The Tasmanian Government has prioritised the delivery of an integrated freight strategy as an important step to address barriers to productivity and job creation in Tasmania. Development of this strategy recognises the importance of an efficient and cost-effective freight system to Tasmanian businesses and the broader community.

Ensuring cost-effective, competitive and responsive freight services across Bass Strait continues to be the focus for most users of Tasmania’s freight system. Container export and import demand is increasing, which is evidence of growth in Tasmania’s economy and improved investor confidence. Planned capacity increases by all Bass Strait operators, including the State-owned Spirits of Tasmania, will see this market continue to evolve.

The Government supports an increased role for air freight, particularly in meeting export demand for high-value, time-sensitive products. We are working with service providers to facilitate direct freight services between Tasmania and key domestic and international destinations.

Tasmania has an extensive land freight network, which provides a high level of freight accessibility for businesses, producers and freight forwarders. We are focused on developing the Burnie to Hobart corridor as Tasmania’s premier freight corridor, linking major ports, intermodal hubs, population and industrial centres.

Targeted capital investment in regional freight infrastructure, including bridges, will support improved freight access and productivity on key regional and last mile freight connections.

Across Australia, the level of demand for new and improved infrastructure and services is challenging available funding.

Robust and transparent infrastructure planning frameworks are critical. The Tasmanian Integrated Freight Strategy provides this framework in the important area of freight.

Infrastructure Tasmania has led development of this Strategy. It has focused on delivering a contemporary framework that links freight demand and investment, integrates planning and investment across modes, prioritises freight assets and supports improved project evaluation and freight system information.

The Strategy is based on extensive stakeholder consultation, including with businesses, freight forwarders, service operators and peak organisations. I would like to take this opportunity to thank all parties for their contribution in developing and shaping the content and directions of the Strategy.

I am pleased to release the final Tasmanian Integrated Freight Strategy.

Rene Hidding
Minister for Infrastructure
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Introduction

Tasmania’s freight system underpins business and economic growth in the state. It is a key enabler in realising the outcomes of the Government’s investment in sectors such as agriculture and aquaculture. It also equips our economy to optimise growing national and international demand for Tasmanian products. A reliable freight system is critical to Tasmanian businesses retaining and accessing new markets.

The Tasmanian Government owns most of the state’s major freight infrastructure across roads, rail and ports. It also operates rail and sea freight services. This provides an opportunity for the Government to influence the coordination of freight planning and investment.

By targeting investment and differentiating infrastructure standards based on demand, Tasmania can build the economies of scale required to support high quality freight systems. This Strategy highlights the importance of planned infrastructure investment and the avoidance of duplication.

Meeting Tasmania’s freight challenges

The Tasmanian Integrated Freight Strategy identifies issues, opportunities and actions across four themes:

1. supporting competition and service choice across Bass Strait and beyond
2. efficient freight gateways
3. high-standard, responsive land freight connections
4. delivering a single, integrated freight system.

These themes address the key elements of Tasmania’s freight system.

As an island state, access across Bass Strait, together with supporting sea and airport infrastructure, are central to Tasmania’s freight systems. Ensuring adequate container capacity, maintaining service choice, and addressing constraints to air freight opportunities, form a significant focus of the Strategy.

Delivering an integrated land transport network, across both road and rail, and between infrastructure owners will deliver improved freight efficiency and productivity. Capital investment and maintenance must respond to freight demand and deliver transparent infrastructure and service standards for users.

Improved information in relation to Tasmania’s freight task and continued close engagement between government, business and the private sector, underpins effective freight planning and decision-making.

Infrastructure Tasmania brings leadership and coordination to the future planning and development of our freight system.

Bass Strait shipping

Bass Strait is a direct or indirect element of nearly all Tasmanian supply chains and is proportionally the single largest transport cost in delivering products to market. The cost of shipping freight – for shippers and operators – and the type of services offered, is an unavoidable determinant of business costs and the potential for business growth into new products and markets.

The Bass Strait container freight market is characterised by high frequency services that are now built into most Tasmanian supply chains. These services support just-in-time delivery, a desirable characteristic of optimised business supply chains, and this minimises the need for on-island storage and warehousing.
Container demand currently exceeds effective operating capacity during seasonal peaks on Bass Strait. These capacity constraints reflect growth in the Tasmanian economy, driven by increased domestic and international demand for Tasmanian products and increased internal demand for consumer goods. Arguably, these constraints also reflect a mature market. Sufficient capacity and some service differentiation between operators has provided businesses with choice in their supply chain decisions and investments, with many businesses aligning to particular service providers.

Capacity constraints are now challenging service access and preferences. There is no quick or easy solution to what are complex, potentially high-cost and largely market-driven responses. A range of actions are required, including new vessel capacity, scheduling changes, improved forward planning of freight volumes (including for time-sensitive freight) and greater supply chain flexibility.

The Tasmanian Government will continue to work closely with shippers and operators as the market evolves to encourage a new mix of service capacity, schedule offerings and supply chain responses.

Maintaining at least the existing levels of competition in Bass Strait shipping, increasing total and seasonal container capacity and ensuring the long-term continuation of the Tasmanian Freight Equalisation Scheme (TFES) assistance to cover eligible goods destined for international markets, remain key objectives.

Market-driven solutions to shipping capacity and service needs are the first and preferred response. The Government supports planned investment in larger vessels by the two existing private operators. The introduction of SeaRoad Shipping’s new vessel, in late 2016, will deliver much needed additional capacity into the Bass Strait market.

The Government has a medium-term commitment to focus TT-Line on growing its passenger numbers through refurbishment of the Spirits of Tasmania, while maintaining the existing proportion of lane metres dedicated to freight. The Government has commenced an investigation of vessel replacement options for the existing Spirits of Tasmania. These options will consider optimum arrangements for vessels that support a mixed passenger and freight business.
Responding to a changing seascape

A range of potential market and regulatory changes could significantly alter the Bass Strait containerised freight market. These changes include cost and service changes associated with the introduction of new domestic container vessels, the impact of a privatised Port of Melbourne on shipping costs, and the impact of potential national reforms to coastal shipping law.

The Tasmanian Government will continue its monitoring and facilitation role in relation to key changes affecting Bass Strait. This will include working with business to provide transparent market information on shipping needs and opportunities in Tasmania, including capacity and service gaps.

Advocacy at the national level for regulatory changes that expand service choice for Tasmanian shippers, and continued engagement with the Victorian Government in relation to its privatisation of the Port of Melbourne, remain ongoing activities.

The Tasmanian Government has consistently indicated its support for the re-establishment of direct international shipping services to Tasmania, providing a competitive alternative to more expensive transhipment options through the Port of Melbourne. Currently, Tasmania has three direct international services, each operating on a commercial basis – Swire Shipping, which provides services out of Bell Bay and Hobart ports, and the Mediterranean Shipping Company, which operates out of Bell Bay.

The vast majority of freight into and out of Tasmania is moved by sea, emphasising the importance of our ports for the exchange of goods. Tasmania’s ports must continue to respond to new service offerings, including larger vessels and more frequent services to individual ports.

The recent commercial approach by a global stevedoring company to establish an international container terminal at Burnie Port is evidence of the latent potential of Tasmania’s State-owned port infrastructure. This proposed joint venture between DP World and TasPorts remains on the table, but is contingent upon national reforms to coastal shipping law.

Future consolidation of port activities, across container and bulk, will be driven by system, user and commercial considerations, and supported by a detailed understanding of port planning and development costs.

TasPorts’ long-term port plan, TasPorts 2043, establishes the framework for ongoing investment and prioritisation of port infrastructure spending, supported by a broader understanding of the issues and opportunities facing the future planning of Tasmania’s port network. This Plan is a key input to the Tasmanian Integrated Freight Strategy, and provides a framework to consider specific opportunities at individual ports.

Air freight opportunities

Air freight is suited to high value, lower volume products. While this product profile characterises much of Tasmania’s high growth, time-sensitive freight market such as seafood, aquaculture and berries, Tasmania’s total air freight volumes remain proportionately low when compared to sea freight.

Improved information on commodities and freight volumes with potential to use air freight is an important first step to increasing volumes. Collecting this information is part of a broader action to quantify the nature, size and future growth of Tasmania’s time-sensitive freight market potential. Improved information on this market will benefit future planning for both air freight and Bass Strait shipping services.

The Tasmanian Government’s Access 2020 Strategy identifies strategies to improve air freight services into Tasmania, supporting increased speed of access to domestic and international markets for business. These strategies include working with individual sectors and producers to develop effective air freight solutions and grow capacity to move larger quantities of freight by this mode.

More efficient air freight movements are supported by the current and planned investment at Launceston and Hobart airports, including extension of the Hobart International Airport runway, terminal upgrades and associated expansion of air freight infrastructure and service industries.
An integrated land freight corridor

Tasmania’s land freight network is extensive across road and rail. Meeting the needs of current and future freight users will require more targeted freight investment within and between modes and improved coordination of investment priorities between the Australian and Tasmanian Governments through their respective infrastructure peak bodies.

Delivering an integrated investment framework for Tasmania’s premier freight corridor between Burnie and Hobart is a priority for government. This corridor is Tasmania’s highest volume freight network, with strategic connections to major ports, population centres and industrial areas.

Expectations are that the present 65 per cent of the state’s land freight task travelling on this corridor will continue to grow. The Tasmanian Government will prioritise major freight related investment in support of that growth. This will enable a high level of service, including support for major changes to heavy vehicle productivity.

Investment in rail will focus on safety and reliability and the Tasmanian Government continues to encourage the transfer of bulk and containerised freight transport from road to rail where it is commercially justified. Tasmania’s rail network, which is owned and operated by TasRail, has benefited from significant public investment. This investment has delivered a safe and reliable rail network, which now provides a competitive alternative to road transport. The mining sector, in particular, is set to benefit from this investment in rail infrastructure on the West Coast where the industry has traditionally relied upon rail for the transport of ore for export from Burnie Port.

Regional and rural roads form an important part of Tasmania’s land freight network, connecting primary production areas to processing centres, and facilitating heavy vehicle access to rural and remote areas for a range of infrastructure and development purposes.

Last mile access, which includes higher volume port and industrial centre connections, as well as lower volume rural roads, is critical to an efficient freight network. Bridge strength is a common constraint on rural networks. Coordinating and prioritising smaller-scale investment to ensure appropriate heavy vehicle access in regional and rural areas has been identified as a key issue.

Through the Department of State Growth, the Tasmanian Government is working with key stakeholders, including road managers, industry and the National Heavy Vehicle Regulator with a view to facilitating efficient access to an integrated and efficient Tasmanian road network.

Improved freight information and planning

Addressing Tasmania’s freight challenges requires a coordinated and inclusive approach. The establishment of Infrastructure Tasmania is a significant step in improving infrastructure planning in Tasmania, providing an independent body to provide advice on major infrastructure policies, proposals and evaluation methodologies.

In March, Infrastructure Tasmania released its first project pipeline, supported by a common project assessment methodology. This pipeline provides the first integrated package of infrastructure priorities for Tasmania and will be regularly updated.

The Tasmanian Government will continue to work with business and key industry stakeholders to develop and deliver effective and sustainable freight system outcomes. Large-scale privatisation of publicly-owned freight infrastructure is currently not supported by the Government. However, the Government will work with business and the private sector to identify partnered investment opportunities in specific freight assets and services.

As owners and managers of an extensive local road network, and with responsibility for land use planning, local government is an important stakeholder in planning and delivering an integrated Tasmanian land freight network. Councils were extensively consulted in the development of this Strategy.
Tasmanian Integrated Freight Strategy – guiding objective and principles

The Tasmanian Integrated Freight Strategy is guided by the following objective, a freight system that:

- provides services that are commercially sustainable, and which deliver competitive and sustainable prices to users over the long-term
- reflects the current and future needs of customers, and the broader community
- maximises supply chain efficiency and quality, with a continued focus on productivity improvement
- supports safe, reliable and secure freight service provision
- ensures freight service provision operates within an efficient and certain regulatory environment.

In pursuing this objective, the Government has identified the following supporting principles:

- greater aggregation of freight volumes on core freight networks will support higher standard infrastructure which enhances productivity and safety
- freight investment needs to be targeted, based on demand, and focused on key corridors and intermodal points
- where possible, a competitive market for freight services should be promoted, supporting choice and lower costs for users
- freight capacity and services should be provided on a commercial-basis, and primarily by the market.

Policy linkages

The Tasmanian Integrated Freight Strategy is linked to and/or builds on existing freight-related initiatives and processes at the state and national level.

These include:

- infrastructure investment commitments under the Australian Government’s Infrastructure Investment Fund
- Tasmanian Freight Equalisation Scheme, including extension to transshipped international exports
- national and state investment pipelines, developed by Infrastructure Australia and Infrastructure Tasmania, respectively
- the impact of the Port of Melbourne privatisation process and future changes to Australia’s coastal shipping law
- continued development of direct air freight services
- Tasmanian State Roads Ten Year Infrastructure Plan
- TasPorts 2043 and supporting port master plans
- Access 2020 Strategy
- the corporate and operational plans of TasRail, TasPorts, TT-Line and the Department of State Growth.
Tasmanian Integrated Freight Strategy – key actions

The Tasmanian Government has identified the following priority actions to be progressed as part of the Tasmanian Integrated Freight Strategy. These actions form part of a rolling action plan to be led by Infrastructure Tasmania. A broader review of the Strategy will be undertaken within five years, or in response to major changes in freight demand, investment, or broader market and regulatory frameworks affecting Tasmania’s freight system.

The full set of policy positions and actions underpinning the Strategy is included in Appendix 1.

<table>
<thead>
<tr>
<th>Supporting service choice and competition across Bass Strait</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilitate market-based solutions to Bass Strait container shipping needs, including the provision of transparent information to the market on shipping needs, identification of capacity and service gaps and continued advocacy for regulatory changes that expand service choice for Tasmanian shippers.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Monitor container volumes with and across commodity sectors to inform overall capacity and specific service needs.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Work with industry, service providers and peak organisations to:</td>
<td>October 2016</td>
</tr>
<tr>
<td>• define and quantify Tasmania’s time sensitive freight market, including product volumes, future growth rates and supply chain needs</td>
<td></td>
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<tr>
<td>• identify opportunities for the greater use of air freight.</td>
<td></td>
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<tr>
<td>Assess opportunities to reduce the volume of empty containers crossing Bass Strait.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Continued advocacy with the Australian Government to:</td>
<td>Ongoing</td>
</tr>
<tr>
<td>• secure the long-term continuation of existing TFES arrangements, including to transhipped freight</td>
<td></td>
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<tr>
<td>• maximise service choice to Tasmanian shippers as a result of any changes to the Australian Government’s coastal shipping laws.</td>
<td></td>
</tr>
<tr>
<td>Support intermodal competition from air freight by working with targeted Australian and international airlines to develop a business case for one or more direct flights a week from Hobart to a key Asian hub.</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Efficient freight gateways</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assess the benefits of a primary domestic container port at Burnie, examining supply chain, commercial and market outcomes for shippers, operators and the port manager.</td>
<td>June 2017</td>
</tr>
<tr>
<td>Develop a bulk freight port investment prioritisation plan.</td>
<td>December 2017</td>
</tr>
<tr>
<td>Finalise a Western Tasmanian Export Corridor Plan, focused on improving supply chain efficiency and productivity for key export sectors.</td>
<td>August 2016</td>
</tr>
<tr>
<td>Identify the long-term location and key demand drivers for a new minerals concentrate shiploader at Burnie Port.</td>
<td>August 2016</td>
</tr>
<tr>
<td>Continue to engage with the Victorian Government on port privatisation and future port planning in Victoria to ensure Tasmania’s interests are fully considered.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>High-standard, responsive land freight connections</td>
<td>Timeframe</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Develop a Burnie to Hobart Freight Corridor Strategy.</td>
<td>February 2017</td>
</tr>
<tr>
<td>Deliver a new Tasmanian Rail Access Framework.</td>
<td>October 2017</td>
</tr>
<tr>
<td>Periodically review the Tasmanian Land Freight Network to ensure it appropriately reflects</td>
<td>Ongoing</td>
</tr>
<tr>
<td>freight demand and required infrastructure and service level standards.</td>
<td></td>
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<table>
<thead>
<tr>
<th>Delivering a single, integrated freight system</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide regular, updated information on key freight policy initiatives, major system upgrades and</td>
<td>Ongoing</td>
</tr>
<tr>
<td>the general operation of the freight system.</td>
<td></td>
</tr>
<tr>
<td>Complete a fifth Tasmanian Freight Survey.</td>
<td>June 2016</td>
</tr>
<tr>
<td>Undertake regular, structured consultation with industry on the key issues and opportunities facing</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Tasmania’s freight system.</td>
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</table>
Chapter 1 – Supporting competition and service choice across Bass Strait and beyond

Growth in Tasmania’s economy is underpinned by sea freight capacity that is affordable for Tasmanian producers and sustainable for shipping operators.

The movement of freight across Bass Strait, whether by sea or air, is part of a longer and often complex supply chain from producer to end market. While most Tasmanian supply chains have developed around a ‘make and ship’ model, different commodities have different transport and handling requirements, and Tasmanian businesses pay a range of freight prices based on product, volume, and regularity of shipments.

The Port of Melbourne is a container hub for international services and for coastal services to other domestic markets. It is the focus for nearly all container movements into and out of Tasmania. Bulk carriers move large volumes directly between Tasmania and domestic ports across Australia, and direct to international markets.

Coastal shipping regulations affect cost and service options for shippers. Future changes to existing regulations could result in new services for shippers between Tasmania and other Australian ports.

Key observations

• Over 99 per cent of freight by volume, leaving and arriving in Tasmania, is transported by sea.
• Interstate container shipping plays a more significant role in Tasmania’s freight system compared to other states and territories. The majority of Tasmania’s container trade is with domestic markets.
• Bass Strait container freight services are provided by Toll-ANL, SeaRoad Shipping and TT-Line. Each provides an overnight service between Devonport and Burnie ports and the Port of Melbourne, with differing service options.
• Trailerised freight has developed as the key logistic preference for many producers, particularly for time sensitive and perishable freight.
• Major container commodities include agricultural products, retail goods, industrial products and empty containers.
• Increasing demand for fresh and perishable products and the need for speed to market is impacting significantly on the capacity of preferred modes and service delivery models.
• A small number of large freight users account for a high proportion of Tasmania’s container and bulk export freight task.
• The majority of Tasmania’s container movements are through the Port of Melbourne.
1.1 Cost competitive and sustainable Bass Strait shipping services

Container shipping is proportionally the single largest transport cost in the supply chain of most Tasmanian businesses, accounting for up to 65 per cent of a domestic shipper’s supply chain costs.

Indicative container freight rates across Bass Strait show that prices can vary from between $600 to $1,200 per Twenty Foot Equivalent Unit (TEU). Volume, seasonality and service needs influence cost, with low volume, highly seasonal or time-sensitive shippers paying more than larger volume, regular shippers.

Bass Strait operates as a short sea trade, with high frequency, daily services. It is a potentially more expensive model to both provide and use. Fixed costs (fuel, wages) for operators are high.

Service competition within the Bass Strait container market is critical, ensuring Tasmanian businesses have a choice of shipping operator, and some options in terms of transport costs and sailing schedule. The current number of operators is likely the minimum required to ensure there is sufficient competitive tension in the market to the benefit of Tasmanian businesses. Over the long term, relative market share across operators is also important.

1.1.1 Tasmanian Freight Equalisation Scheme and coastal shipping review

The Tasmanian Freight Equalisation Scheme (TFES) is a major benefit to reducing freight rates for eligible shippers. The TFES is an Australian Government-funded freight scheme, and is provided on the basis that the cost of shipping across Bass Strait is higher than road transport equivalent distances.

From 1 January 2016, the Australian Government has funded a four year extension to the TFES, providing additional assistance for non-bulk goods transshipped to an international destination at an estimated cost of $203 million. Eligible freight now receives assistance of $700 per TEU. Goods shipped from King Island and the Furneaux Group attract additional loadings, to reflect the Bass Strait Islands’ higher freight costs.

An estimated 35,000 extra TEUs per year will be eligible for assistance under the expanded scheme and this is expected to increase over time.

The Tasmanian Government strongly advocated for and supports this extension, as one that will drive further growth in Tasmania’s major industries, and provide opportunities for smaller businesses to develop and expand into new markets.

The TFES does not apply to bulk trade which comprises two thirds of Tasmania’s sea freight by volume. Some Tasmanian freight users have indicated that the current coastal shipping regulatory arrangements have increased cost and reduced competition in moving bulk products. In particular, the cost and administrative complexity of including Australian coastal shipping routes in international voyages is seen as an impediment to greater service choice and potentially lower freight costs.

The Australian Government supports reform of Australia’s national coastal shipping laws, and has indicated that it will raise coastal shipping reform in Parliament again in 2016.

Throughout the review of coastal shipping, the Tasmanian Government has sought recognition of Tasmania’s reliance on coastal shipping and outcomes that support increasingly cost-competitive and sustainable shipping services for Tasmanian businesses. This includes arrangements that support a sustainable and reliable fleet of vessels engaged in Tasmania’s coastal trade and the inclusion of Australian coastal shipping routes in international voyages.

The Tasmanian Government will continue to represent the interests of the Tasmanian community and economy through any proposed reform of national coastal shipping laws.

1.1.2 Complexity of the Bass Strait container market

Bass Strait operates as a complex, commercially-driven market. The following changes have the potential to affect service choice and delivery on Bass Strait, such as:

- the extent to which planned private sector capacity increases will impact container prices, services offered or freight volumes across operators
• potential for shippers to make better use of under-utilised sailings (for example, weekends and day sailings)
• the impact of a privatised Port of Melbourne on shipping costs and the capital investment decisions of shippers
• potential for expanded domestic and international service choice for shippers as a result of direct international shipping services to Tasmania, and broader coastal shipping reforms
• the market stimulus effect of the recently announced extension to TFES to cover eligible non-bulk goods destined for international markets.

1.2 Meeting capacity and service needs across Bass Strait

Unlike the bulk freight market, where producers negotiate service and price directly with shipping companies on a market-to-market basis, the Bass Strait container and trailer freight market is served by regular, scheduled services, provided by three operators – Toll, SeaRoad Shipping and TT-Line.

All operators provide a high frequency, overnight service to/from the Port of Melbourne. These services are now built into nearly all Tasmanian freight supply chains, both import and export, under a make-and-ship model, which sees minimal warehousing of product within Tasmania. It also supports just-in-time delivery.

While service frequency is broadly consistent across the three Bass Strait operators, there are differences in service and schedule offerings.

Toll and SeaRoad Shipping predominantly move containers, including larger baseload cargoes. Freight delivery cut-off times are mid-afternoon. TT-Line provides a roll-on, roll-off service for trailers only, with a later freight delivery cut-off time of 7:00 pm (Table 1).

These differences are sufficient to influence the decision-making of some businesses. There is a preference amongst businesses moving fresh/perishable freight to use TT-Line. There are also advantages for freight forwarders in maximising the use of their equipment as a result of the later freight cut-off time of TT-Line and the speed of departure of that equipment from the destination dock.

Table 1: Summary of Bass Strait container services

<table>
<thead>
<tr>
<th></th>
<th>Toll</th>
<th>SeaRoad Shipping</th>
<th>TT-Line</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Port</strong></td>
<td>Burnie</td>
<td>Devonport</td>
<td>Devonport</td>
</tr>
<tr>
<td><strong>Vessels</strong></td>
<td>MV Tasmanian Achiever</td>
<td>MV SeaRoad Tamar</td>
<td>Spirit of Tasmania I</td>
</tr>
<tr>
<td></td>
<td>MV Victorian Reliance</td>
<td>MV SeaRoad Mersey</td>
<td>Spirit of Tasmania II</td>
</tr>
<tr>
<td><strong>Frequency</strong></td>
<td>Overnight, six days per week plus extra sailings during peak demand</td>
<td>Overnight, six days per week plus extra sailings during peak demand</td>
<td>Overnight, daily plus extra sailings during peak demand</td>
</tr>
<tr>
<td><strong>Cargo delivery cut off/ departure times (Tasmania)</strong></td>
<td>Cargo delivery: 2:00 pm – 3:30 pm, Departure: 5:00 pm (4:00 pm Saturday)</td>
<td>Cargo delivery: 3:30 pm (1:00 pm Saturday), Departure: 4:00 pm</td>
<td>Cargo delivery: 7:00 pm, Departure: 7:30 pm</td>
</tr>
<tr>
<td><strong>Arrival (Port of Melbourne)</strong></td>
<td>7:00 am</td>
<td>8:00 am</td>
<td>6:00 am</td>
</tr>
<tr>
<td><strong>Capacity (one-way)</strong></td>
<td>500 TEU plus general freight</td>
<td>182 to 260 TEU plus trailers</td>
<td>144 TEU</td>
</tr>
<tr>
<td><strong>Market share (TEU %)</strong></td>
<td>55</td>
<td>25</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Aurecon; TasPorts
1.2.1 Peak period capacity

Seasonal shipping peaks exist across Bass Strait — between September and early December for imports, driven by the retail sector, and February to June for exports, driven largely by agriculture. In 2014-15, the average utilisation for exports was 88 per cent and 86 per cent for imports, which is above the target effective operating capacity of 85 per cent utilisation (Figure 1).

While recent growth in Tasmania’s total freight task has been just under two per cent, growth in full containers and trailers has been higher – around 3.4 per cent for exports and 2.3 per cent for imports. Over the past financial year, trailerised freight grew by almost seven per cent, the majority within the export market. There is anecdotal evidence that the recent 2015 import peak and current 2016 export peak, have or will experience even higher growth.

This seasonal capacity constraint remains a challenge for Tasmania’s freight system. However, given the commitment of both SeaRoad Shipping and Toll to invest in additional tonnage, and the fact that these investments must be supported by year-round demand, the Government is confident that this challenge will be met without the need for a publicly subsidised solution.

Businesses and freight forwarders continue to show a preference to use Monday to Friday evening services. While these services better suit most supply chain needs, it further concentrates freight flows. During weekdays and periods of high demand, operators closely manage space to assist in the movement of freight, including perishable and/or time critical products. However, demand on some days does exceed capacity and not all freight can be moved on the preferred day.

In the context of the 2015-16 export period the Government held discussions with all Bass Strait shipping operators to identify available capacity and supporting processes for handling increased freight volumes. TT-Line has constrained capacity but performs a triaging function to ensure that fresh and perishable freight has priority. The cooperative efforts of all shippers, freight forwarders and producers resulted in freight requirements being fully met.

SeaRoad Shipping will consider additional sailings to meet peak demand, and provide a seven day a week service if required. Toll also believes it has capacity for increased numbers of northbound containerised goods during seasonal peaks, and will seek to address the needs of customers to achieve market targets and deadlines.

Figure 1. Monthly demand and capacity, Bass Strait, 2014-15 (TEU)

![Graph showing monthly demand and capacity, Bass Strait, 2014-15 (TEU)](source: Department of State Growth)
Some freight forwarders have acknowledged that the finite capacity for trailers at the present time means that fresh produce must go by alternative means if it is to reach market at optimum yield price.

Consultations with customers have seen a willingness to consider shifting some volumes of fresh produce from trailers to refrigerated containers on both SeaRoad Shipping and Toll. This has involved discussions about time-sensitivity in terms of market delivery with appropriate freight hedging issues being considered to ensure all freight can reach market.

The commencement of a direct shipping service from Hobart also has the potential to ease pressure on Bass Strait. Visiting Hobart every nine days the service has connections to Melbourne, Sydney and Brisbane. It will also connect to global destinations through a Singapore-based network. The service brings new opportunities for southern exporters and those wishing to ship to the eastern seaboard of the country.

Services being provided and contemplated from Bell Bay also have the potential to aid traditional Bass Strait capacity.

While freight volumes carried are lower, air freight has the potential to deliver expanded services that meet the demand of higher-value, time-sensitive niche products. Freight that can be transferred to air will free up some additional sea capacity.

1.3 Developing longer-term responses to domestic container capacity

Current container capacity constraints during seasonal peaks on Bass Strait reflect growth in the Tasmanian economy, with increased domestic and international demand for Tasmanian products, and increased internal demand for consumer goods.

Arguably, these constraints also reflect a mature market. Sufficient capacity and some service differentiation between operators has provided businesses with significant choice in their supply chain decisions and investments, with many businesses now aligned to a specific service provider.

Capacity constraints are now challenging service access and preferences. There is no quick or easy solution to what are complex, potentially high-cost and largely market-driven responses. A range of actions, from new vessel capacity, scheduling changes, improved forward planning of freight volumes, including for time sensitive freight, and greater supply chain flexibility are required.

1.3.1 New vessel capacity

New vessel capacity is a key part of any response to meeting future container demand. Both SeaRoad Shipping and Toll have announced plans to invest in larger vessels, providing additional container and trailer capacity into the market, and more efficient vessel configurations.

SeaRoad Shipping will replace the SeaRoad Mersey with a purpose-built 436 TEU vessel by late 2016, increasing the company’s total container capacity by almost 50 per cent and increasing its trailer capacity from 22 to 70 trailers.

SeaRoad Shipping’s intent is to replace the SeaRoad Tamar with a new vessel as soon as possible thereafter, and is hopeful that this could translate into a second vessel being in service a year or so after delivery of its first vessel.

Toll has indicated it will introduce two new vessels of about 700 TEU capacity each, with arrival expected in mid-2018 and both vessels operational within that year.

New vessel configurations will see both shipping companies able to extend departure times from the port allowing for later loadings for producers and easier and quicker access and unloading at destination ports. This will be of significant benefit to those with critical deadlines for market access or distribution.

At a higher growth rate of three per cent, this additional capacity will meet demand for at least the next 10 years (Figure 2). A lower growth rate of two per cent will see adequate seasonal capacity into the early 2030s.
Market-driven solutions to shipping capacity and service needs are the first and preferred response. The Tasmanian Government supports planned investment in larger vessels by the two existing private operators. TT-Line has also agreed with the Government’s request to maintain its freight capacity at 2015 levels and the company will explore opportunities to strengthen alignment with the time-sensitive market.

The Tasmanian Government has taken a policy position on the Spirits of Tasmania to focus the company on growing passenger numbers, while maintaining the existing proportion of lane metres dedicated to freight. This strategy has proven highly successful with passenger numbers up 8 per cent over the 2014-15 year.

Forward bookings are also 17 per cent higher as a result of a major refurbishment of both vessels, lower average fare prices and increased day sailings. The 50 per cent increase in day sailings for 2015-16 over those scheduled two years previously will also enable greater total freight capacity, weighted towards the summer seasonal peaks for time-sensitive freight. However this must be considered in the context of the established preference for the industry to utilise night sailings.

It is important to recognise that if forced to provide ships to cater for peak seasonal demand there would be insufficient year-round load to generate the revenue and profit necessary to justify a longer-term commitment to re-tonnaging by private operators. This would have a significant downside impact on those involved in the shipping industry and those relying upon it. It is critical for a stable, commercially sustainable freight market that a balance is achieved between future growth in demand and available capacity.

1.3.2 Forward planning

Given strong growth in agricultural investment within Tasmania, particularly in irrigation infrastructure, and ambitious agricultural production targets, it is important to closely monitor volume growth against existing and future freight capacity.

A cohesive and transparent view on the operation of the Bass Strait container market is required, supporting a statewide position on outcomes that benefit shippers, and the early identification of issues.

The Tasmanian Government will continue its monitoring and facilitation role in relation to key changes affecting Bass Strait. This will include working with business to provide transparent market information on shipping needs and opportunities in Tasmania, including capacity and service gaps.
Advocacy at the national level for regulatory changes that expand service choice for Tasmanian shippers, including for key markets in Sydney and Brisbane, and continued engagement with the Victorian Government in relation to its privatisation of the Port of Melbourne, remain key and ongoing activities.

Greater supply chain flexibility and forward planning of peak freight movements, including within sectors, will assist in managing capacity.

1.4 Supporting the movement of time-sensitive freight into domestic and international markets

Time-sensitive freight describes commodities that need to move through the freight system quickly, an objective often related to the availability of a premium price. While there are different definitions as to what constitutes time-sensitive freight, for the purposes of this Strategy, time-sensitive freight is identified as follows.

- **Fresh or perishable freight.** Moving product quickly to market to preserve shelf-life, and transport under temperature controlled conditions (for example, refrigerated trailers) to maintain quality, are key factors. Example products include fruit and vegetables (fresh and frozen), fish, livestock, meat, milk products, butter and cheese.

- **Time-sensitive supply chains.** This includes freight that needs to move quickly to meet scheduled delivery time slots, or to maximise the use of transport equipment (for example, enabling a trailer to offload product in the morning and return full on the same day).

Time-sensitive freight export volumes are highest from February to June, with agriculture the major component of the market. Some higher value products, such as cherries, move product outside this peak and can also experience capacity issues outside peak periods.

Recent expansion in the salmon industry and investment in fruit and berries are examples of time-sensitive freight sectors experiencing significant growth. An increase in volumes across a broad range of products is expected as a result of the state’s investment in irrigation, and the stimulus effect of the recent TFES extension.

Through AgriGrowth Tasmania, the Tasmanian Government is working directly with business to identify new growth opportunities, including in premium and value-added food production, and within key Asian markets.

1.4.1 Improved information on the size and service needs of time-sensitive freight

A number of existing business operations have expressed a desire for greater capacity on Bass Strait to provide surety of freight capacity to move higher volumes of product reliably to market. Some of these hope for an early availability of extra capacity to support business expansion plans.

Tasmanian exporters of time-sensitive freight show a strong preference to move product to Melbourne using TT-Line. TT-Line’s later freight cut-off time and trailer-only freight, which translates to shorter wharf clearance times at port, provide benefits to users.

While some data on time sensitive freight volumes and/ or value by key commodity exists, there is no comprehensive picture of the size and value of Tasmania’s time sensitive freight market, or future rates of growth. This information is key to better understanding capacity and service needs within this market, and will inform planning for both sea and air freight services.

The Tasmanian Government recognises there is a particular issue around Bass Strait container and trailer capacity, including for seasonal peaks and within the time-sensitive freight market, with capacity limitations expected to peak in the 2015-16 export season. The Government will continue to engage directly with the time-sensitive freight market to clearly identify its specific capacity and service needs, and to quantify the size of the time-sensitive market. As the owner of TT-Line, the Government will consider opportunities to even more strongly align this service with the time-sensitive freight market.

Time-sensitive freight supply chains are often characterised by just-in-time deliveries, which make forward planning of required capacity difficult. Despite this, the ability to improve forward planning of container volumes within and across sectors must also be part of the response.
The Tasmanian Government has raised with a number of freight industry stakeholders the potential for the introduction of a slot-reservation system. Such a system, similar to that which commonly operates in the rail, road and air freight industries, would enable the market to prioritise freight allocations to overcome seasonal capacity constraints.

While weather, ripening and harvesting are key factors in the timing and demand for freight space, the Government will continue to work with industry on market based freight opportunities and capacity solutions that can provide greater surety for product to reach the market place.

1.5 Understanding whether different service models could meet business’ shipping needs

Tasmania’s container freight task comprises a diverse range of goods, from seafood, fruit and vegetables, to bulk goods such as minerals, smelted metals and paper. Many supply chains require or benefit from the existing high-frequency services across Bass Strait, however, not all do.

Analysis of representative container supply chains for Bass Strait undertaken by Aurecon (2013), based on service need and price shows the following information.

- Fresh and perishable products (around 28 per cent or 64 000 TEU outbound) are time-sensitive rather than price-sensitive. For this part of the market, maintaining shelf-life through faster transit times and cool supply chain management; connections to interstate/international transfer; and delivery to customer/distribution centres, can be key drivers for service need.
- Low inventory products (around 23 per cent or 52 000 TEU outbound) make use of existing Bass Strait container services to move products consistently through the supply chain, avoiding warehousing within Tasmania and reducing inventory costs. For high volume-low inventory supply chains, producers may be able to negotiate prices.
- Low cost products (around 13 per cent or 30 000 TEU outbound) do not necessarily need the frequency of existing freight services and could use a lower priced service option. Low cost export products connecting with international services in Melbourne are not currently TFES-assisted. The current supply chain is high cost.

Analysis suggests that Tasmania’s current freight volumes are unlikely to support a low-frequency, low-cost domestic container service across Bass Strait. Any future service would need to differentiate itself from existing services.

For example, by servicing a particular section of the market, or by offering a direct service to other mainland Australian ports where an established freight task exists, and alternative land transport costs are higher. Future growth in the container market may see the commercial viability of any service change.

The option of a coastal voyage as part of an international service may benefit Tasmanian exporters requiring a low frequency, low cost domestic shipping option, without a major impact on existing Bass Strait shippers. Under current coastal shipping regulations, this is an expensive option for both operators and shippers.

Future changes to Australian shipping driven by the extension to TFES and possible changes to coastal shipping laws may provide greater incentives for international shipping lines to call at Tasmanian ports.

The Tasmanian Government has consistently indicated its support for the re-establishment of direct international shipping services to Tasmania, providing a competitive alternative to more expensive transhipment options through the Port of Melbourne.

Currently, Tasmania has three direct international services, both operating on a commercial basis. Swire Shipping operates two container shipping services, out of Bell Bay and Hobart ports. The Mediterranean Shipping Company (MSC) operates a domestic and international container service out of Bell Bay, connecting to New Zealand via Sydney, Brisbane and Noumea.

The Tasmanian Government will continue to work with companies interested in providing shipping services to Tasmania to ensure the best outcome for Tasmanian shippers.
1.6 Monitoring empty container volumes and movements

Empty containers represent 32 per cent of outbound and 17 per cent of inbound containers. In 2014-15, around 108 283 empty containers were shipped to and from Tasmania, which represented a decrease on previous years.

Aurecon estimated the direct cost to freight users of repositioning an empty container between Melbourne and Tasmania is $300 per container, or around $34 million overall cost within Tasmania’s freight system in 2014-15.

While there are a large number of empty containers in Tasmania’s freight system, accessing the right container can be difficult. New international services to Tasmania provide an opportunity for cost-effective relocation of containers into Tasmania.

The use and management of empty containers is influenced by business needs and the activities of shipping operators and freight forwarders. There is evidence that larger shippers with control of their own supply chains have implemented solutions for their businesses, including the use of international containers to transport domestic freight and the use of refrigerated containers to pack dry freight.

Zinc ingots, produced at Nyrstar’s Lutana plant, are packed into domestic containers at a consolidation point in Hobart for shipment to Melbourne. In Melbourne the ingots are transported to a warehouse and repackaged into an international container and transferred to an export berth.

The Tasmanian Government will continue to work with shippers in identifying market-based solutions to reduce empty container movements.

1.7 Increasing the proportion of freight carried by air

Air freight is characterised by higher value goods often requiring speed to market. For example perishable products such as abalone, crayfish, salmon, meats, cut flowers and berries. While currently representing less than two per cent of Tasmania’s total outbound freight market, air is an important freight mode and one with significant opportunity for an island State.

Air freight is important in accessing niche or more distant markets where the availability of consistent speed to market solutions may lead to more secure commitments from customers on the basis of a quicker supply chain.

Many of Tasmania’s high value perishable food producers depend strongly on effective air freight solutions to access domestic and international markets.

Air freight provides increased speed to market for supermarket shelf ready products, which in turn can generate growth in jobs with more product processed in Tasmania. Markets such as Brisbane and Perth are of interest to Tasmanian producers, but are not well served for time sensitive perishable products under existing sea and road logistic solutions.

A 2014 report by the Australian Bureau of Agricultural and Resource Economics (ABARES) into Australia’s air freight food exports identified Tasmania as the strongest growth jurisdiction in Australia’s air freight food supply chain, based on volume, with strong growth prospects for future exports.

Between 2006 and 2012, Tasmania’s air freight exports to international markets increased from 5 000 tonnes to 11 000 tonnes. Further growth is expected, associated with increased investment in key air freight products such as seafood, meat, fruit, vegetables and dairy.

As increasing demand and favourable trade agreements make international markets more appealing (particularly Asian markets) the Tasmanian Government is seeking to achieve the best outcome for international exporters by optimising speed to market solutions and air freight capacity.
The Tasmanian Government’s vision to grow the value of agriculture tenfold to a $10 billion industry by 2050 will require increased sea and air freight capacity. The Government’s investment in expanded irrigation to increase the production of premium, value-added foods as well as capitalising on opportunities to access new markets, are important steps toward achieving this goal.

For premium foods with a limited shelf life, direct air freight services would enable access to new interstate and international markets previously out of reach, and bolster the value of Tasmania’s brand and products by ensuring produce arrives in top condition and as fast as possible.

The Tasmanian Government’s Access 2020 Strategy identifies strategies to improve air freight services into Tasmania, supporting increased speed of access to domestic and international markets for business. These strategies include working with individual sectors and producers to develop effective air freight solutions including dedicated flights and greater utilisation of passenger aircraft cargo space.

Air freight is a key component of revenues for passenger aircraft. Consistent utilisation of cargo space can be an important contributor to the viability of passenger services. Increased use of passenger aircraft freight space aids the development of additional passenger capacity, which benefits Tasmania’s economic, tourism and social development targets.

There is a limited range of air freight data available. Although uplift data is held by individual operators, is it not available in an aggregated form to airports or government. Operators indicate capacity constraints in the short summer peak but underutilisation of cargo space on passenger aircraft departing Tasmania at non-peak times.

This raises a risk to Tasmania’s competitiveness and to airlines being able to operate aircraft with greater return on invested capital in other markets. Forecast increased output from Tasmania in peak periods highlights the requirement to increase utilisation of passenger jet cargo space as a solution for both domestic and international exports.

Collecting improved information on the potential production and market demand for air freight commodities is part of a broader action to quantify the nature, size and future growth of Tasmania’s time sensitive freight market. Improved information on this market will benefit future planning for both air freight and Bass Strait shipping services.

Coordination is required across government, industry and service providers, to align services with growth markets for passenger and produce.

1.7.1 Supply chain challenges to the increased use of air freight

As an island state, less than two per cent of produce being moved by air is well below average. Unlike sea freight, air freight does not attract financial support under TFES. This is likely to have had an influence on the development and current operation of Tasmania’s freight market and existing supply chain arrangements.

A 2015 Deloitte Access Economic study found that the state of Tasmanian air freight and associated services levels are seen by some exporters of perishable agricultural produce as a major constraint to development and future export potential.

In its 2014 report examining air freight food exports, ABARES identified air freight as accounting for one third of the value of Tasmania’s international food exports, but noted that much of this freight is moved by sea and road to Melbourne’s Tullamarine Airport. This logistics solution adds between 10 and 36 hours of transportation time to the export supply chain. Connections and competing availability for international flights is an ongoing issue, although international air capacity from Melbourne has grown as demand for international exports has also increased.

Qantas Freight, Virgin Cargo, Toll Air Express, Jetstar, Vortex, AAE, Sharp Airlines and a small number of other providers currently provide air freight services to and from Tasmania. Freight forwarders are integral in the utilisation of available air freight services, as well as being a stakeholder in efforts to boost air freight capacity and aggregate loads.
Both Qantas Freight and Toll Air Express operate overnight freighter services to Melbourne. Air freight service provider mix is expected to change if international airlines begin operating to Hobart Airport, and as Virgin Australia establishes its Virgin Freight business unit, or other operators enter the market.

Increasing air freight capacity and attracting new operators is a detailed process but can happen much more quickly compared to increasing sea capacity. Detailed business cases and demand commitments are required to demonstrate sustainable and viable demand. Tasmania is currently in this position with a range of air freight providers and this activity is a key component of the Tasmanian Integrated Freight Strategy as well as the Access 2020 Strategy.

### 1.7.2 Efficient air freight gateways

The Tasmanian Government, industry and major airports work collaboratively to develop and match effective air freight solutions with growing freight demand, specific destinations and speed to market export requirements.

Hobart and Launceston are the key air freight gateways for Tasmania. These airports are willing to evaluate and implement air freight facility investments to grow and diversify their core business as well as increasing state-wide benefits, economic trade zones and logistics facilities.

Launceston Airport has completed a $6 million upgrade of its southern freight apron, providing capacity for round the clock movements on three bays, each accommodating freighter aircraft with a maximum take-off weight of 80 000kgs, the equivalent to a fully loaded B737-300 freighter.

While seasonal constraints are experienced on the capacity of current services, Launceston Airport is able to accommodate significant growth in air freight services.

Launceston Airport, in conjunction with the Northern Midlands Council and Northern Tasmania Development, and other interested parties (such as TasRail), is evaluating the opportunity to establish an intermodal freight hub at Western Junction.

The location of the airport in proximity to Tasmania’s major Burnie to Hobart freight corridor, together with the Translink Business and Logistics Park (and its associated warehousing and refrigeration facilities) offers potential for the development of an intermodal freight hub.

Hobart Airport is undertaking a $40 million runway extension to increase the runway length by 500 metres, bringing the runway to 2 720 metres. This will allow aircraft to depart Hobart with heavier payloads and travel longer distances, providing new opportunities in passenger and freight segments with wide-body aircraft being able to fly direct to Asia.

The Tasmanian Government with Hobart Airport is engaged in discussions with Australian and international air service operators to identify opportunities for direct air services between Tasmania and key Asian hubs that will provide freight capacity. These discussions build on significant recent interest from the Chinese market in Tasmania and Tasmanian produce.

The runway extension also opens up a range of Antarctic gateway opportunities.

The runway extension enables many economic opportunities for Tasmania and is an important part of the Airport’s infrastructure plans. In conjunction with Hobart’s port facilities, Antarctic and Southern Ocean research institutes and experienced Antarctic sector suppliers and contractors, the runway extension will significantly improve Hobart’s ability to attract non-Australian Antarctic programs to operate from Hobart.

Hobart Airport is investigating additional supporting infrastructure requirements from potential operators, for example warehousing requirements, larger cool stores and freight hub facilities. Should they be required it is intended that these types of infrastructure will be developed in co-operation with key partners.

Road access arrangements to Hobart Airport are currently being reviewed to ensure the road, and Holyman Avenue roundabout, can accommodate future traffic demand.
The current growth in demand and production of high value perishable goods requires improvement in air freight capacity, supply chain logistics and costs to increase value and improve time to market for Tasmanian producers. Longer-term supply chain development to grow Tasmania’s air freight systems is required.

It will be important for the Government to continue to work with stakeholders to ensure that facilities and infrastructure is in place at airports to meet the needs of producers in relation to cooling/ chilling, and any certification that may be required.

1.8 Maintaining essential freight links to the Bass Strait Islands

As island communities, the Bass Strait islands of King, Flinders and Cape Barren depend on access to regular and reliable shipping services. Cost effective transport connections with both domestic and overseas markets are crucial if primary producers and other businesses on the Islands are to remain competitive.

The Tasmanian Government recognises the importance of regular shipping services to the Bass Strait Islands. The Government believes that a genuine market exists where a long-term, sustainable commercial service can be established for King and Flinders Island at no long-term cost to taxpayers.

The Government has worked consistently with island communities and shipping operators to overcome sea freight challenges and maintain long-term shipping services for business and the community, and will continue to do so in the future.

The Bass Strait islands are geographically isolated with a comparatively low-volume freight task. Freight exports largely consist of livestock, agricultural and dairy products, while imports include fuel, fertiliser, other farming inputs and general cargo. The freight task is subject to seasonal peaks, with spikes occurring in October to November and February to March.

Shipping services are currently provided to King and Flinders Islands on a commercial basis. A Tasmanian Government subsidy exists to support regular freight services to Cape Barren Island. TasPorts manage port facilities at Grassy on King Island, and at Lady Barron on Flinders Island.

Imminent changes in the broader Bass Strait shipping market will have implications for the King Island service.

Since 2001, SeaRoad Shipping has provided general cargo and livestock shipping services to King Island using its vessel the SeaRoad Mersey. SeaRoad Shipping plans to replace the Mersey in late 2016 with a new vessel, which will be too large to dock at King Island.

Current and prospective Bass Strait Island shipping operators have expressed interest in providing services to King Island on a commercial basis.

The Tasmanian Government is confident that a suitable, market-based solution will be delivered and will continue to work with all key parties to facilitate this outcome over the long term.
Strategic response

In supporting a competitive Bass Strait freight market that meets current and future freight growth, the following are key policy recommendations and actions.

Policy positions

1.1 Private sector solutions to shipping capacity and service needs are the first and preferred response to capacity needs on Bass Strait. The Tasmanian Government supports planned investment in larger vessels by the two existing private operators.

1.2 Service competition within the Bass Strait container market is critical. The Government supports a no-lessening of Bass Strait shipping competition that seeks to maintain at least two major private sector domestic container operators.

1.3 The Government has established a tourism strategy for TT-Line that will maintain existing freight capacity. Opportunities to strengthen alignment with the time-sensitive market will be explored.

1.4 The long-term continuation of existing TFES arrangements, including the recent extension of the TFES to goods destined for international markets, is essential to reducing the freight rate of eligible shippers.

1.5 The Government supports balanced reforms to coastal shipping laws that will deliver cost competitive and expanded service choice to Tasmanian shippers.

1.6 The Government will actively seek to engage and work with relevant providers and exporters to support further development of air freight solutions to provide a broader and more flexible freight system for Tasmanian exporters.

<table>
<thead>
<tr>
<th>Actions the Tasmanian Government will undertake</th>
<th>Timeframe</th>
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<tr>
<td>Facilitate market-based solutions to Bass Strait container shipping needs, including the provision of transparent information to the market on shipping needs; identification of capacity and service gaps; and continued advocacy for regulatory changes that expand service choice for Tasmanian shippers.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Monitor container volumes with and across commodity sectors, to inform overall capacity and specific service needs.</td>
<td>Ongoing</td>
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</tbody>
</table>
| Work with industry, service providers and peak organisations to:  
  • define and quantify Tasmania’s time sensitive freight market, including product volumes, future growth rates and supply chain needs  
  • identify opportunities for the greater use of air freight. | October 2016 |
| Assess opportunities to reduce the volume of empty containers crossing Bass Strait. | Ongoing |
| Continued advocacy with the Australian Government to:  
  • secure the long-term continuation of existing TFES arrangements, including to transhipped freight  
  • maximise service choice to Tasmanian shippers as a result of any changes to the Australian Government’s coastal shipping laws. | Ongoing |
| Support intermodal competition from air freight by working with targeted Australian and international airlines to develop a business case for one or more direct flights a week from Hobart to a key Asian hub. | Ongoing |
Chapter 2 – Efficient freight gateways

By volume, 99 per cent of freight into and out of Tasmania is moved by sea, making ports a central point for the exchange of goods, and the focus for land freight connections.

As fixed, long-term assets, ports are expensive to provide, but maintenance and operational costs are comparatively low.

• Port charges influence sea freight costs.
• Port location affects transport distances to and from production and manufacturing centres and markets.
• Channel depth and tides influence ship size and access.
• Port infrastructure, services and landside space affect the efficiency of freight movements and the type of activities a port can support.

Tasmania has four major publicly-owned ports at Burnie, Devonport, Bell Bay and Hobart. Container and bulk freight activity is focused on the three northern ports, with freight volumes highest at Burnie Port. With the exception of the Brighton Hub, all Tasmania’s major intermodal facilities are located at a port.

In 2006, Tasmania’s ports were amalgamated under the state-owned company, TasPorts.

Key observations

• In 2014-15, 12.7 million tonnes of freight moved through Tasmania’s publicly-owned ports, with an additional 2.5 million tonnes per annum moved through the privately owned Port Latta.
• Bulk freight accounts for almost two thirds of total port volumes, and containers just over a third.
• Total bulk freight tonnages are highest at Bell Bay.
• The state’s major bulk freight sectors are mining, mineral processing and forestry.
• Burnie is Tasmania’s largest port, handling around 4.3 million tonnes of freight, including the largest container volumes at 54 per cent of total TEU.
• Burnie and Devonport are Tasmania’s main container ports, moving 239 254 and 207 888 TEU in 2014-15, respectively.
• Future growth in port throughput is forecast to be manageable, with TasPorts forecasting long-term freight volumes to be only slightly above a 2008 peak, by 2043.
2.1 Targeting greater aggregation and a more efficient use of port assets

Tasmania's port throughput is distributed across four major ports. Volumes are focused on the three northern ports, and are highest for both container and bulk freight at Burnie and Devonport ports.

Tasmania's ports were historically developed to support individual regions and key industrial customers. This has led to some duplication of infrastructure across ports, and to the development of specialised functions at individual ports. Despite some calls for port rationalisation, investments by shipping companies and customer supply chains built around existing infrastructure is significant.

However, reducing duplication where possible is important. Between 2010 and 2020, TasPorts estimated $300 million in capital and maintenance would be required across Tasmania's four major ports.

To date, capital and maintenance expenditure since 2010 has been over $120 million. Annual port maintenance and renewal expenditure increased from $4 million in 2007 to around $10 million in 2010 and increased further to $17 million in 2013 due to funding of a five year community asset maintenance program.

Freight volumes are a key driver of port efficiency. They also support economies of scale in infrastructure provision. In some cases, freight activities are not transferable or easily aggregated at a single port; for others, opportunities exist.

Across Tasmania's port system, the Tasmanian Government will:

- identify opportunities to aggregate freight volumes and activities in a way that maximises each port's comparative advantages
- maximise use of existing port infrastructure
- evaluate the role of key port assets in the context of forecast freight growth and customer needs.

TasPorts recently released its long-term plan for Tasmania's ports system, TasPorts 2043. This plan will form the framework to move forward on a range of key port initiatives for Tasmania. TasPorts is now developing master plans for individual ports, commencing with Burnie and Hobart ports.

2.2 Future arrangements to support Tasmania's domestic container task

In 2014-15, Tasmania's total container throughput was 461,656 TEU, with forecast growth of around 3 per cent per year. Burnie and Devonport ports account for 97 per cent of all container movements.

Container freight services are provided under long-term lease arrangements at Burnie Port by Toll (market share around 55 per cent) and at Devonport Port by SeaRoad Shipping (market share around 25 per cent) and TT-Line (market share around 20 per cent).

Container volumes at Burnie and Devonport ports have increased over the past decade, largely at the expense of volumes through Bell Bay.

This trend reflects a range of factors.

- Shipping service options. Three operators provide high frequency services out of Burnie and Devonport, including TT-Line's passenger ferries whose services are particularly suited to the movement of time-sensitive freight.
- Changing freight demand. Container-based and time-sensitive freight (for example, agriculture) is focused in the north-west. Agricultural produce from the north-east travels to the north-west for processing. The majority of inbound retail freight is destined for Launceston and Hobart.
- Market decisions, including the freight contracts and decisions of individual freight users.
- Long-term legacy tenancy arrangements have incentivised individual domestic shipping lines to operate out of Burnie and Devonport ports.
- Burnie and Devonport ports have a shorter sailing time to the Port of Melbourne.
- The introduction of TT-Line's Spirit of Tasmania vessels in 2002, which saw a market-shift to Devonport based on overnight, trailer-based freight.
2.2.1 Container capacity at Tasmania’s major ports

Container terminals require sufficient landside space for storage, loading and unloading. Access for larger ships may also be required over the longer term. Completion of the Burnie Port Optimisation project in 2015 has seen container capacity at Burnie and Devonport ports increase to 590,000 TEU per annum. Based on forecast growth of 3 per cent per annum, this capacity will be reached in around 2022.

There is currently sufficient landside container capacity in the northern ports to accommodate growth close to 780,000 TEU per annum. Catering for future container volumes beyond this point will require larger-scale investment in port development. Where and how this investment is provided has been the subject of debate.

Additional landside space is available at Burnie and Devonport ports for increased terminal capacity, at a relatively low cost. Burnie and Devonport ports are located in close proximity to each other. Based on existing freight flows and supply chains, it is unlikely that a shift in container activity from one port to the other would have an impact on land transport networks or significantly add to the cost and complexity of connecting supply chains. Additional capacity also exists at Bell Bay.

2.2.2 A primary domestic container port

The Tasmanian Government recognises the need to provide long-term clarity on future planning for Tasmania’s domestic container task. It considers Burnie Port as the logical location for Tasmania’s primary container port.

The Government, through Infrastructure Tasmania, will work closely with TasPorts, shipping operators and shippers to investigate this as an option, post-2025.

Any analysis will first consider the outcomes of an investigation into an international container terminal for larger vessels at Burnie Port, currently underway between TasPorts and DP World. While targeted at international cargo, this investigation will consider port configuration, vessel loading and unloading options, potential container volumes and broader land transport linkages, and will inform future options at the port as this relates to the container task.

In moving toward a primary domestic container port over the medium-term, the Government will have an overriding focus on the impact any change will have on market competition and costs, for both shippers and operators.

The Government will be guided by the following key considerations.

- **Market competition and cost.** The existing number of service providers across Bass Strait is the minimum required to deliver competitive tension into the market. Any investment must maintain at least this level of competition. Providing space for a second domestic container operator at Burnie and reviewing, over the medium term, existing lease arrangements at both ports to ensure market-based competition can be maintained at a single port, are key issues.

- **Infrastructure outcomes.** Considering savings to government associated with moving to a single container port; the ability of the Government to deliver a higher standard infrastructure response at a single location; and land transport outcomes.

- **Transparent identification of infrastructure costs and constraints at Burnie and Devonport ports.** Burnie Port has adequate space for expansion, through reconfiguration and small-scale reclamation. Devonport Port is constrained by adjacent urban development but has additional landside space within the existing port footprint to support additional development for containers. The river’s turning basin, which limits the number of larger ships the port can support, is the more significant impediment.

- **A long-term, staged and demand-driven approach** that incrementally responds to higher container volumes, and considers any impacts on other commodities and trades (for example, cruise ships, woodchips).

In taking this approach, the Tasmanian Government will target investment at other major ports to meet specific freight needs over general freight growth, avoiding further public investment in duplicated functions.
2.3 Planning for the needs of bulk freight customers

Approximately nine million tonnes of bulk freight passes through Tasmanian ports each year, accounting for around two thirds of total port throughput. Major commodities include mineral concentrates and ores, cement, petroleum, logs and woodchips.

Bulk facilities operate at Bell Bay, Burnie, Devonport, Hobart and Port Latta. Bell Bay is Tasmania’s largest public bulk freight port. Together, the privately owned facilities at Port Latta and Risdon move around 3.6 million tonnes a year, which is just over one third of the state’s total bulk task. Commodity-based specialisation is a feature of Tasmania’s ports, and this has largely been driven by bulk freight.

Bulk freight accounts for a high proportion of throughput at individual ports.

- Around 61 per cent of throughput at Bell Bay Port has an origin or destination in the adjacent Bell Bay Industrial Estate. A further 30 per cent of throughput is forestry freight associated with adjacent processing facilities.
- Cement from Railton accounts for just over a third of throughput at Devonport Port.
- Around 72 per cent of throughput at Hobart Port is freight moved over Nyrstar’s private wharf at Lutana.

Bulk freight tends to be high tonnage, unpackaged and requires point-to-point transport (for example, from mine or processing plant to port). Bulk shipping services are often provided by direct charter, on a longer service rotation. Dedicated bulk shipping services in Tasmania include mineral exports from Burnie, cement via Devonport, and petroleum products into Self’s Point (Hobart), Bell Bay, Devonport and Burnie.

2.3.1 Critical infrastructure – options to replace Tasmania’s bulk shiploader

Tasmania’s only minerals concentrate shiploader is located at Burnie Port. The facility is owned by TasRail, and includes a loader, wagon tippler, conveyance system and storage shed. The shiploader handles up to 500 000 tonnes of mineral concentrates a year and primarily serves bulk mineral customers from the West Coast.

As the only multi-user asset of its kind in the state, the shiploader is a critical part of mining supply chains. The existing shiploader is close to life-expired, and depending on throughput, will require replacement over the short to medium term.

TasPorts is currently developing a master plan for Burnie Port, which will guide long-term development of the port in response to demand. Options and potential locations for loading minerals concentrates are likely to be identified as part of this plan.

Individual ports have developed as natural gateways for specific bulk freight tasks, with significant investment made to support long-established bulk freight activities. Planning for the needs of bulk freight users must recognise existing port synergies, and support an appropriate level of port specialisation.

Opportunities for aggregation of like activities across ports remains important, and reducing duplication where possible. A review of shiploading infrastructure across all major ports, together with product storage needs and ship access considerations, will also form part of a broader bulk port prioritisation plan.

2.3.2 Supporting access for larger vessels at Burnie Port

The Tasmanian Government is currently developing a Western Tasmania Export Corridor Plan. The Plan will consider freight demand, supply chain operation and infrastructure issues and opportunities to support key bulk export tasks from Western Tasmania. As the region’s key export port, port infrastructure and shipping services at Burnie Port is a focus of the Plan.

The bulk freight task associated with the extraction and transport of the state’s rich mineral deposits on the North West and West Coasts also raises issues of scale and capacity. There is the potential need for significant dredging work at Burnie Port to allow for greater capacity bulk ships to efficiently transport ore from the state to export markets. The size of vessels necessary to achieve this improved efficiency, are presently not capable of accessing the Port. This type of major port infrastructure work provides opportunities for strategic co-investment with commercial customers.
2.4 Commercial frameworks are a key part of port planning

Ports operate under detailed commercial frameworks, which regulate the cost of using and accessing port infrastructure and services. For example, leases over terminals and infrastructure, and activity-based charges levied by port authorities.

TasPorts publishes an annual schedule of port charges. Port charges form a small proportion of a Tasmanian business’ total costs in moving freight across Bass Strait. Despite this, a small number of Tasmanian businesses have identified port charges as high compared to other Australian ports.

Private companies own or have long-term leases over land and infrastructure at each of Tasmania’s major ports. This includes private wharves owned by Bell Bay Aluminium and Forico at Bell Bay, and Nyrstar in Hobart. Major container terminal leases also exist at Devonport and Burnie ports.

The commercial arrangements governing a port can significantly influence long-term planning, service competition, costs to users and the location of activities.

The Tasmanian Government will continue to work with TasPorts and key stakeholders to align commercial arrangements with long-term port outcomes.

2.5 Understanding the implications of a second container port in Victoria

The Port of Melbourne is Australia’s largest maritime hub for containerised, automotive and general cargo. It is a critical link in the supply chain of Tasmanian businesses, with around 98 per cent of Tasmania’s inbound and outbound container freight processed through the Port.

Tasmania represents around 25 per cent of total freight demand through the Port of Melbourne.

Capacity constraints, and an expectation that Victorian ports will in the future need to cater for larger ships, are driving plans to develop a second container port near Melbourne.

However, the timing and location for development of the second port have not yet been determined. Previous locations have included the existing deep water port at Hastings, and a new port at Bay West. The Victorian Government has now indicated it will seek advice on the preferred timing and future location of the second port from Infrastructure Victoria.

Depending on the future location of a second port, land freight costs for some Tasmanian shippers will increase. A container logistics study undertaken by the Port of Melbourne Corporation suggests that 86 per cent of Tasmanian imports to Victoria are destined for locations spread across metropolitan Melbourne, with relatively active areas both east and west of the central business district.

In the more immediate term, the Victorian Government is proceeding with plans to privatise operations at the existing Port of Melbourne under a medium-term (50 year) lease arrangement with legislation supporting the privatisation having passed the Victorian Parliament. The transaction is anticipated to be completed by the end of 2016.

The legislation facilitating the privatisation of the Port of Melbourne establishes the regulatory framework that will apply to port fees and charges following privatisation; and extends the power of the Victorian Essential Services Commission to undertake periodic reviews to ensure that the new operator is not misusing its market power in setting rents.

The Tasmanian Government will continue to closely monitor the implementation of regulatory measures to ensure Tasmania’s interests are adequately protected. Tenure at the Port for Tasmanian operators is a key issue. The Tasmanian Government is continuing to advocate for a resolution to this issue in the best interests of Tasmania’s freight system.
Strategic response

In delivering an improved port system, the following are key policy recommendations and actions.

Policy positions

2.1 Burnie Port is the logical location for prioritising long-term public sector investment for domestic container growth, but further work is needed to understand commercial and market benefits.

2.2 Individual ports have developed as natural gateways for specific bulk freight tasks, supporting investment by shipping companies and Tasmanian businesses. Reducing duplication where possible is important.

2.3 Access to the Port of Melbourne at fair and reasonable prices is critical for Tasmanian shippers. The location of Victoria’s second container port is important, land freight costs for some Tasmanian shippers may increase. Private sector participation in port investment, where practical, is encouraged.

<table>
<thead>
<tr>
<th>Actions the Tasmanian Government will undertake</th>
<th>Timeframe</th>
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<tr>
<td>Assess the benefits of a primary domestic container port at Burnie, examining supply chain, commercial, and market outcomes for shippers, operators and the port manager.</td>
<td>June 2017</td>
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<tr>
<td>Develop a bulk freight port investment prioritisation plan.</td>
<td>December 2017</td>
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<tr>
<td>Finalise a Western Tasmanian Export Corridor Plan, focused on improving supply chain efficiency and productivity for key export sectors.</td>
<td>August 2016</td>
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<tr>
<td>Identify the long-term location and key demand drivers for a new minerals concentrate shiploader at Burnie Port.</td>
<td>August 2016</td>
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<tr>
<td>Continue to engage with the Victorian Government on port privatisation and future port planning in Victoria to ensure Tasmania’s interests are fully considered.</td>
<td>Ongoing</td>
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