

Submission No.2

Port of Brisbane Pty Ltd submission to the Queensland Government's Parliamentary committee inquiry into the effect of coastal shipping policy on the development of an efficient and productive multi-modal freight network, taking into account issues such as regional development, supply chain security, road safety impacts and contestability between coastal shipping and other transport modes.



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Recommendation

Coastal shipping will be at its most efficient when it is governed by market-driven, open regulation which will:

- exempt foreign-flagged vessels employing foreign crews from the operation of Australian industrial relations laws
- remove the regulatory system of licenses and permits
- remove the reporting requirements of vessel operators
- prompt legislation changes to deal with importation, immigration and workplace relations
- retain regulatory settings around competition, quarantine, revenue, safety and security policies

This will provide freight owners with a real choice in mode of freight transport and allow flexibility in their supply chain. It will force improvement in regional port infrastructure and drive efficiency through competitiveness and the development of intermodal facilities. It will also give cargo owners the ability to split their freight task between the three modes, which will give them certainty during natural disasters by ensuring continued access to the market.

A commercially viable coastal shipping industry and improvement in regional port infrastructure will take pressure off the national road network through limiting congestion, decreasing the capital spend on road infrastructure, and limiting the amount of money needed for road maintenance.

PBPL recommends the Queensland Government implement policy that is reflective of the need for less cost in the supply chains and that would support a deregulated environment.

Introduction

Managing the expected growth in domestic freight Queensland's road and rail infrastructure will require enormous investment over the coming decade. Beyond this short period, an even greater investment by the public and private sector will be required to ensure our road and rail lines do not experience levels of congestion which significantly impact economic activity.

In stark contrast, delivering coastal shipping infrastructure requires relatively minor investment in channels, navigational structures, vessel management and intermodal connections. It is estimated to cost approximately \$3.3 billion to build hundreds of kilometres of highway roads, or \$6 billion to build hundreds of kilometres of single track freight rail, but will cost next to nothing to deliver the entire length of sea lane infrastructure used by coastal shipping.

The Port of Brisbane is one of Australia's fastest growing container ports, and Queensland's largest multi-cargo port. It can play a significant role in facilitating the growth of coastal trade.

The Port of Brisbane is located at the mouth of the Brisbane River, and is managed and developed by the Port of Brisbane Pty Ltd (PBPL), under a 99-year lease from the Queensland Government.

PBPL is owned by the Q Port Holdings (QPH) consortium, comprising four of the world’s largest and most experienced infrastructure investors. The members are: Caisse de dépôt et placement du Québec; IFM Investors; QIC Global Infrastructure on behalf of its managed funds; and Tawreed Investments Ltd, a wholly-owned subsidiary of the Abu Dhabi Investment Authority.

The Port of Brisbane is a unique and significant piece of Australian infrastructure, handling more than \$50 billion annually, and growing. It is a large-scale multi-cargo import-export facility providing for bulk, general cargo and container trade. The Port of Brisbane is Australia’s third largest container port, providing more than 95% of Queensland’s container and motor vehicle imports. Further, it is a unique capital city port that provides for bulk commodity exports from the agricultural regions and coal basins of southern Queensland and northern New South Wales. As such, the Port of Brisbane is a vital link between Australia and its overseas markets, facilitating both the export and import trades so crucial to Australia’s economic prosperity in the modern age.

It is recognised that the ability to efficiently and reliably move goods through supply chains, particularly to and from international markets, substantially determines our productivity and economic performance.

Between 2010 and 2030 notionally:

- truck traffic is predicted to increase by at least 50%
- rail freight demand is expected to jump 90%, providing infrastructure is built
- the number of containers crossing the nation's wharves will increase by 150%¹.

This growth, however, creates a number of challenges for PBPL to cope with supply chain demands. Brisbane is the only Australian capital city where rail freight traverses the inner city passenger rail network, and passenger services and freight services are required to mix close to the CBD.

In addition, future costs of congestion in Brisbane and Queensland are expected to increase at a greater rate than any other capital city and state in Australia. As congestion increases on local, state and national roads, coastal shipping will need to play a more substantive role in transporting freight.

Table 1 shows the year-on-year growth in trade of the last six years, placing the Port of Brisbane in a central position to comment on the need for a cost effective and efficient coastal shipping industry.

Table 1: Trade Growth Port of Brisbane

		2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	% Increase
Container	Teus	942,743	895,967	919,243	978,814	1,025,069	1,069,882	13%
Break Bulk / General Cargo	Weight Per / Tonne	1,057,666	985,673	1,008,850	1,080,602	1,219,848	1,195,592	13%
Dry Bulk	Weight Per / Tonne	9,853,625	11,313,525	10,646,534	11,092,742	13,594,115	13,493,650	37%
Wet Bulk	Weight Per / Tonne	11,496,191	11,846,531	12,699,478	12,831,860	13,165,090	13,699,525	19%

In Queensland, communities increasingly face the effects of natural disasters which leave our land-based modes of transport in disarray. As seen following the flood events of 2011, 2013 and 2014, Queensland’s northern and western communities and industries can be isolated for extended

¹ The Department of Transport and Main Roads Queensland Discussion Paper on the development of Coastal (Liner) Shipping, April 2014, page 4

periods. A cost effective and competitive coastal shipping market will enable these communities to reconnect swiftly, facilitate reconstruction, and enable economic activity to resume far more quickly.

Coastal cargo

In 2011-12, approximately 600 billion kilometres of freight was moved throughout Australia. Australia's domestic freight task has more than quadrupled since 2000. During the same period of this massive growth, the coastal cargo component (sea freight) has fallen from its peak of 126.2 billion freight kilometres in 2006-07 to less than the 2000-01 level – a 4% fall over the decade².

While road and rail modes have continued to play significant and growing roles in moving Australia's domestic freight, coastal shipping as a mode has reduced through a combination of regulation, competitive disadvantage and reputation.

Australia has the distances and infrastructure to develop and maintain a competitive and vibrant coastal cargo sector. With major centres – particularly on the east coast – more than 900 kilometres apart, improving port infrastructure within or adjacent to major population centres and developing intermodal operations, there is no natural competitive reason for coastal shipping to play such a minor role in our domestic freight task

Historically, coastal shipping has played a role in moving bulk commodities around the Australian coast. For example, minerals and metals from mine locations to refineries and processing plants, and oil and petroleum products for distribution to major population centres, have all utilised coastal shipping. While there will continue to be a future for the coast trade in these commodities, the real future of coastal shipping lies where the greatest freight challenge will be faced – in moving the non-bulk, container and general freight sectors.

As a mode, road transport carries the majority of commodities produced and consumed within Australia. More than 95% of Australia's road freight is carried by heavy vehicles. On the major north-south and east-west freight corridors, road transport continues to dominate despite extensive distances – distances where coastal shipping parameters should compete on transit, cost and overall efficiency.

Australian coastal freight today can be viewed in four broad categories: containerised goods; liquid bulk; dry bulk; and break bulk. As illustrated in Table 2 below, the vast majority of Australian coastal shipping is in dry and liquid bulk. As refineries around Australia close, coastal shipping of bulk liquids will diminish as refined fuels will be imported directly to ports along our coast line.

Table 2: Share of Coastal Freight January 2014

Cargo Type	Loaded (%)
Dry Bulk	64.9
Liquid Bulk	20.3
Containers	9.7
Break Bulk	5.1

Source: Bureau of Infrastructure, Transport and Regional Economics

² Freightline 01, BITRE.

The low value, high weight, long distances and handling requirements of bulk commodities combine to make this sector suited to coastal shipping.

The market for containerised and break bulk transport is dominated by the road and rail modes due to a lack of competitive neutrality and the current low efficiency of the coastal shipping sector.

The impact of regulation

The focus of regulation on Australian coastal trade has been on creating an Australian fleet and shipping industry; not on delivering an alternate transport mode or competitive transport (shipping) market. Regulation both State and Federal over a significant period has distorted the domestic freight market.

The combinations of these regulation changes have broad negative effects for the Australian economy and for Australian businesses and consumers.

- These changes were intended to reduce the number of foreign vessels carrying coastal freight, and to make Australian ships more competitive. It did this by significantly increasing the regulatory burden on foreign-flagged ships.
- Foreign-registered ships temporarily operating on the coastal trade must undertake at least five voyages in twelve months, and the loading dates, origin and destination, cargo types and volumes are specified at the start of that period.
- Foreign-registered ships can only carry cargo if there are no Australian-flagged ships (or foreign-flagged ships transitioning to Australian flags) that can do so.
- Foreign-flagged ships carrying foreign crews have to pay Australian award wages, which are far in excess of International Transport Workers' Federation rates.

These changes were aimed at encouraging the use of vessels that employ solely Australian resident crews. In doing so, the changes have the effect of significantly reducing the flexibility in the coastal shipping trade, and squeezing foreign-flagged ships out of the market along with limiting the flexibility of local supply chains.

By perpetuating the focus on an Australian fleet, both the cost and administrative elements of the coastal shipping market have escalated to make it non-competitive in two of the most significant markets – containerised and break-bulk freight. Combine these elements with a historically inefficient waterfront, and the decline in the share of the freight task for coastal shipping was inevitable.

There are three primary requirements for a viable coastal shipping product – cost, transit and frequency. Transit times and service frequency are elements largely within the control of shipping lines and ship operators. The cost and administrative impact of regulation is not.

Regulation of the coastal shipping trade has resulted in uncompetitive vessel operating costs on all but the most highly suited cargo legs in the bulk sectors.

In addition, regulation of other competing transport modes – particularly the trucking industry – has played a significant role in reducing the coastal shipping cost advantage even where distance should favour the mode. The externalities of trucking have not been paid for by the industry, where the

engineering impacts of one heavy vehicle can be the equivalent to 5000 cars. As a result of subsidisation of the heavy vehicle industry, particularly long haul markets, a coastal cargo mode cannot compete, even when distances present a competitive advantage.

While subsidies in the rail sector have had less of an impact on coastal shipping, Government policy changes at the time created competitive neutrality between road and rail modes; it is this competitive neutrality that has come at the expense of the coastal shipping sector.

The following make coastal service less cost effective and have combined to deliver a non-competitive coastal shipping market:

- labour costs
- double-handling and operational inefficiencies
- limited competitive tension within the mode
- a lack of integrated modal logistics (buy-in by other modes, truck in particular)
- no access to global cost efficiencies via scale as available to international ship operators.

In 2010 there were seven shipping lines providing regular efficient and competitive services from Brisbane to Fremantle. Immediately prior to the introduction of the revised coastal shipping regulations in 2012, five of the seven shipping lines withdrew their services from this route. The effect was a 62% drop in volume shipped coastally from Brisbane to Fremantle. Some of this trade move to road and rail but the majority, i.e. timber, iron, steel and building products, are now imported from international markets directly to Fremantle.

Both the cost and administrative burden of current regulations has resulted in international carriers exiting the coastal trade. This is particularly relevant to the movement of freight between major population areas (containerised, general and break-bulk cargoes).

Uncertainty created by current regulation has also seen international carriers withdraw. These carriers have not been able to establish reliable ongoing services or develop client relationships to enable a competitive coastal shipping market to be established. Since regulations changed, the additional administrative complexity of the special arrangements under a range of Australian laws – related to workplace pay and conditions, immigration and taxation, customs duty and excise, and the complication of global imbalances of containers – combined with relatively high terminal charges and poor productivity has seen lines prefer to be absent from the market.

It is suggested that higher costs through the administrative requirements of the regulation have distorted the coastal shipping market and the corresponding market rates. By way of example, a 20'GP from Shanghai to Melbourne is currently charged at \$A 548 or less than 50% than the move between Brisbane and Melbourne, on what could be the same vessel.

To reverse this impact, the coastal shipping market must be low cost. Short-term, it is not possible to restructure the modal competitive landscape by targeting the road or rail sectors with increased charges to reduce the cross subsidisation by non-commercial vehicles or through tax breaks (although this should be addressed long-term).

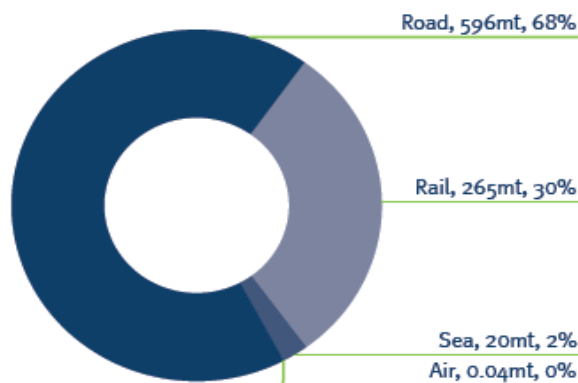
The solution is to allow the coastal shipping mode to compete on price by enabling it to access international cost structures for coastal operations, noting that labour and fuel are the two major cost components to a ship operator.

Qld Coastal Services as case studies

There have been a number of attempts to establish coastal services for containerised products and break bulk products on the Queensland coast without success. This is due to a number of factors, predominately the continued subsidisation of road and rail by successive State and Federal Governments. As a result, shipping has not been able to compete on an equal playing field. This has never been more evident than during the recent resources boom in Queensland where the transport of oversized and over-mass cargo frequently clogged the State's roads. The lack of a viable commercial coastal shipping industry will continue to result in increasing congestion on our state and nation's roads and highways. There is one service operated by Swire Shipping which calls at Brisbane, Gladstone, Townsville and Darwin twice a month. Their 2012/13 loading statistics for Brisbane was a lowly 638 teus and 456t non-containers.

Figure 1 below illustrates the modal breakdown of freight moved throughout Queensland, and highlights the poor utilisation of coastal shipping due to relatively high costs and impositions caused by the current regulatory system.

Figure 1: Modal Share of Queensland Freight



Source: Centre for Transport Energy and the Environment: *Queensland Transport Facts 2012*

The future of coastal cargo

International studies propose that the distance where coastal shipping competes with land-based modes is approximately 900 kilometres. In Australia, this leads to defined markets where coastal shipping should be operating, particularly in the containerised and break-bulk sectors.

Container volumes are the key to a viable service, therefore the need to bring the decision makers in the supply chains along the journey and have them commit to a long term service is paramount to the success of any future service. Recognising the social and environmental positives is also essential. Container volumes will create the need to have efficient nodes at each end of the shipping leg to reduce landside costs. The port centric models for coastal centres which have proven success around the world will consolidate cargos through a hub and spoke method using all modes of transport. Any thought of using a "milk run" method which is inefficient and not cost effective will fail and setback the any progress that is made.



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The map of indicative freight volumes below, while created in 2001, is the most current available; however a new data set is expected to be released in 2015 and will clearly indicate the changes in the freight market.

Figure 2: Indicative Freight volume 2001

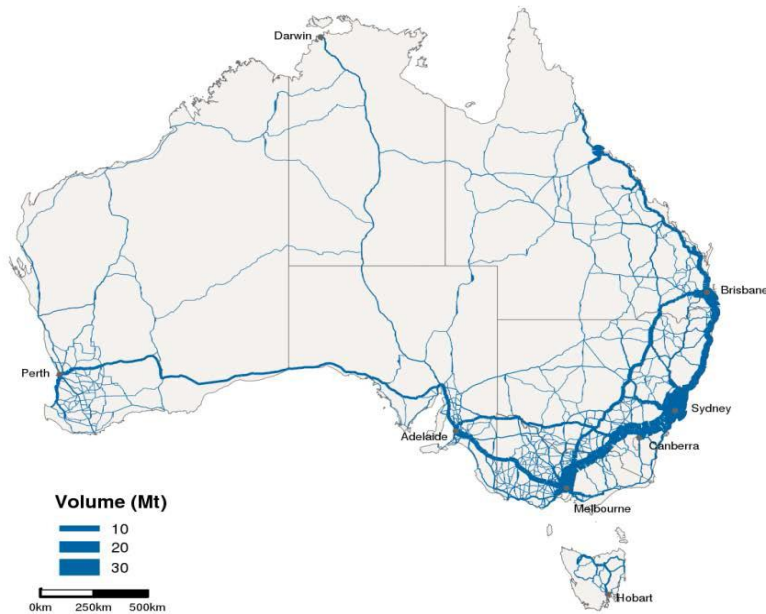


Figure 2 clearly highlights a number of routes where coastal shipping should be operational³.

- ❖ Melbourne – Brisbane – Melbourne
- ❖ Brisbane – Townsville – Brisbane
- ❖ Sydney – Perth – Sydney
- ❖ Melbourne – Perth – Melbourne
- ❖ Brisbane – Perth – Brisbane

The volume outlook for each of these sectors is significant and is anticipated to include the major share of forecast volumes as outlined below (Table 4).

Table 3: Estimated Interstate Freight (in Million Tonne kilometres)

State Freight Flows	2014 forecasts	2024 forecasts
VIC - QLD - VIC	17,999 Mtkms	27,109 Mtkms
NSW - WA - NSW	8,524 Mtkms	10,487 Mtkms
VIC – WA - VIC	8,907 Mtkms	11,975 Mtkms

This level of growth – if solely accommodated by growth in road and rail freight – will lead to significant infrastructure constraints. The cost of the congestion on State and Federal economies will be substantial. The investment required in road and rail infrastructure would increase pressure on

³ We have not included Tasmania as market dynamics are clearly different.

State and Federal fiscal positions, development costs are likely to escalate, and externalities such as social and environmental impacts will be significant. Coastal shipping is a cost-effective, efficient and productive alternative.

Recommendations to achieve a viable coastal shipping market

Coastal shipping will be at its most efficient when it is governed by market-driven, open regulation which will:

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