competition will kick in and Greenham's and JBS Swift would have to be very competitive.

Mr HIDDING - The reason I made those calls this morning is that I am painfully aware, in the case of JBS at least, that they continually engage with the government on concerns for their abattoir. I have told them straight to their face that I do not mind putting it on the record. It is an abattoir in need of upgrades and we are trying to encourage the Brazilian owners to spend a deal of money on that abattoir.

I am not sure when Greenham's last had a lot of money spent on it. Both those operators have big and very flash operations in Victoria. This government is keenly aware we need to support the two abattoirs in Tasmania because of all those jobs. If you are telling me you have not had evidence that people want to sell processing beef to the mainland, well, that is -

CHAIR - I do not recall anyone saying that.

Mr GAFFNEY - No, the other one with the live cattle trade was to fatten up their stock. They like to buy them from Victoria and direct them straight to King Island instead of doing the three rounds. With the bigger bulls that cannot be processed in Tasmania, or the stud bulls, there were a lot of issues where they do not have that direct line. It was the large bulls that had to be processed in Victoria having to go via Tasmania. Being held in Tasmania was one of the issues.

Mr GARCIA - Which they always did, Michael.

Mr GAFFNEY - Yes, but it was one of the issues, they were trying to say. The other one was the stud bulls that they wanted to go; they had some issues with that.

Mr HIDDING - If you were to, let us say this next interim vessel - I ask questions as they are down to two ships: can they triangulate? Yes, they can. Are they are going to triangulate every way or butterfly, or are they going to do that and that? They have to do it - and we see what ships cost to run - in a way that does not break the bank. It actually becomes commercial.

Let us just look at the cases that you have put forward, for instance with the stud bulls. They always used to go on *Searoad Mersey*. Half of them went on *Searoad Mersey* and stayed on the ship overnight, which was the secret.

Mr GAFFNEY - They were not offloaded. That was one of the things.

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Mr HIDDING - I have the strong expectation that the next ship to come would not be transshipping. Understand? It will be of a size that, when it has that kind of freight on board, it stays on board in Devonport overnight and heads off the next morning to Melbourne, where it is offloaded.

Bear in mind that many of the choppers and the older cattle that are not prime beef, the other shipping line, Eastern Line, has done most of that for the last few years. In fact, that case where there was a problem off Port Welshpool was an example of them carrying that kind of freight.

And the sheep, incidentally. I feel very strongly for that poor farmer because he has been bruised more by the closure of the sheep line at Longford. It has been 10 years he has been able to ship his sheep directly to mainland Tasmania.

CHAIR - Yes, but these are looking to the future, minister. There is no point buying a vessel that takes us backwards.

Mr HIDDING - Well, except that is not backwards because for the last 10 years it never went from Grassy to Melbourne.

CHAIR - We do not want to go back to making it a bigger and ongoing problem that you cannot solve. That is the point here, isn't it?

Mr HIDDING - If we sailed once a week from Grassy to Melbourne, that is where prime cattle will go. That is the issue. King Island owners of beef cattle will be able to go to other processors in Melbourne and do a deal.

You can explore this with BIL, but I doubt whether a commercial shipping line will be able to service both outbound. Inbound, triangulating the way it has been for the last 10 years, is doable. I have never heard the term 'butterfly', but that is interesting. I doubt that is possible, but it is entirely possible that it could be once every three weeks or so.

CHAIR - And turns around and goes the other way.

Mr HIDDING - Yes.

CHAIR - There are many ways to approach the problem.

Mr HIDDING - That way if somebody needs to move some horses or some stud bulls or what-have-you, you say, 'Right, on the 30th of next month we are doing a transverse sailing.'

Mr GAFFNEY - I think that is what some of the quality breeders say; they are quite comfortable with being able to say 'Yes, on that day'. They were finding when they were being offloaded in Tasmania that it could be a couple of days before that stud bull actually got to its destination and that was where they were having the trouble.

CHAIR - There were also problems with the other cattle.

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Mr GAFFNEY - They were not having the trouble. They were not having an issue as long as they knew if the stock was picked up, it would be there and not sitting for however many days it has.

Mr HIDDING - I would not be at all surprised. With the next interim vessel, much of this stuff can be sorted.

CHAIR - Some of these bulls are worth \$20 000. If we have to euthanise one of them, it is not a good thing for anybody.

Mr HIDDING - No, that was a very bad outcome indeed. We are aware of it and obviously we would want to do everything to avoid that.

Mr GAFFNEY - To the credit of people who owned that bull, they knew the reputation of the island was really important too, as is the brand, so they did all they could to make sure it was in house. The people who had suffered the loss at the other end were well compensated as much as they could to protect their future.

Mr HIDDING - One of the things I did not drill right down into with these two major cattle processors on the island here is that they both mentioned our brand - we need to protect our brand. If they had cattle going that way and this way, the King Island brand would be all right, but Cape Grim brands and things like that, where possible brand means everything. If it is processed in Tasmania, grown on Tasmanian soil, processed on Tasmanian soil that is the best outcome for a brand.

Mr GAFFNEY - I know you have spoken with the owners to try to get them to upgrade their facility. They did say quite a few of their stock, the bigger bulls, cannot be serviced here in Tasmania. For those bulls, if there was a one in three week, and it was too big, it is silly to take them here and hold them and that would be where they get into the market.

Mr GARCIA - I think it will come out more when you talk with TasPorts this afternoon; it will all depend on the service offering. I do not think you are going to find the shipping company will run a service just because that is how they feel like running it. They are going to want to respond to what the market is. If that is a one in three or one in four or every day, if that was possible, that is what they would do. You are probably aware from the island that there is a cost tolerance. There is a price tolerance. A commercial operation has costs associated and can do many things, but it will need to cover its costs. If that leg can be intermittent and there is a cost arrangement suitable for people on the island for meeting the cost of the shipping, we will have a happy marriage. If it is a circumstance where we demand this happening here and there is not sufficient to do it, it is not commercial. There can be an element of support but you simply cannot keep on underwriting it.

CHAIR - These are people in commercial operations who understand.

Mr HIDDING - We found on the island people understand themselves what things cost and nobody has their hand out for a direct freight subsidy forever. They are very commercially oriented; they understand it and for that reason are good to deal with.

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I am confident, particularly in the hands of Bass Island Line, that everything will be explored. If it was fully commercial, there is a bunch of stuff they would not do but, BIL, given it is in public ownership, is giving it a crack to see exactly what it is best for the island and is moderating cost.

When we get to November or early December in Estimates, you can ask them about what it cost; you can ask me today if you like.

CHAIR - I was going to ask you today how much it has cost. It is a cost to the taxpayer.

Mr HIDDING - It is. It is a lot of money.

CHAIR - There have been claims of haemorrhaging cash, so it will be interesting to know how much it has actually cost.

Mr HIDDING - It is certainly a lot of money, but you do not start from scratch with a business where you are limited to the previous cost structure from a shipper that was triangulating and adding it into a run he was already doing. We were forced to start from that. In fact, I asked BIL to start with that cost base. Whatever they were paying before, let us start with that, even if we lose money. The answer was yes, because we wanted to establish the service first to find out precisely what it is will make that island sing and then get the ships right and then consider model of ownership and operation.

CHAIR - How much does it cost the government to run BIL?

Mr HIDDING - It has cost TasPorts; what it has cost this year will be in its annual report. You can ask them this afternoon. It is in the order of \$1 million or more. When you have to grab the only available ship, you are paying the only available price. You are not in a good shape to grab anything cheap because it has two crews and it has been running backwards and forwards. There were a few weeks where essentially it never switched off. As soon as it was loaded, it was heading back again in the middle of the night. BIL and their crews did a sensational good to get the fertiliser on the island at the time. While there was concern, the major players rang me in the second week of June to say they were very warm at the performance of BIL. They admitted they had concerns, but they were delighted they had all their fertiliser over there and on to the ground.

CHAIR - In terms of cost, minister, I am sure you read all the submissions. The King Island Beef Producers Group stated that the shippers of King Island were assured there would be no rate increase with BIL for the interim period of the *Investigator*. They went on to say that has clearly not been the case.

Mr HIDDING - If you would not mind, ask BIL about that. I asked them to start the business at the price people were paying before. It was a little difficult for them because they reported to me there were all kinds of stories as to what they were paying before. If somebody was asked 'What were you paying before?', they could well low-ball it somewhat. They got hold of some invoices and set their prices based on that.

Mr GARCIA - Minister, I think there were also some costs the island was not paying before. For instance, if you were coming from Grassy to Devonport, things stayed on the ship overnight and went the next morning. When you bring them into Devonport now, you have to pick them up

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and put them somewhere else. There is a cost associated with that. During the SeaRoad process we wore that cost. We wore the cost of that as government. When TasPorts came on, there was a cost to them of having to put that on to another vessel so that has had to be put into the price. That might be the one additional area that could show up as an additional cost.

CHAIR - Container hire.

Mr HIDDING - I might correct that because the transshipment costs were absorbed. You will find that out when you ask BIL, but the wharfage costs are applied in some. It is quite complicated how they do it.

Mr GARCIA - It is operational.

CHAIR - Just something apparently you said. According to Mr Philbey in his submission -

Minister Hidding stated the backlog of fertiliser was a result of other vessels that had traditionally helped to meet the island's fertiliser needs during peak season being absent this year. This was not and never has been the case.

Mr HIDDING - I warmly remember a conversation with Les Dick because I wanted to know where the fertiliser was coming from. He described it graphically to me with the wharf at Geelong, where he went up and picked up the fertiliser and brought it to the island. That may well have been two years ago. In my time working on the shipping thing, I recall speaking to the owner operator of LD Shipping about transshipping. Mr Philbey, if he does not remember Mr Dick ever bringing fertiliser in, I will accept that. I was of the view LD Shipping was carrying fertiliser. When we would have sought some assistance from him, he was off the water entirely and in hospital.

Mr GAFFNEY - Minister, when you get an opportunity to read the *Hansard*, there was the scenario you put forward regarding the fertiliser and people being comfortable about it arriving in June. It was pointed out to us they were wanting it on 1 April and there was an eight-week delay in getting it. They might have been pleased they eventually they got it, because they had ordered it three weeks prior to 1 April and it took so long to get there. This meant the productivity from the lack of that fertiliser impacted their bottom line. They went into that most clearly in one of the transcripts.

Mr HIDDING - I look forward to reading that, but I point out it was in the transition period when the *Searoad Mersey* was actually running.

I know of some major property owners over there who had all their fertiliser in that time, knowing a little ship was likely to arrive and was going to struggle with this task.

It was far from ideal. I am not sitting here saying anything was ideal over all this stuff. What would have ideal is that the previous service had not stopped, but it did. With the collapse of the commercial option, for a government-owned enterprise to have to step in and set up a commercial shipping line is a major endeavour. They did a great job. The fact that they have not lost more than they have is also a credit to them. They have kept the economy going over there. I accept all the anxiety - this is a thing with islands, particularly with a shift from the kind of service they

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were getting to the smaller vessel that had to approach three times a week. Island life changes with that rhythm.

The *Investigator*, we are confident, will go this year.

Mr GARCIA - Minister, BIL can probably speak on this matter a bit more in detail later on. One thing has to be remembered in the context of those orders and how the supply chain worked. A party making an order from Tasmania to Victoria is one thing, but then it being in the supply chain, with the shipper knowing that the product is coming, is another thing entirely.

While orders were placed significantly in advance here, BIL, or any other shipper, is not necessarily aware of that product being required to be there until it is actually in the supply chain. Somebody making an order here for 50 containers of something there, when there are only four or five containers in the logistics chain being responded to all the time, the person here is saying, 'What is wrong here? There is a problem here.' The problem can only occur once the shipping company has been made aware of it. BIL can talk more about that this afternoon. One of the circumstances is that if there was a deficiency, it was all a logistics deficiency rather than a deficiency in the service that was available. As it happened, once everybody became aware of the issue, every endeavour was made to make that clearance. Once it was understood there was a backlog the shipping company was not aware of, every endeavour was made to clear that and it was cleared, albeit late. Some credit needs to be given for that, particularly when the shipping company was not even aware that orders had been placed.

CHAIR - If you read the transcripts, you will see - and we will have TasPorts people there so they will know what was said - that there will be another run in September, pretty soon, when the next huge demand for fertiliser comes again. One would expect they would anticipate it this time and we would not see the same delays.

Mr HIDDING - What Mr Garcia was talking about was the net result of not enough containers in the supply chain. It used to be one visit a week so you only needed so many containers.

It was TasPorts itself that found 20 extra containers, which are expensive to hire every week. They inserted it into their customer supply chain.

CHAIR - Then the customers pay the hire fee for those, which is an additional cost, so we were told.

Mr HIDDING - Okay, but I do know TasPorts said they knew what the problem was, so they were going to find these containers and insert them. On a number of occasions we had questions in the House about stacks of containers being left on the wharf when not one container was left on the wharf and there were only 16 on the ship that was sailing that night. They just were not in Devonport to ship.

Let me be perfectly clear: there was nothing ideal about the whole arrangement. What is not in question is the commitment of TasPorts and the BIL crews who worked extraordinary hours and very hard under a fair bit of pressure to do what they did.

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CHAIR - Minister, can I ask more of an overarching question? Why did you instruct TasPorts to take this up rather than TT-Line, which actually runs a shipping service now, and do a Bass Strait run?

Mr HIDDING - TT-Line is part of the solution because a lot of the transship stuff goes on TT-Line rather than SeaRoad.

CHAIR - That then strengthens my question: why wouldn't you just ask them to pick up the extra?

Mr HIDDING - Essentially, TT-Line runs two very large ships for passengers and some freight. For them to stand up a completely separate service would have required the acquisition of a bunch of new staff. All their staff are flat out on this stuff whereas TasPorts had the management and the people in their operations elsewhere to set this company up. We spoke to both of them and they essentially agreed to the structure of TasPorts doing it - bear in mind most of the senior people in there are senior shipping industry identities in their own rights so they know shipping.

CHAIR - The same can be said about TT-Line, surely?

Mr HIDDING - Yes. A lot of this shipping task is about ports and handling, and that is what TasPorts do. Between TT-Line, TasPorts and us, TasPorts was asked to set it up. I would contend they have done a good job. We will see whether this committee agrees with that or not.

CHAIR - I have one other question on the ships, particularly the so-called fourth vessel, even the third for that matter, but particularly the fourth, the one that will be the longer term solution -

Mr HIDDING - I am not saying it will be, but -

CHAIR - Well, it is aiming at being -

Mr HIDDING - Aiming at being, yes.

CHAIR - a more long-term solution. Is consideration being given to passenger transport as part of that, and to passengers with cars?

Mr HIDDING - Yes. Not as a ferry you would stick 20 cars on and have a bunch of passengers, but these kinds of island vessels generally have accommodation for, let us say, eight or 10 people; it is generally 'look after yourself'-type accommodation - bring your sleeping bag - and there is a mess-style kitchen as well. I had a good look at all that with the PSV option because that style of vessel has about 12 cabins. It could have accommodated 24 people. Generally, on these kinds of island supply vessels, they actually call it 'truck driver accommodation', but in King Island terms that would be accurate, it could well be the beef guys going over with their cattle or they live on an island -

CHAIR - Do you mean motor homes and golfers with lots of luggage?

Mr HIDDING - Yes, sure.

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CHAIR - Mind you, you probably will not get 10 000 of them over at once.

Mr HIDDING - But if you get an 80-metre vessel, that is a lot of deck space. It would only be once or twice a year when that would be full. If you have that kind of space, particularly if the ship is prepared to fill its deck, I reckon there would be some pretty good deals going for getting your cars over and back, particularly for residents. If I was running the service myself and it was commercial, I would be offering special island rates so people would be buying cars and things and shipping them over.

CHAIR - One of the things that has been raised - not so much with the committee but certainly with me as the local member - is the concern about open decks with bringing new cars over. They get rusty pretty quickly on the island anyway because of the nature of being near a very salty sea. Is the capacity to have cars covered something that has been prioritised in looking at the new vessel?

Mr HIDDING - Certainly. In the work that Thompson Clarke is doing, the carrying of motor cars and other sensitive freight such as that - equipment, for instance, graders and tractors and things like that - will all be taken into consideration in the design of the ideal ship. I think islanders can be pretty confident we are about to have a conversation about what the ideal ship is - for 20 years, too, not just for the next five years. Because they have enjoyed a service for the last 24 years; I think they need to be looking at something probably for the next 20 years.

CHAIR - But the freight task will change.

Mr HIDDING - Yes. Even if the abattoir is built over there, there is still a lot of shipping of those goods.

CHAIR - And there will still be animals going on and off.

Mr HIDDING - Yes. There will still be a very substantial freight task.

CHAIR - You were going to talk a bit more about the ports perhaps. There have been a lot of comments and questions about the various ports and their capabilities; Grassy Port is one.

Mr HIDDING - Did you have a look at that?

CHAIR - We had a look at it. We also had a look at the King Island scheelite mine next door and had a hearing with the chair of the board. They need a reliable service to get going as well as a decent tungsten price. They would have overburden that they could assist with in the port upgrade, but they won't have the overburden until the shipping service in place - it is a bit of a circular argument. We'd like you to comment on Grassy Port. It would be long-term intergenerational infrastructure that would be quite a low price if it is amortised over its life of its usefulness.

The other one I would like you to talk about is the wharf at Stanley Port and the capability there. Also, for Grassy Port, the capacity for a crane. We understand from some evidence we have heard that the dockside there is not capable of holding a crane of any size.

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Mr HIDDING - A general comment on ports but you are about to get the port company in this afternoon so on the technical arrangements you could pass those to them. Grassy Port is in the Tasmanian infrastructure list - \$60 million to \$80 million is the price that would have you putting a new wall out and removing the existing wall there. No matter how you cut and dice that, for the projected freight task for King Island that can be handled by a 80-metre or 90-metre vessel in the current port, there is not a strong case for the next five or 10 years to be spending \$60 million or \$80 million. But it is a live issue; we are aware of it. We are aware of the overburden issue, you would want to have the options with the overburden if scheelite started up again. It is a live matter for Infrastructure Tasmania.

CHAIR - They have a use for the scheelite; with the overburden they can reclaim some land out the front. You can always reclaim that; it could be for a breakwater.

Mr HIDDING - For the current projection of freight task for the Grassy Port - as far as we can see that is 10 years - an 80-metre or 90-metre vessel is going to do that standing on its ear, you would think. At Stanley Port, we are getting some complaints from trucks in the middle of the night with cattle and what have you. Circular Head Council wrote to me some time ago and said they would prefer it to be the King Island port. If you explore with TasPorts the strength of the port itself, for general freight, using heavy forklifts with 40-foot containers is a stretch beyond its capacity. We understand it is fine for trucks with the number of wheels they have and the cattle on it; that is working. It is not one of our major ports, but it is very close to Greenham's.

CHAIR - It is the shortest distance and most sheltered waterway to King Island.

Mr HIDDING - It would be great if it was one of our major ports because you could have it all from there. Because it is not a general port, it is Burnie or Devonport. Devonport appears to be the easiest one to accommodate that, given that Toll currently use their ro-ro berth in the way they do.

CHAIR - There is no ro-ro berth at Burnie, I understand. Is that correct?

Mr HIDDING - There is a version there - apparently it needs work - but it is used by their ships. In terms of other ports, SeaRoad used Webb Dock, which is closer to the city but it is extremely expensive and SeaRoad still uses it. For a little island ship to go in there, there is no space anyway because the SeaRoad -

CHAIR - It's a bit like a Rex plane going into Melbourne Airport. We feel quite safe.

Mr HIDDING - The triangulating port would likely be Geelong. It is a nice port in Geelong but it is actually the same distance as going up into Melbourne because you have to go all the way up and then all the way back into Geelong. That is where the fertiliser is so it would be an ideal one, I would have thought.

CHAIR - You can understand when the people on King Island are paying \$160 a tonne for fertiliser landed while Flinders Islanders pay \$60, and that is handled six times.

Mr HIDDING - But that is a function of a quirk in the freight equalisation scheme, isn't it?

CHAIR - It is a bit hard to understand entirely why it is.

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Mr GARCIA - That is part of it.

CHAIR - The way it also goes to the depot and is despatched from the depot rather than having to be double-handled on the port is something. It is pretty apparent that if you want King Island farmers to be productive and maximise their returns, which we would hope as they are Tasmanian farmers, this would be something we seriously looked at to try to reduce those input costs.

Mr HIDDING - Yes, that is something for when the dust clears from getting the next ship on board. I would like to think we could get a better vision as to why that is actually happening - what the quirks in the Tasmanian Freight Equalisation Scheme are. That is an ongoing process and we will watch that closely.

Mr GAFFNEY - When they are talking about differences in the freight, interestingly the islanders - and you know this already - potentially would like to expand. They just do not have the cashflow flexibility because of the freight and the unreliable service at this stage. It is hard for them to plan for the future. People were saying they have 500 head of cattle, but they want to run 1000, but 500 head is what you need for one full-time job, so it is hard to put on a second person. It is all relative to both the security of a reliable service and charges so they can make a profit and plan for the future. The disparity between their freight charges and that for people on another island is a concern.

Mr GARCIA - I think we will look at this, as the minister has indicated. That fertiliser that is going to Flinders Island, I am not sure that is coming from Melbourne into George Town over to Bridport over to there. It is not going as bulk, it is going in bags.

CHAIR - It is in 1 tonne bags.

Mr GARCIA - That is going in bulkers and yet the other stuff is being delivered in containers and it is coming from Melbourne. It could come from Sydney; it should be cheaper.

Mr HIDDING - It should be cheaper.

Mr GAFFNEY - That is what they pointed out. They said they were doing 25 tonnes compared to 1 tonne.

Mr GARCIA - That is right, but I think the issue there is it is not just about the freight. We need to get to the bottom of that, and I think we can do that.

CHAIR - If you have any other information you could shed light on, minister, it would really help because this is one of the key questions we cannot get the answer to. Maybe TasPorts can help a bit.

Mr HIDDING - No, well, that is a market situation, not to put too fine a point on it. If you find somebody on Flinders Island who will show you their invoices that would be - why would they?

Mr GAFFNEY - They do not want it to balance.

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Mr HIDDING - Exactly.

CHAIR - They suddenly find they are paying \$160 a tonne for delivery. They will not thank you or me, I reckon.

Mr GAFFNEY - I did not say that, you did.

CHAIR - They will go to their local member.

Mr HIDDING - Ordinarily, I would say to someone, 'How come you are buying it so cheap?' - 'Cheap? What do you mean, cheap? I am paying much more than that.' You understand, it is competitive and it is not very easy.

CHAIR - Not according to Incitec Pivot.

Mr HIDDING - No, I am sorry, what I am saying is it is a competitive environment to get clean information out. It is not that easy.

Mr GAFFNEY - Ruth had a good conversation with one of the locals there. It was just not about the product; it was about building a house - for two doors worth \$40 each, he was paying \$110 freight. The freight was double - it is that sort of thing.

CHAIR - If he could have bought 3000 doors, it would have been less per door, but he is not building 3000 houses at the moment.

Mr HIDDING - That general freight goes through a local on-island group and that is something - anyway, that is -

Mr GARCIA - There is a whole-of-supply chain issue.

Mr HIDDING - You are the local member; you'd know who they are and what they do - they are the ones who do the charging.

CHAIR - Minister, we do not have a lot of time left. I appreciate that. There has been a lot of speculation and comment and another word I cannot quite think of - rumours perhaps - about Port & Coastal Marine Services and what actually happened. You alluded to it briefly at the outset. Comments have been made publicly, and privately as well I guess, about a number of reasons why Port & Coastal Marine Services did not proceed, one being that it needed to have some guarantee for its loan with the bank and the government refused. Can you comment on any of those comments? Some of them are public, in the submissions, and people's suggestions.

Mr HIDDING - I guess it is an awkward situation. I can only give evidence on what I know. I am the first point of contact when Infrastructure Tasmania was dealing directly with PCMS but I had a personal phone call or email where the person we had been dealing with for a long time was distressed. Not only had the company lost a lot of money, he was very keen to run the service. There was no question put to me about the government inserting itself into guaranteeing a bank loan. In any event, that process in government, you would understand, having to go through the TD board and those kinds of things, would take months and months. If a bank has withdrawn

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their loan option, it would have done so for a good reason. Bear in mind they dropped from a 100 per cent freight commitment to some 60 per cent freight because one of the shippers pulled out. The business case changed completely.

CHAIR - Not one of the shippers, one of the producers.

Mr HIDDING - One of the producers, Greenham's, pulled out. When they finally went to sign for the money, they said, 'Is this still a business case?' - 'No, it is not. This is now the revenue.' That is when they pulled out. No matter what we sign, if you were to sign some sort of government guarantee, you would be risking government money, just like the bank didn't want to do.

CHAIR - I am not saying it is right or wrong. I am just asking the question.

Mr GARCIA - To add to that, there were revenue and cost issues as well. For PCMS, which had got to the point of almost taking delivery of their vessel, they were in negotiations with SeaRoad to provide a joint venture on that run. It is fair to say that the principal, being PCMS, was unaware of some of the cost structures associated with that arrangement. I am not suggesting for a moment that one company was trying to strongarm another, but I think there were some unforeseen costs in that process that, with their revenue pressures and some of the cost pressures they were likely to face, there was a realisation on the part of the company that it was not going to make it. It was going to come into a circumstance where from day one, even if it could bring the vessel, it was probably going to struggle to operate. It is fair to say there were a combination of issues that ultimately saw the company saying to the Government, 'Sorry, we can't deliver that service'.

Mr HIDDING - I won't name the bank but I was told direct 'That bank has pulled our deal.'

Mr GAFFNEY - Which bank?

Mr HIDDING - No, not that one. As soon as I said that, I knew I had said the wrong thing.

CHAIR - What was the partnership with SeaRoad and Port & Coastal Marine Services to achieve?

Mr HIDDING - When we got to the sharp end of all this, PCMS realised that it would be going to do the direct Grassy-Melbourne run and therefore they had to transship everything. If they could do a deal with one company that was going to be going direct to Melbourne which was going to be right next door or even in the same port, that is terrific. Otherwise you would have to be carrying stuff to Burnie to go on a Toll ship. It was something I had suggested to both of them right at the very start. 'Why don't you two guys get together and stop being at loggerheads or at distant paces? Get together and work something out between you.' They did. I congratulated them, but there were unforeseen things there that contributed - that may well have been overcome if they hadn't had the revenue losses - to the whole thing collapsing at the last minute.

CHAIR - Port & Coastal were looking at a ro-ro in; they were not looking at one that relied on cranes?

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Mr HIDDING - It was a PSV - platform supply vessel. It had to get the long, flat rear deck - the back end of it - altered for drive-on, so that is ro-ro. We were making a contribution to that in a shared model with them. We always said to all proponents that we were prepared to talk to them about preparation of a ship to ease them into a service. We were ready to go with that. The ship was going to call into Singapore and get that job done in about a four-week period and arrive with its new tailgate assembly on and start the service.

CHAIR - The third vessel, the one that is going to be the interim between that and a more permanent solution -

Mr HIDDING - The final interim, I guess.

CHAIR - Is that likely to be a two-year charter rather than someone buying a vessel for this?

Mr HIDDING - That is up to BIL. They are coming to talk to you this afternoon. My guess is it will be a straight-out purchase because it is expensive to charter. We found that with the vessel it cost a lot more and -

CHAIR - Then on-sell it afterwards once they get out of it?

Mr HIDDING - Yes, BIL has a large fleet of vessels, they could buy one and put it back on the market when it is no longer required.

CHAIR - Convert it to a new police boat or something.

Mr HIDDING - A Bruny Island ferry.

CHAIR - It might get across Bass Strait twice rather than once and a half, minister. That is not such a good thing for your police boat, or you can call into King Island.

The minister has to finish up. We have run out of time on this occasion. There are other things we will write to you. Do you have any closing comments you would like to make?

Mr HIDDING - I don't think so. I think we have covered it all. We still have five or 10 minutes.

CHAIR - Actually, we have a few more minutes, sorry, I thought it was a quarter past we had to finish, but it is half past, when the bills ring.

Mr HIDDING - I have a bill on so I cannot get caught here. My final comments would be that we absolutely accept that changing from something they had for 24 years - one big vessel there once a week - to a smaller vessel arriving basically just in time for one of its biggest fertiliser seasons in history disrupted the islanders' routines. I think there was a bigger season here a couple of years ago but it was just bad luck, I guess, that it was a huge fertiliser season. I have congratulated BIL for what they have done but that is not of any comfort to the islanders for the disturbance to a routine they had for years.

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For this next vessel, the search is down to two ships. I do not know what they are. That is fully commercial and needs to stay that way. I look forward to advice on that and being able to advise the parliament on that when that is available.

CHAIR - Do you have an expected time frame for that?

Mr HIDDING - As I said, I am talking about this calendar year. I am indicating to the committee that we will be seeing the back of the *Investigator* this calendar year. That means the conclusion of dealings, any fixings of the ship and getting it here from wherever it has to come, should be able to occur this calendar year.

Mr GAFFNEY - Minister, has what you have explained to us today been relayed to the people on the island? Are they aware of some of the things you have said today?

Mr HIDDING - No, because this is live information as of a day or two ago. Because TasPorts is coming to see you and I am coming to see you, to sit here and pretend I know something and pretend I cannot say anything; I have told you what I know. BIL is going to tell you what they know and what they can tell you within normal commercial bounds. It was an opportunity to update the parliament through this process today on the fact that this international search has finally zeroed down to two ships.

Mr GARCIA - Minister, it would be remiss to go without saying that, of course, we have had plenty of people who have been willing to help us through this process. We have had many representations from brokers, from people who have found a vessel, who have a vessel, any number. In the main, since the time we identified TasPorts as the entity to run the vessel, we have directed them mostly that way to see if there was any fit with what it was TasPorts were doing. If somebody had a vessel and it could be made available, we wanted TasPorts to assess it.

Those brokers who said, 'Boy, have I got a deal for you', we passed onto TasPorts. We have tried to be fairly clinical in that approach in trying to ensure there is a one-stop shop and, if you will - I will call it an assessment - a review process. In that regard, I know a number of representations have been made to you by people who have had things to us. After the initial process we have never gone to the market to ask anybody else. We have never seen a full-blown proposal; a number of these players have indicated they can do this type of thing. We have not seen a full proposal. How have we treated those? How have we managed those? We have diverted them to TasPorts. They, as the would-be operator and now the operator, have taken those issues on board to see if there is any fit with their processes.

CHAIR - One of the concerns is for people out there who think there may be a chance for them to get in and provide a service, doing a lot of work in trying to find solutions and perhaps not being engaged in this process and being kept up to date if TasPorts has a solution. When they have a solution, you do not want people still out there spending money trying to work toward a solution that is not going to be accepted.

Mr HIDDING - No. TasPorts are telling them exactly where they are at. It is cards on deck, to a degree, bearing in mind that these people see some sort of commercial window - 'We want to pay them to go and do it.' The point is, when we did go to the market, a lot of them looked and realised that it was nowhere near as easy as it looked on the face of it, which is precisely what it proved for PCMS, who were the most motivated people and who run a business now out of

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Sydney. They were very keen to get into coastal and island shipping. There was no-one else remotely in that league the way it turned out.

CHAIR - It seems there are people out there who are doing stuff anecdotally and even today, from the evidence, who perhaps think there is a real opportunity there for them. Maybe there is not. TasPorts, and we can discuss this with them, needs to be forthcoming with some clear advice around this.

Mr HIDDING - I do not think anyone is being led astray. We are indicating that for now, the state Government has established a service. We want to get it to a point where we could consider the government withdrawing from that and transferring it to a commercial operation. The way to do that is to run a very good, very tight government-owned business to encourage a commercial operator.

CHAIR - Your desire is for a fully commercial operation, not a government-run business?

Mr HIDDING - Yes, ideally. It worked very well as a commercial operation for 24 years and you would really want to put it back to that if you can.

CHAIR - Thank you, minister, Alan and Richard. We appreciate you making time available, particularly on a sitting day.

Mr HIDDING - If there is any further information, you are welcome to write to us and we will provide that to the committee as well. Thank you so much for your time.

THE WITNESSES WITHDREW.

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Mr PAUL WEEDON, CHIEF EXECUTIVE OFFICER AND **Mr MATTHEW JOHNSTON**, GENERAL MANAGER MARINE SERVICES, TASPOTS WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Forrest) - Thank you for coming. We thank you for your submission. There is obviously a great deal of interest in this, particularly from King Island and other parts as well, shipping entities et cetera. We have already received your submission, but we invite you to speak further to it and then to add any further comment. We will have questions for you following that.

Mr WEEDON - Thank you very much, Chair.

I would like to open my comments by backgrounding who TasPorts is. We are a state-owned corporation formed just over 10 years ago by an act of parliament that obligates us to facilitate trade and to act commercially. At the same time, we are also a company registered under the Australian Corporations Act, which brings directors' fiduciary responsibilities and a strong obligation to act commercially and in good faith at all times.

We have had a long involvement with King Island, primarily as the owner of the port through an acquisition by the old Hobart Port Authority that predated TasPorts. Since that time, and since my involvement from 2010, we have worked pretty hard on getting the King Island port infrastructure right, making sure there is a structured program of reinvestment in the port and that port charges reflect that investment, and a sustainable approach to managing the port and related services on the island.

A little unusual for port companies, we are also involved in fuel distribution on the island. Our primary activity there is to be the fuel provider for Hydro. They consume fuel in the production of power and they are our major customer. Because we developed storage and transport infrastructure, we have also acted as a supplier to the wholesale market for fuel on the island.

I think you know, and have had much evidence in respect of, how TasPorts, through Bass Island Line found itself in the startup of shipping services to the island. It is not a traditional business of the port, but it is something we responded to at the request of the government to set up a service to ensure a sustainable sea link between King Island and Tasmania.

I put on record the credentials of our organisation in seeking to do this. My personal experience is primarily in the operation and management of shipping and logistics companies. I spent 28 years in that field operating a container shipping companies, roll-on, roll-off shipping companies, working both here and abroad.

Some of my key colleagues have had a similar background. Kevin Moore, who I am sure you have heard me mention in despatches and evidence, like me shares over 28 years' experience in container shipping and liner shipping services, working for ANL. We worked together at Wallenius Wilhelmsen for a period of time.

My colleague, Matthew Johnston, has a long experience in stevedoring, running stevedoring operations for the old port of Hobart.

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We have other key members of staff that have extensive experience with Swire, Toll and Linfox, all operating shipping entities.

We felt we were well placed in terms of knowledge and experience to be able to take on the challenge from government to set up a viable, sustainable shipping service.

We acknowledge that the service startup was challenging. We had very short notice to be able to find a ship, set up a service and get it running.

I have, in my career, set up 14 shipping services around the world and each one has taken probably not less than six months in duration. We had about 12 weeks ourselves to get this up and running, and while we were aware of the possibility of being called on to set this service up, the reality happens when the decision is made. I think we moved quickly and responsibly to deliver that service.

I am also aware that there is a lot of focus on the cost of freight onto the island. I will leave that for a discussion of questions from you. It is important that we differentiate and clearly state that our role is the provision of a port-to-port shipping service.

There are, in any supply or transport chain, additional costs which we are not in control of. We can talk through questions as those come.

I know there is also much question and comment about the potential for a new vessel. We have been very clear that the *Investigator* was the best available vessel in the time we had to get the service up and running. Really, since 7 April when we started the service, we began a simultaneous global search for the next vessel that would be more appropriate for the trading for which it would be deployed. That search continues. I am pleased to say that, having a considered over 20 candidate vessels in the six months since 7 April, we are at a point of entering into commercial negotiations on two possible candidates. We hope to land those commercial negotiations in the next month.

The ultimate determination of the vessel, though, will drive what we are able to do with any service upgrades. I know there is discussion about potentials for a triangulated service across Bass Strait and how that compares with transshipment service via Devonport. Those are all good discussions to have and I am happy to take any questions around that. However, we are at a point where ultimately the ship will have a large bearing on what service we are able to mount.

Finally, it is important to recognise that the freight task onto and off King Island is a challenging one. It has very small volumes, even in an Australian context. It is a very diverse freight challenge in terms of the major cargoes that are moving. The way the flows move on and off the island is also diverse, which makes the ultimate solution and the commercial sustainability of the solution particularly challenging. We are very focused on getting a good, sustainable outcome that will support the island and will ultimately put us in a position to re-engage with the private sector around its potential involvement in a solution going forward.

CHAIR - I do not know how much you been watching or reading, and I know you had some people there on King Island to investigate.

Mr WEEDON - We did. Unfortunately, I have been interstate so I have not seen too much.

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CHAIR - I am sure they would have taken you through the key themes.

Mr WEEDON - I have had some summaries, yes.

CHAIR - From the island's perspective, it is clear there is a strong need for a link with Victoria, at least part of the time, in sending some of the live animals like stud bulls and sheep that cannot be processed in Tasmania, and even bulls that are too big to be slaughtered and butchered here in Tasmania. Also, some of the fertiliser comes direct out of Geelong. The costs are pretty significant with the double-handling, which seems to be a key with the transship process.

What are your priorities in looking for this new vessel? The minister talked about vessels 1, 2, 3 and 4. We have had one, been on two, but you are looking at three and then four a bit further down the track. Particularly for vessel 3 and subsequently vessel 4, what are your key priorities?

Mr WEEDON - From a very traditional shipping company perspective, what normally informs the service that you offer the market is where the predominant flow of cargo is and how it moves.

If you look at the King Island freight task, it is predominantly containerised cargo, all types - fertiliser and grains are key commodities, as you know - flowing from mainland Victoria to King Island. If you look at the flows of cargo off King Island, it is primarily livestock from King Island to Tasmania.

That service pattern, if you could get the right ship, and we are very focused on getting the right ship, would encourage a service that sometimes is referred to as a triangular service that would initiate in Victoria, sail to King Island, sail on to a Tasmanian port, then do a Tasmania-King Island return before then setting back across to Melbourne to start the loop again.

CHAIR - Are you talking about a butterfly service then, as they call it?

Mr WEEDON - You can refer to it as a butterfly service, yes.

CHAIR - That is pleasing for me to hear and I am sure it is pleasing to a lot of people on King Island to hear. Whilst the task is not large in terms of freight, it does vary and has seasonal variations, as you have become very well aware of more recently.

There is an imperative in terms of cost and convenience, and animal welfare particularly. It could change significantly if an abattoir or two were built on the island. One is fairly well progressed, which will not probably impact the outward flow of cattle significantly in the short term, but certainly might improve the productivity if a number of wallabies were removed from the island. You may see more cattle being shipped off. That is something that has been requested.

The other aspect that has been of concern is cover for vehicles - to prevent sea spray on vehicles, tractors and other farm equipment, that sort of thing, as well as the nature of the vessel, whether it is roll-on, roll-off or use of cranes. We did hear that the Grassy Port cannot manage a

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large crane. If you could reflect on those and the vessel capability, and perhaps then we will go to the actual ports in this region that TasPorts are responsible for.

Mr WEEDON - Certainly, in the context of setting up a needs analysis to frame the type of ship we are looking for, the characteristics we are looking for are a vessel that has appropriate capacity to fit within the existing port constraints and to manage the cargo task, both seasonally and on an annualised basis.

It therefore needs to have sea-keeping characteristics that will allow it to operate across the challenging sea conditions in the strait and in the challenging sea conditions we get off Grassy Harbour. Sometimes the two are not necessarily linked. You can come across Bass Strait easily enough and find you have a chop off Grassy that would require you to hold position for a period of time before you could enter the port. They are the fundamental specifications we are building into our search.

We believe there are a number of options in providing undercover or covered storage for vehicles and for livestock. One option is, if you were to find what sometime is referred to a roll-on, roll-off vessel, you may find a vessel with a partial garage that would allow you to park those types of cargo in a sheltered position.

Equally, coming out of 15 years of running global automotive logistic solutions for Wallenius Wilhelmsen, we in that group developed technology to provide full cover on road trailers. We could actually, instead of putting loose cars on the deck, depending on the vessel type we were able to source, find the solution maybe to invest in covered automotive trailers that can be towed onto the ship and provide the requisite salt-spray cover for cars during the transit.

There are always options to find solutions rather than just building an ever-complex specification for the ship.

CHAIR - Do you see that as being an important aspect of the service?

Mr WEEDON - Yes, we do.

CHAIR - That is the key point. How you solve that? There is more than one to skin a cat.

Mr WEEDON - That is true.

Mr GAFFNEY - You have refined the search to two companies that you have mentioned already. It was pointed out to us, even though there could be some issues, that there could be provision for residents or tourists to travel on the ship with their cars, especially those who might be golfers but do not want to fly on a 20-seater or a 15-seater or an 8-seater plane. Is that in the mix?

Mr WEEDON - It is in the mix but it is a low priority. Our main business is mainly about moving the freight on and off the island. A couple of the vessels we looked at had quite large crew complements on board which could potentially be converted for a small number of travelling public. We are certainly not wanting to set up a ferry operation between the mainland and King Island.

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Mr GAFFNEY - But potential for a small number, eight to 10 or whatever it is -

Mr WEEDON - We are talking probably two or three in the vessels we have looked at so far. It is a very small complement.

CHAIR - That is in the interim vessel before the final solution, or in both?

Mr WEEDON - This is the vessel to replace the *Investigator*.

CHAIR - Right.

Mr WEEDON - You also asked a question about cranes versus roll-on, roll-off operations. Different vessels can be operated in multiple ways. Obviously a vessel with a ramp, whether it is a forward or an aft ramp, gives you the option to load it either way. Just because a ship has a ramp does not mean you need to run a road. You can still use a crane operation for those things.

CHAIR - If you have a crane.

Mr WEEDON - If you have a crane and you can manage the cost of that crane productively. The capital cost of cranes is significant. In other projects we are involved in we know that a crane to accommodate this type of operation would be in the order of \$US20 million per crane location plus set up costs. It might require wharf decks needing to be strengthened. The underpinning structures under wharves to host crane rails to allow cranes to operate make cranes compared to fork trucks a very, very expensive option. It is unlikely that a business case would ever be sustainable given the very small amount of cargo on and off the island.

The reality is that using cattle moving trailers, you would still need a road operation so how could you justify spending probably \$50 million or \$80 million on cranes for part of the cargo tasks. The small volume of cargo - the fact that we are prioritising the search for a ro-ro primarily to satisfy the livestock obligations means that's the likely mode of stevedoring operation we would conduct.

CHAIR - I suppose you could put cars in some sort of thing you could lift on with a crane or not - tractors, cars, horse floats?

Mr WEEDON - You can, but it is tricky.

CHAIR - The preference is for roll-on, roll-off for those as well.

Mr WEEDON - The preference is for roll-on, roll-off, yes.

Mr JOHNSTON - The current operation in Devonport uses a mobile crane. So for motor vehicles we have been able to load them with a crane. There is a small ramp, you load the car onto the flat base and then the fall lies levelly and equally loaded onto the vessel, but it is -

CHAIR - And you drive it off that platform?

Mr JOHNSTON - Depending on where it is going. You drive it off the platform once it has landed on the ship's hull. That mode of operation is reasonably slow, but it can be done.

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CHAIR - You are driving other things, so you may as well just drive the cars on?

Mr JOHNSON - Yes, that is right. The model we have been developing is the concept of a completely covered car trailer, the sort that you see running around on Tasmanian roads and you just tow - you can load six to eight vehicles and they are completely under cover.

You tow it straight on behind a tractor and park it up in the stow position and lash it down. It improves productivity, reduces cost per unit and contributes to a better outcome for the cargo as well.

CHAIR - Could a crane on Grassy Port be sustained in its current construction?

Mr WEEDON - Today? No.

CHAIR - It would need significant investment? What sort of cost would that be? Just a ballpark figure?

Mr WEEDON - We have not done that work. It is such an unlikely prospect we haven't commissioned that work.

CHAIR - Can we talk about Stanley Port? We know that the *Investigator* and Les Dick Shipping are going into that port now. To clarify, does *Investigator* offload cattle for Greenham's there and then go on to Devonport to offload the cattle for JBS Swift or are they all trucked from Stanley?

Mr WEEDON - All livestock trailers are going over the Stanley ramp at this time.

CHAIR - The on-road freight costs are obviously not provided by TasPorts - I think provided Hodges and Pages - because they now have a longer distance to travel, are they being subsidised to take the cattle to JBS Swift?

Mr WEEDON - Yes.

CHAIR - Who is funding that?

Mr WEEDON - We are.

CHAIR - Why was that decision made?

Mr WEEDON - When entering the trade we sought to ensure stability in terms of the freight rates being charged. We decided not to handle the Swift cattle through Devonport. We therefore felt it was reasonable commercially to offset the differential cost they would incur as a result of our commercial decision to operate cattle over the ramp in Stanley. We offset that.

CHAIR - When cattle were being landed in Devonport and then travelling to Smithton, was the carrier subsidised?

Mr WEEDON - I don't know. I do not believe so.

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CHAIR - It is interesting. I know TasPorts changed the landing point for the cattle so Greenham's wins and JBS Swift loses. Someone has to pay the road freight.

Mr WEEDON - We are not completely privy to what happens with Greenham's. They don't use Bass Island Line; they use another carrier. That is a matter for them. Our focus is on the Swift volume. Over many years they have worked on the supply chain model predicated on having their cost base moved via Devonport. Because we made the decision to stevedore the ship elsewhere, it was reasonable to offset the additional cost only in that solution.

CHAIR - Is it expected the new vessel will be going to Devonport or will Stanley remain an option?

Mr WEEDON - All northern ports will remain an option.

CHAIR - If the best option were Stanley, would that subsidy continue?

Mr WEEDON - It may do.

CHAIR - What discussions are you having with Greenham's to try to consolidate freight tasks for the new vessel?

Mr WEEDON - We are aware that additional livestock value for Greenham's exists. We know there is a competitive market for that and we are engaged, as we would normally be, in trying to understand their needs and are seeking to put together a commercial offering they would find attractive.

CHAIR - Do you know why Greenham's decided to withdraw from that consolidated approach and go with LD Shipping?

Mr WEEDON - No.

CHAIR - At Stanley Port there are weight limitations, I understand. You can manage the axle numbers for the cattle trucks, but there are issues with fork lifts with large containers. Could you go through that, the challenges associated with that and what would be required to upgrade that port, seeing as it is the shortest distance to King Island?

Mr WEEDON - Stanley has not been a working port for many years.

CHAIR - Until recently.

Mr WEEDON - It was only with the introduction of LD Shipping's service at the behest of Greenham's that a solution was found which would accommodate its specific requirements. Initially, as I understand it, and from a port operator's perspective, the model they adopted was actually loose cattle. They were not even in trailers; they were on the hoof.

The ramp restitution works were designed with the idea that there would be loose cattle walking up a concrete ramp. It was not designed to build Stanley as the next great railroad port

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for the state. If you look at our 30-year plan, we describe Stanley as primarily a fishing and tourism port. We still see it that way. We have real reservations about the potential investment exposure and the viability of operating Stanley as a commercial port, dealing with containers and other things. It is not just the ramp - it is the location and proximity to town, the lack of large lay-down areas where you can then host fork trucks, cargo-receivable delivery operations, where you can provide storage for containers and other things while the vessel is not in port - are all extremely limited.

There are real, hard constraints in terms of capacity, land and infrastructure in Stanley, which we are well aware of and which are part of the consideration on how we might structure the service going forward. At this stage, what we understand is if BIL wants to compete for Greenham's cattle, they will require a Stanley call. That does not necessarily mean we then need to adopt Stanley as the sole port for the service.

CHAIR - No, it could be a call-in port or something. Why was the decision taken to off-load all the cattle even for JB Swift at Stanley rather than taking them to Devonport?

Mr WEEDON - We do not have a workable ramp at Devonport. We looked at the possibility at using No. 3 East, a ramp constructed by TT-Line when it was running the old *Spirit* service to Sydney. Our engineering assessment said that the ramp and the pontoon structure was not appropriate for the nature of cargoes, given the axle loadings on forklifts and trailers. It is a pretty lightweight pontoon structure; it bobs up and down a lot when you put any weight on it, creating an unsafe working environment. For a forklift with a container on the front of it, the axle loadings are 79 to 85 tonnes. That is a lot of weight all of a sudden appearing on a floating structure that is not designed to take that weight. The pontoon actually sinks. The ramp is connected to the pontoon; the pontoon is almost merged under water. You then have a ramp angle the fork truck cannot get up. That is not a safe operation anyone would contemplate.

Clearly, if a vessel solution requires full commitment to railroad-style operations, as the port company we would look at the viability of conducting those operations both in Burnie and Devonport. That would obligate us to provide a large investment to develop the appropriate infrastructure for the ramp itself and to the lay-down areas to cope with the cargo received.

CHAIR - I understand there is not a really suitable ramp or railroad facility at Burnie.

Mr WEEDON - No, there is not.

CHAIR - Is that really an option then for the service?

Mr WEEDON - It is insofar as it is a little closer. It is our major container port so it has connections with other container freight networks which are sometimes useful.

Irrespective of whether we build a ramp and terminal area in Burnie or Devonport, it's a broadly similar cost to us.

Mr GAFFNEY - They were quite pleased with some new equipment - new toys - they received recently. We looked at the fertiliser shed and the condition it is in. They mentioned the cost of pulling down one of the other sheds at the facility. Can you further expand on what you see the vision is for the remaining shed?

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Mr WEEDON - The vision is to remove all the sheds from the working wharf. As you witnessed when you were there, it's a pretty small working area. We see material advantage in clearing all the sheds off the working wharf area.

CHAIR - Including the one the Biosecurity people use?

Mr WEEDON - That has to be inside the port gates. It is something we are obligated to retain.

In terms of fertiliser storage, we have been working with a proponent who is interested in leasing or acquiring port land outside the port gate with a view to developing a bespoke distribution centre for fertiliser. We are very encouraged by that. The negotiations have been on and off, on and off over at least 18 months to my recollection. We are very keen for that project to proceed.

Mr GAFFNEY - Your endgame of the current one, which has some issues, would be to demolish that and get rid of it?

Mr WEEDON - Yes.

CHAIR - Before it falls on someone.

Mr GAFFNEY - That might then again take away the ambiguity for the person who has been on and off, on and off, because it will not be there as an option.

Mr WEEDON - Yes. Exactly. The advantage of having a bespoke fertiliser distribution facility outside the port zone is that it allows the logistics operators to work in any environment their market requires them to work in. If they want to work 24/7, they can choose to do that, if their market wants them to do it.

CHAIR - They don't need access to the port to do it?

Mr WEEDON - By having to go through port access protocols, it does obligate a different way of working that is not necessarily as flexible as to be able to do it outside the port gate.

Mr GAFFNEY - Staying with the port. We had a conversation regarding a holding-lane bay on the road so the trucks can queue up without getting off.

CHAIR - Near where the cattle trucks are.

Mr GAFFNEY - Who do you have that conversation with? How is it progressing?

Mr WEEDON - We might have to take that one on notice. I do not have a current briefing on that.

Mr GAFFNEY - It was raised as a safety concern. There had to be some discussions had with DIER.

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CHAIR - Yes. It is a state government road that goes down to the port.

Mr GAFFNEY - Yes. For a layperson, what they were saying made sense. They did not want to take the trucks off there for the trucks to sit there and wait because of the angle of getting onto the weighbridge and that sort of thing.

Mr WEEDON - Sure.

Mr GAFFNEY - To allow traffic to traverse along the inside of them -

CHAIR - If they had to queue, basically preventing vehicles leaving the port area easily.

Mr WEEDON - I am happy to take that on notice and provide you with some additional detail on that.

Mr GAFFNEY - It was something they raised with us.

Mr WEEDON - I am intrigued there has been no substantial change in cargo flow over many years and why this has emerged as an issue now when historically it was not there. There was more concentration of transport around the weekly, I would have thought.

CHAIR - I will get to that. Let me explain. I will read you something. It talks about the flow around the port and the time it is taking to unload the current vessel. Yes, there are two vessels coming in and out of the port at the moment and they are trying to work to get one unloaded going off until the other one comes in, unloads and reloads and then swapping around.

I understand that the *Investigator II* took eight hours to unload and load yesterday, 7.00 a.m. to 3.00 p.m. Why would that be? The truck drivers tell one of these producers it is work practices at Grassy.

You cannot have too many people on the port. You have said it is not a large working area there. In safety terms you have to control the number of cattle trucks coming on and even trucks coming to pick up empty cattle trailers and containers or bringing in empty containers or taking out full ones.

The time it is taking to unload is impacting. This particular producer said he had truck drivers sitting around most of the day with animals expected to be going out during the afternoon. They did not even leave until after 5.00 p.m.

It was a common theme we have heard a few times: the time taken to unload and load the vessel in Grassy is significantly longer than in Devonport or Stanley.

Mr JOHNSTON - There are two factors. The empty trailers come into Grassy Harbour; we unload the cattle trailers and they go off to the farms scattered over the island. There is a bit of lay time while those trailers are loaded and then come back. Very recently - and you were talking about the new toys - we invested in a further 35 tonne forklift truck, which now makes it two. Prior to that, we only had one forklift truck, so if that was loading or unloading the vessel, it was not then able to do any work on the forecourt area on the wharf. As of a week ago, that will certainly allay those time issues.

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CHAIR - This was yesterday?

Mr JOHNSTON - Yes.

CHAIR - Maybe you would like to check with the operations people as to what is creating what appears to be a quite slow unloading and loading arrangement because you have truck drivers sitting there, waiting.

Mr WEEDON - Essentially you work a two-point operation. One is a forklift truck working the ship, which really does not delay anybody very much. You have a second point, which is your receival and delivery operation, which, if not working effectively is when trucks are delayed.

CHAIR - That is what the claims have been - that that is not working effectively. It would be good to understand more because we heard that a number of times. That seems to be the hold-up, with people getting frustrated -

Mr JOHNSTON - I can only assume the second forklift truck may not have been commissioned, because it has literally only just gone to the island.

CHAIR - It looked very nice and shiny, and not covered in salt yet.

Mr WEEDON - As you appreciate, various things affect ship loading and discharge productivity as well. If it is a particularly rough day and the vessel is moving around and the ramps are moving up and down, they will suspend operations because of safety concerns.

CHAIR - That may be the case, but maybe they could communicate that to the truckies waiting up the road.

Mr WEEDON - That is what we would do. If there is a known delay for three hours because of weather affecting load and discharge operations, it would be usual practice to let the guys on the ground in the terminal know. I am happy to investigate yesterday's circumstances.

Mr GAFFNEY - One said that if they could drive their trucks another 20 or 30 metres, it would probably save a lot of time. It was more of a flow. They said if they could move 20 metres, it would save quite a substantial number, but that might have been to do with that issue as well.

Mr WEEDON - It could be.

CHAIR - Or stevedoring requirements.

Mr WEEDON - They are the normal sorts of teething challenges as new elements to your service get up and running - the new operation and the separation between load and discharge, and receival and delivery. We will continue to work with our customers and their transport operators to optimise the way they those things operate.

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Mr GAFFNEY - That would be really important because at this stage we feel there had not been an opportunity for them to sit down together to talk with management about how that might work and some issues they were having.

I am not sure whether that is correct, but that was the view of a group that presented to us. They thought there were some simple things they could do -

CHAIR - They were talking about efficiencies.

Mr GAFFNEY - They had not had that opportunity to express some ideas.

Mr WEEDON - I am more than happy to commit that we will do that. If you compare that with how we operate the Burnie woodchip export terminal, we worked hand-in-glove with the road transport industry in the north-west to completely reform the way trucks arrive and are handled and despatched through because we are trying to push so much volume through that facility. We really sweat the truck-turn times and truck-handling efficiency. It is part of our everyday work to have those discussions.

Mr GAFFNEY - We were impressed when we toured that facility. It was only 12 months ago that we toured that facility, and the amount of volume was quite incredible.

Mr WEEDON - It has taken significant engagement with the transport industry to deliver those reforms. They work for us as the facility operator and work for themselves within their own employment arrangements, their own capacity management, truck-scheduling issues and the like.

CHAIR - What you have here is significant change, from a once-a-week service to two or three times a week?

Mr WEEDON - Yes.

CHAIR - With transport operators who have operated the same way for a long time. Most people - not these particular operators - do not like change.

Mr WEEDON - It takes people time to adjust. We understand that.

CHAIR - I think it is about engaging and taking people with you on the journey. Maybe there is more work to be done on that.

Mr WEEDON - You can never communicate enough.

CHAIR - Or you can consult to death. Any other questions about the port?

Mr FARRELL - No, but just in general with the service, it has been mentioned it will be good to get it going for the private enterprise to take over. That has been the wish with TasRail, for example, for a number of years. If a low market is on taking on shipping companies, is TasPorts able and happy to keep providing the shipping service for as long as it needs to?

Mr WEEDON - Yes we are. One corollary to our response is that we must do our utmost to ensure the service is sustainable and provides acceptable returns to us. That is a precursor to re-

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engaging the private sector anyway. We indicated in our submission that the service loses money today. That was our forecast. We knew it was going to lose money in year one, probably in year two, partially because of one-off startup costs. To search for, to inspect, to prepare, to reposition vessels from elsewhere in Australia to this market are significant one-off costs. We always knew it was going to lose money, at least in this year and, as I say, probably in the second year of operation. Our immediate focus is to say we will keep freight rates, and freight rates are different freight costs, in line with SeaRoad. We are performing the service at a much higher cost. We do not know what SeaRoad's costs are, but we know what ours are: they are high and therefore we are losing money.

CHAIR - So how much have you lost in the last financial year? It was only a short period, I understand that, so what was the loss you will report?

Mr WEEDON - We are a week away from having our board sign off and approve the annual accounts for the TasPorts group, which includes this. What I can share with you is the loss in the first year of operation is north of \$1 million.

CHAIR - In the first financial year?

Mr WEEDON - Yes.

CHAIR - The losses are ongoing?

Mr WEEDON - Yes.

CHAIR - But not to the same extent because you got rid of the one-off costs?

Mr WEEDON - There are some one-off costs in the period up to 30 June this year, correct. Next year I expect there will still be a significant loss unless we can find a new operating model for the new ship, which will allow us to put this on a much more sustainable commercial basis. As a commercial enterprise with an obligation to act commercially, it is a main motivator for TasPorts to stem the losses and get this service, if not profitable, as close to profit as we possibly can. We need to do that for our own objectives but I know, having come out of the private sector, that there is no material discussion to be had with the private sector with a service that is losing money. They will want a platform that is sustainable, with the possibility of improving profitability. Going to the private sector with a serious loss-making company and saying, 'Can you help us out?' is not a scenario I intend to be in.

CHAIR - This loss comes off your bottom line, which means less return to government.

Mr WEEDON - At the group level.

Mr GAFFNEY - Not being familiar with the term, how far north of \$1 million are we talking?

Mr WEEDON - A sum north. Unfortunately -

CHAIR - It is less than \$2 million, but probably more than \$1 million?

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Mr WEEDON - I cannot share the final number with you until the board has approved the accounts side. I wanted to give you an order of magnitude indication.

CHAIR - Will that be clearly identified in your annual report?

Mr WEEDON - The accounting standards oblige us to do that so we account for all our subsidiary companies according to the Australian standards. That requires transparency around the losses of all our subsidiary companies. This one - Southern Export Terminals, which is our new log export terminal in Hobart, is equally a subsidiary. That will be equity-based accounting. It is going to make a small loss in year one - same reasons. Significant set-up costs.

CHAIR - You talk about rates versus cost. It would be good if you could explain to the broader community on King Island what the difference is between freight rates and freight costs. I will leave it for you to contemplate how you do that. In terms of the cost structure, could you talk about freight charges or rates that TasPorts is responsible for and what they are made up of? This is one of the big questions. The island seems to think they are being ripped off or they are being charged way more than they should have been. Fertiliser there is \$160 a tonne delivered; Flinders Island, \$60 - what is going on? If you could enlighten us, that would be great.

Mr WEEDON - There are some things we can enlighten you on and some things we can't. We do not have full visibility into the total end-to-end, as it is often referred to. If we take fertiliser for example, I hope you appreciate, and have had explained to you, the transport various legs.

It starts with someone picking up an empty container, in this case in Victoria, transporting it to a facility where it is forklifted onto the ground presumably, where it sits maybe for a day, maybe for a week, before packing operations are conducted. Once the container is packed, it is then made available for another transport leg commissioned to the wharf. When it arrives at the wharf, it is another forklift transaction to receive that container at the wharf and put it on the ground.

CHAIR - This is regardless of whether it is going to King Island or to Flinders? Some of these are fixed costs.

Mr WEEDON - Or anywhere. These are fundamental costs. That is a competitive market for services we do not participate in.

Essentially, our responsibility starts when the container hits the ground in our terminal. Whether that is in Victoria, in Tasmania or on King Island, it is the same thing. Our freight rate covers the receivable of that container - the cost to take it off the truck and put it on the ground in the port - and then all operational transactions until it is delivered to its end point. If we had to move it around the yard for our own purposes, the costs are our costs. The costs to lift the container up and put it on the ship are our costs. The big-cost buckets of operating the ship are primarily the ship hire itself, crew costs and fuel costs. The fourth or fifth largest element is port costs. All these costs are carried by us as we then transport the cargo to the destination port. The cost of taking the cargo off the ship, putting it in the terminal, leaving it there for an hour or a day or a week, and loading it on to a truck to go to its final destination are ours. From receiving a container on our wharf to loading it on to a truck at the other end, are all our cost-buckets. We charge a freight rate to cover those costs.

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CHAIR - That is where you are losing the money?

Mr WEEDON - That is where we are losing the money.

CHAIR - Just on that, we hear about stevedoring costs. What aspects of it is that cost?

Mr WEEDON - That is our cost. We bear that cost as operating the service.

CHAIR - That is the port side of cost, is it?

Mr WEEDON - That is the ship cost.

Mr JOHNSTON - It is, including that freight rate.

Mr WEEDON - Whether the stevedoring cost is \$1, \$10 or \$100, that is our problem to manage in the context of trying to maintain a sustainable, commercially viable service.

Mr GAFFNEY - Explain the stevedoring costs to me a little, because we have heard interesting comments about the costs on King Island compared to Stanley and Devonport, and how you governed by the different groups or percentages of that rate. We have heard they are different. I want to understand how much that impacts on where you send goods.

Mr WEEDON - The first thing to understand is that the costs at the different locations are governed by operational decisions on how we operate. So the decision to operate a roll-on, roll-off operation at Stanley or Grassy brings with it a certain cost profile. If we are using a crane, as we are in Devonport, it has a different cost profile. You are comparing oranges with apples because the operations themselves are oranges, apples and bananas as we move around the three ports.

Mr GAFFNEY - Okay. So you said that Stanley and Grassy had similar operations?

Mr WEEDON - In terms of the mode of operation, yes, they are both roll-on, roll-off.

Mr GAFFNEY - And then you went apples, oranges and bananas, so are all three of those different in their cost structures?

Mr WEEDON - There are different solutions in respect of the provision of stevedoring labour.

CHAIR - This is the reality of it: who provides the stevedoring on King Island?

Mr WEEDON - TasPorts does.

CHAIR - So TasPorts pays TasPort workers a stevedoring wage - is that what it is called?

Mr WEEDON - Yes.

CHAIR - In Stanley?

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Mr JOHNSTON - For our operations, it is Qube. Obviously, Bass Island Line has its own stevedores. They do not use our providers. In Devonport, it is Qube.

CHAIR - Are Qube stevedores at Stanley-based there or do they have to travel there?

Mr JOHNSTON - No, they would travel.

CHAIR - So is that an additional cost?

Mr WEEDON - That would be factored into the commercial offer they made us. We have a very long and close working relationship with Qube. They are the primary stevedore in the state so they are a major customer, tenant and licensee of ours. So of course we approached them in the first instance when we were setting up the service and asked them for a commercial offer to provide stevedoring services in Tasmania. They responded with a commercial contract. That is what we put in place.

CHAIR - And the reason TasPorts does it on King Island is because of logistics?

Mr WEEDON - Practical. Qube has not operated on King Island. The volume of the task is such that, without putting words in their mouth, it is unlikely to be feasible for them to set up an operation there. Therefore the practical solution was we would do it ourselves.

Mr FARRELL - You multiskill the people who work there?

Mr WEEDON - Yes.

Mr GAFFNEY - And the flexibility of the ships coming in and out makes it easier to for them to have other jobs there as well.

Mr WEEDON - Exactly. It is actually quite a nice use of our teams - they have more work to do and we are actually growing our workforce on King Island as a result. We have found we are having to take on a few more employees so a by-product of us operating the service is we are creating more jobs on King Island.

Mr JOHNSTON - Importantly, just so we are clear, the stevedoring costs are covered in that freight rate.

Mr WEEDON - They are not separately charged onto cargo. While there is always a lot of interest and speculation about what these cost arrangements might be, it is matter for us, while we offer the freight rate in the current structure - and this is not something new or revolutionary. Shipping companies have been working with this same model for eons.

CHAIR - A couple of people mentioned some concerns about cars and vessels using Grassy Harbour. They have to keep their engines running to back them up into the loading ramp. They are churning up the harbour bed and shifting the sand, which I am sure it happens as a result of natural currents and that sort of thing as well; but is that creating a shallowing of the port area?

Mr WEEDON - No.

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Mr GAFFNEY - How do you know it is not? Do you test it? Do you measure it every year or every six months? How does that work?

Mr JOHNSTON - We do periodic surveys. That is really determined as part of a longer term statewide plan that also has implications on our dredging strategy.

Grassy Harbour has had two hydrographic surveys in the past 18 months to two years. Between those two surveys, there was no evidence there was any increased siltation.

Mr GAFFNEY - That is good because people listening to this can say, 'Okay, that is what has happened; I understand that.' It is good to get that into *Hansard* so they can go back and refer to that.

CHAIR - One other point the minister mentioned, which is in your submission, is that Bass Island Line, at its own expense, leased 20 empty containers and placed them in the supply chain. The Incitec Pivot guy Brett McGlone was talking about a container hire fee that is an additional cost. Is that an additional cost which has been imposed?

Mr WEEDON - Yes.

CHAIR - More power to you for doing that. Bringing the extra containers in is an expense.

Mr JOHNSTON - There are two points there. One of them is that when we landed on the freight rate for containers on the Bass Island Line, because we are not supplying containers, regardless of those 20, in normal circumstances, we reduced the freight rate by \$100 for the suppliers to provide their own containers. That was recognised in the freight rate from the outset.

In relation to the fertiliser task, when we spoke to the players, we realised they needed additional containers to improve that turnaround. So in consultation with management, we bought those 20 containers at our cost.

How those cost savings were passed on, I could not tell you, but we injected those at our cost for that period of time.

CHAIR - Have they been taken out of the system now?

Mr WEEDON - Yes.

CHAIR - Are they likely to be needed again in the spring with the increased demand for fertiliser that is expected? Are you expecting another little blip in the supply there?

Mr WEEDON - Grains are really the feature of October and November. We are doing the pre-planning to manage the capacity. We try to learn from our experiences. We jumped in at the deep end with the fertiliser task. We did not initially understand the intensity of the time or the volume they wanted to move.

CHAIR - That would be mitigated to an extent if a new fertiliser shed were built. That could be done in a less lumpy way.

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Mr WEEDON - Yes. We will potentially smooth that. They, as the importers and distributors, would need to assess the cost of holding more inventory on island versus the cost of moving it in a concentrated period.

Companies routinely do these analyses. That would be a matter for them. As Matt said, we try to be responsive. Our analysis and discussion with the importers indicated that container capacity was the critical issue.

We had ship capacity and for a period there of about two weeks we could not fill the capacity we had because they could not get boxes to us quickly enough. We were getting frustrated; they were getting frustrated. There is no point in us all being frustrated so we jumped in and offered a solution.

We provided those containers to players, third parties who are often referred to as freight forwarders. They will arrange the tracking; they will arrange the packing. We are not privy to their commercial terms with their customers.

CHAIR - That could be where the cost is imposed.

Mr WEEDON - We do not know. There are certain things we do not need to know either. Our job is to find the solution.

CHAIR - No. We are trying to understand where the costs are, so that people can understand why they are paying more for the freight, and where they may be able to reduce their costs if they can.

Mr WEEDON - Yes.

CHAIR - One witness on the island talked about frustrations at the prioritisation of freight. Building materials, not being a perishable or a live animal, have a lower priority, but when they are holding up the building of a house because they are sitting on the wharf in Devonport for weeks, it is a bit frustrating. How do you prioritise and make sure things that have perhaps a lower priority in terms of their perishability, but are still important to the person who has ordered them, are not sitting on the wharf?

Mr WEEDON - I am not aware that any cargo has sat on the wharf anywhere for weeks. The advantage of the shipment service is that has been operating linking the Tasmanian port with King Island, is frequency. That creates a degree of uncertainty. Customers have to be very focused on the sailing schedule.

The reality is that if we miss one sailing, there will be another sailing that week. If they miss that, the chances are there will be a third sailing within that week. We do have a much more dynamic system which should generally ensure -

CHAIR - It is quicker to catch up than if you only have once-a-week shipping and cannot get in.

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Mr WEEDON - Exactly. We prioritise livestock and perishable cargoes, but the livestock is moving counter-flow to building products coming on so that would really have the same sort of priority as all general cargo, whether it is fertiliser, building materials -

CHAIR - Maybe you should check with your operational staff to see whether there are hold-ups. This person is building a facility there and is waiting on product, and he has been told that it may be on the wharf or that maybe it is not.

Mr WEEDON - I have not heard that circumstance. In the early days - we mentioned communication previously - it was a new operation for TasPorts and Bass Island Line. It was also new for the islanders. SeaRoad had been going there for 20-plus years, so there was that communication between the shippers and the shipping agents. We use Jim McKenzie on the island as well as Tasmanian Cargo Services on mainland Tasmania.

Feedback I received recently is that communication is vastly improved. If there is sensitive cargo or cargo that needs to be prioritised, that is identified, maybe in the early days -

CHAIR - It is very recently and it might be worth checking.

Mr WEEDON - We will investigate that.

CHAIR - Thank you.

Mr GAFFNEY - I want to touch on the animal welfare and animal issues that were highlighted. One of the issues they found concerned purebred stud bulls and stock. When they were using SeaRoad, the stock would stay on the boat, get to Devonport and then transfer across. There was little chance of injury. The trouble they have recently had occurred when the bulls were transferred to Devonport and taken off the boat and put into a yard. Bulls are very territorial and dominant, and in that circumstance injury occurred. If the producers knew there was a reliable route from King Island to Melbourne, or that a similar boat had the same makeup as the *Searoad*, where the bulls were confined, and now they are also looking at quality sheep as well -

CHAIR - Stud rams.

Mr GAFFNEY - From that point of view, we talked to them about embryos and AI, and they said that with about 5 to 10 per cent of the animals they use that because of the facility, and it is expensive with vets et cetera -

CHAIR - That is flown in.

Mr GAFFNEY - The other one was to do with horses. We heard a quote that somebody used to send their horse on and off the island for \$384, and it is up to \$1700 now. Was the difference in the charge for the horse? That is what we were told was different, and that could impact on the King Island horse race, which is quite a big event.

There were some concerns about the increased fees and people saying that there are not going to be enough horses for the races. You may have to go to Jack Russells.

CHAIR - They did not say that.

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Mr GAFFNEY - Regarding health animal welfare, there are those sorts of things.

The other one is to have stock from the mainland they could feed up. They think King Island is perfectly suited to build up and put weight on the stock they get. If it is a direct link from Melbourne to King Island, it so much more cost-effective. If they have to go to Melbourne, Devonport to wherever, it makes it cost-prohibitive.

CHAIR - It take them longer to fatten them up too.

Mr GAFFNEY - I found it quite interesting that they also said that one job is worth 500 cows. If they could extend their stock to 1000, that is another full-time job but until they have that reliability of service and guarantee, there are some issues there.

Mr WEEDON - I will bring you back to my earlier comments. If we can get the ship we are hoping to get, we will have that connection between Melbourne and King Island. This would address a lot of those issues on importation of stock. Whether it is for fattening or for stud purposes, the issue will more or less go away when the new service is put in place.

At the same time, if we then do a mid-week, or whatever day of the week it is, we would see that we would do a King Island-Tasmania-King Island service and then King Island-Tasmania-Melbourne. There is also potential under that service to leave livestock onboard in the same way that SeaRoad did.

Mr GAFFNEY - If you could find a ship to take onboard those criteria, I think it would satisfy a number of people we spoke to on the island.

Mr WEEDON - That is certainly the service pattern we have in mind if we are able to secure the right ship. From the two candidates we are looking at, it is our strong belief that at least one represents a viable opportunity to deliver that sort of service structure.

CHAIR - In terms of expectation of some flexibility in the service, maybe it is commercially good sense to do it. As I understand, some cattle, depending on the breed and the meat - Wagyu, for example, is finishing in a feedlot that is not in Tasmania; they need to travel north to go to a particular feedlot. King Island goes into drought occasionally - even though it did not look much like it when we flew over it the over day. Sometimes they need to go north for feedlots as opposed to Tasmania for feedlots. Can that flexibility be built in to it?

Mr WEEDON - It could do, but I think the advantage of the service model we are currently working on is that we provide potentially two sailings a week to Tasmania for livestock. That is where the volume is today. That is where the volume is whether it is Green hams or Swift or XYZ. The potential volumes to the mainland could not be accommodated in a way that we could leave them on the ship, but it would only be a weekly sailing.

If there were a major change in the way freight volumes are moved between Tasmania-King Island-the mainland-King Island, we would be responsive, as we would normally be, to develop and continue to fine-tune the service around what our customers are looking for.

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CHAIR - If you no longer run the service and it becomes a commercial operation, wouldn't that be a matter for that company to decide how to do it? You wouldn't dictate which ports they come into when, would you?

Mr WEEDON - No, exactly, if it was completely privately owned. I am prepared to explore all options with the private sector at the appropriate time. It might be a complete sale and purchase deal. It might be them acquiring the assets and business of Bass Island Line and we walk away in its entirety. We still have skin in the game as the port operator on King Island and in Tasmania. You could also contemplate scenarios such as joint ventures or some sort of cooperation arrangement in terms of how we engage with the private sector. It is not necessarily as black-and-white as purely selling out.

Mr GAFFNEY - I was pleased to hear that the people on the island are realistic. People who with a bull worth between \$4000 and \$20 000 would not mind, as long as they knew that two weeks from now, they would have their bull arrive at where it was being sent. They were most concerned about putting it onboard and having no idea where it was being offloaded. That is the uncertainty.

They were quite realistic - they realised it was not going to be a day-to-day service, or whenever they want, but as long as they knew the end point ahead of schedule. They wanted a guarantee when their stock is going to arrive and the condition it would be in. I was heartened by the fact they realised they could not have it whenever they wanted, but as long as they knew when it would happen, when they were dealing with people on the mainland - because that affects the King Island product brand.

Mr WEEDON - Absolutely. We are very sensitive to that and making sure we get it right.

CHAIR - Going back to the previous discussion about the future, is it the intention then for Bass Island Line to continue to operate the next interim vessel - we will call it No. 3 - and even potentially the fourth more long-term solution vessel? Or is part of the discussion to look at a more commercially driven-private operator model?

Mr WEEDON - We have a pretty short-term focus at the moment. As we have said repeatedly, we knew the *Investigator* was not ideal but it was the best we could get hold of in the time available to us. We worked damned hard during the time we had it to get a reliable, safe service. We tried to maintain freight rates on par with previous rates. We incurred losses as a result of that strategy, but that is okay. The focus is to find a replacement vessel that will significantly advance the potential of turning this service into one offering what the market wants and with a cost base that will bring it close to profitability. If not, my preference is clearly into the black. If we can find that vessel, it could last two years or 10 years.

I appreciate it is slightly frustrating discussion because I do not have a ship I can show you a photo of today. It is still a little bit of a moveable feast while we continue to search for the vessel, but that is our ambition.

CHAIR - The question for me concerns a government business, whose business is operating ports. We saw FT go off into tourism and have to back out of it. We have seen Hydro going to a range of other areas. Some of them do okay; some of them don't. We can probably accept that

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they get into bit of trouble every now and then - the ACCC. So is it really TasPorts' business to be running a ship, rather than just managing the ports?

Mr WEEDON - In the longer term, as I have said before, I do not see this as a core business activity of the TasPorts group. We have a unique set of circumstances, mainly driven by knowledge, experience and capability in our organisation to do this. With respect to the various opinions around the place, we think we are pretty well dressed to do this. I see it as a logical big elephant.

CHAIR - No-one is questioning capacity, but is TasPorts a shipping company providing a shipping service or a company looking after ports?

Mr WEEDON - That is a valid question. I think in the short term, probably three to five years, I would see TasPorts continuing to have an involvement in this operation. I think the potential to, in some way, transition out of this in a reliable way that is not going to disrupt the market needs to be built on a stable search platform, good assets, good operations and at least some profitability that allows us then to go to the private sector and say, 'We do not want to be in this in the very long term. What are the opportunities to get you involved in taking over certain sections, either the business in its entirety or variations around that?' We cannot sit and do nothing, we are very aware of that.

We have taken on this challenge at the government's request. I have a simple philosophy around this, which I think you have seen around the rest of our business. If TasPorts is going to be in anything, I expect we will do it properly. That is our short-term ambition with the potential identification of a vessel to replace the *Investigator* - to provide the service we think is the proper service the island needs and use that as the platform to improve financial performance as the basis to then re-engage the private sector.

CHAIR - Thank you for your time and your contribution to the committee. I am sure there is a lot of great interest from King Island. If they are not watching, they will be reading the transcript as soon as we can make it available.

Do you want to make any closing comments before we finish up this afternoon?

Mr WEEDON - No. I think we have had the opportunity to share with you our thinking on the matter, both through the submission and through the session. All I would say is to thank you for your questions today. We have a couple of items under notice.

CHAIR - We will write to you about those.

Mr WEEDON - We will follow due process around that.

CHAIR - If you are able to provide further detail around progress towards a new vessel before the committee reports, we would really appreciate an update.

Mr WEEDON - Sure. As you can appreciate we are at different stages with the two candidate vessels. We are in commercial negotiations through brokers on both those candidates. How we pull all that together will be the usual process.

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CHAIR - Thank you very much.

Mr WEEDON - Thank you.

THE WITNESSES WITHDREW.