

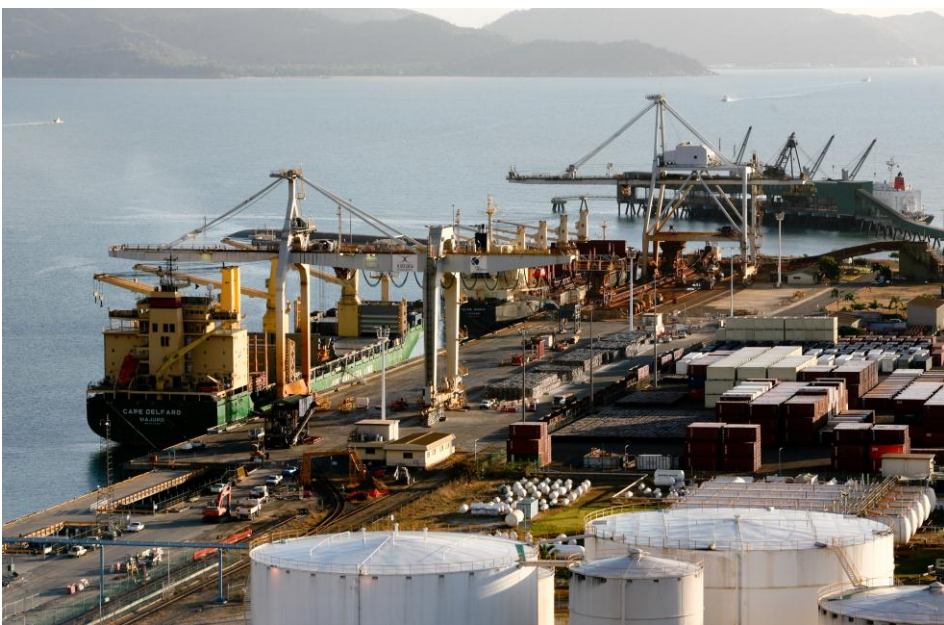


**PORT**of  
**TOWNSVILLE**

Nexus North Queensland

**Transport, Housing and Local Government Committee Inquiry:**

***Effect of coastal shipping policy on the development of an efficient and productive multi-modal freight network***



Port of Townsville Ltd

July 2014

## **Introduction**

Port of Townsville Limited (POTL) is pleased to have the opportunity to provide comments to the Transport, Housing and Local Government Committee Inquiry into the effect of coastal shipping policy on the development of an efficient and productive multi-modal freight network in Queensland.

Whilst the inquiry is focusing on the feasibility of coastal shipping between Queensland ports, POTL also highlights its concerns regarding the costs of coastal shipping on all Australian shipping routes. These costs arise because of the restrictions on the use of foreign vessels under Commonwealth legislation. In order to increase competitiveness of coastal shipping and therefore improve the productivity of the freight task more generally, economic deregulation of the coastal shipping sector should be implemented.

## **General Comments**

Coastal shipping could be instrumental to the development of an efficient and productive multi-modal freight network. Domestic sea cargo transport could be the critical component to boost regional development in Queensland and maintain supply chain security. A remarkable opportunity lies in this neglected and deteriorating sector of the nation's domestic freight movement.

Government objectives must focus on recognising and encouraging the benefits of coastal shipping as a viable and attractive part of Australian transport infrastructure, complementing road and rail as the preferred method of long haul transport. Coastal shipping is safe, environmentally efficient with the lowest tonnes/km carbon emissions of all modes by far, cost competitive with other transport modes and international shipping, and requires the lowest level of national infrastructure development and ongoing maintenance.

The Port of Townsville is critical to the economic and structural development of regional Queensland. Port of Townsville is a Northern Australian coastal port, strategically important in terms of the potential for trade with the rising Asian markets. It is also critical to the Northern Queensland supply chain as it serves as a distribution hub for northern, western, central and southern regional cities and shires. Commodities imported through the Port, whether from international or domestic markets, will be distributed to Cairns, the Tablelands, Innisfail, Ingham, Charters Towers, Mt Isa, Cloncurry, Tennant Creek (NT), Ayr, Proserpine and Mackay within 24 hours by road or rail. In addition, the Port of Townsville plays an integral part in the supply chain for the central Queensland resources sector in relation to project cargo, large mining equipment and construction materials. Coastal shipping provides an alternative for domestic suppliers to congested road transport for these over-sized loads.

Port of Townsville has recently made significant investments and is pursuing future strategies to facilitate the expansion of containerised import and export trade. Currently large numbers of containers are transported over a thousand kilometres by road and/or rail from Townsville to Brisbane and return, placing increased pressures on the congested South East Queensland network. Coastal shipping would assist with the flow of containers as part of an intra-state or east coast service.

The Corporation welcomes this review and has a vested interest in its outcome given the importance of coastal shipping to Port of Townsville's trade growth.

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Coastal shipping is suited to high volumes over long distance unlike road or rail which are suited to small/medium volumes over short/medium distances. The challenge of coastal shipping is to gain sufficient volume of non-time critical cargo to create a viable shipping service.

Further conducive factors include:-

- Reduces road congestion;
- Provides resilience, enabling movement of goods if rail and roads are cut due to tropical cyclone and monsoonal floods;
- Minimises social impacts around road and rail freight corridors;
- Competitive because of high and increasing fuel costs by road;
- Reduces maintenance and costs of highway upgrades;
- Reduces road safety concerns;
- Frees up rail capacity;
- Reduces maintenance of costs of rail upgrades;
- More environmentally friendly compared to both road and rail.

Northern Australia is an ideal example of where coastal shipping has a critical social and economic role to play given extreme weather events such as tropical cyclones and monsoonal flooding when road and rail systems are adversely impacted. Coastal shipping can ensure greater resilience in the supply chain following these natural disasters and significant rain events when highways are frequently cut.

Figure 1: Comparative example of different transport modes



◀ **One fully laden ship (such as that pictured) loaded with freight at the Port of Townsville and moving along the coast of Queensland would have the effect of:**

▶ **Removing 596 B-Double Trucks of 34-tonne capacity off the Bruce Highway;**



◀ **Transporting the same quantity of freight as 810 25-tonne capacity Semi-Trailers; or**

▶ **10 inter-modal Freight Trains (assuming approximately 2,000 tonne capacity)**



Consider what benefits arise from a scheduled 'weekly' coastal shipping service, in terms of reducing road and rail congestion and managing future freight demand

Shipping is an integral part of the supply chain and can provide a safer, more environmentally friendly and a more economical mode of transport for the movement of long haul freight. This would lead to overall efficiency gains in the movement of freight, maximising the efficiency of existing networks. Increasing the freight load on coastal shipping is a viable and safe option, which will contribute significantly to reduced congestion on roads and allow for future freight growth. Coastal shipping also enables the movement of cargo in bulk and cargo that is too large to be carried by other modes of transport.

There have been a number of attempts to establish coastal services for containerised products and break bulk products in Queensland without success. This is due predominantly to 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 been particularly evident during the resources boom where the transport of oversized and over-mass cargo has frequently clogged the State's roads. The lack of a viable coastal shipping industry will continue to result in increasing congestion on roads and highways and higher costs for regional businesses and communities.

Container volumes are the key to a viable service. The decision makers in the supply chains need to commit to a long term service if there is any chance for a sustainable, competitive service. Container volumes will create the need to have efficient connections at each end of the shipping leg to reduce landside costs. The best chance of success is to consolidate cargos through a hub and spoke method using all modes of transport. A regular, consistent service for containers, bulk and over-seize cargo between Brisbane (Southern QLD hub) and Townsville (North QLD hub), for example, would provide a coastal services that is most likely able to compete with road and/or rail.

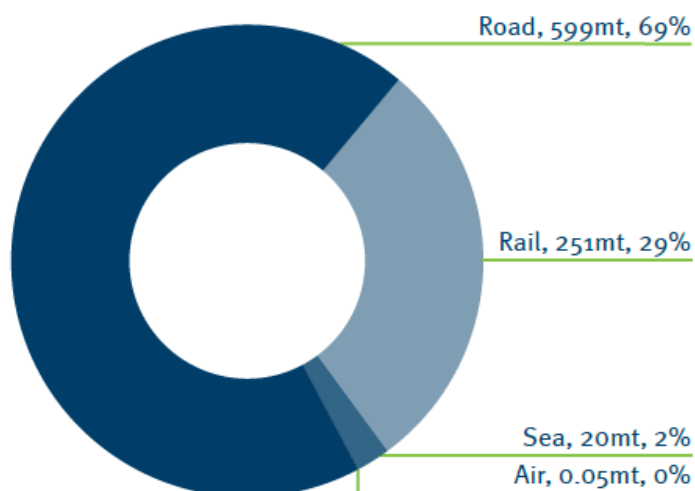
Ports must respond with appropriate and highly effective interface such as consistent berthing availability, efficient unloading equipment, reliable stevedoring capacity and adequate laydown facilities. Optimal freight forwarding conditions are critical if coastal shipping is to compete with other modes of transport. It would defeat the purpose if sea freight were to remain at anchor for long periods or not be unloaded promptly. Port of Townsville has undergone internal and external assessment of its coastal shipping capabilities. The capabilities to handle coastal vessels currently exist at the port with new efficient unloading equipment (2 new heavy duty mobile harbour cranes) to be commissioned over the next two months.

Shippers can respond to growing freight demands by increasing the size of their vessels accordingly, or to service a route with multiple vessels depending on the demand.

**Consider what impact coastal shipping would have on competition in the Queensland freight transport sector**

For Australia's transport industry to operate at its optimal level, coastal shipping must be considered an integral component of a holistic national logistics framework; all transport modes are required and should complement each other to form a consolidated transport network. There is no reason why coastal trade cannot occupy a larger proportion of the growing domestic transport industry.

Figure2: Queensland's freight movement by mode 2010-11



Source: Centre for Transport Energy and the Environment:  
*Queensland Transport Facts 2013*

With major cities more than 900km apart (studies propose this is the distance where coastal shipping can compete with land based modes) Australia has the distances to facilitate a competitive coastal cargo sector. In addition, delivering coastal shipping infrastructure requires relatively minor investment compared to what will be required to manage the expected growth in domestic freight on Australia’s road and rail networks.

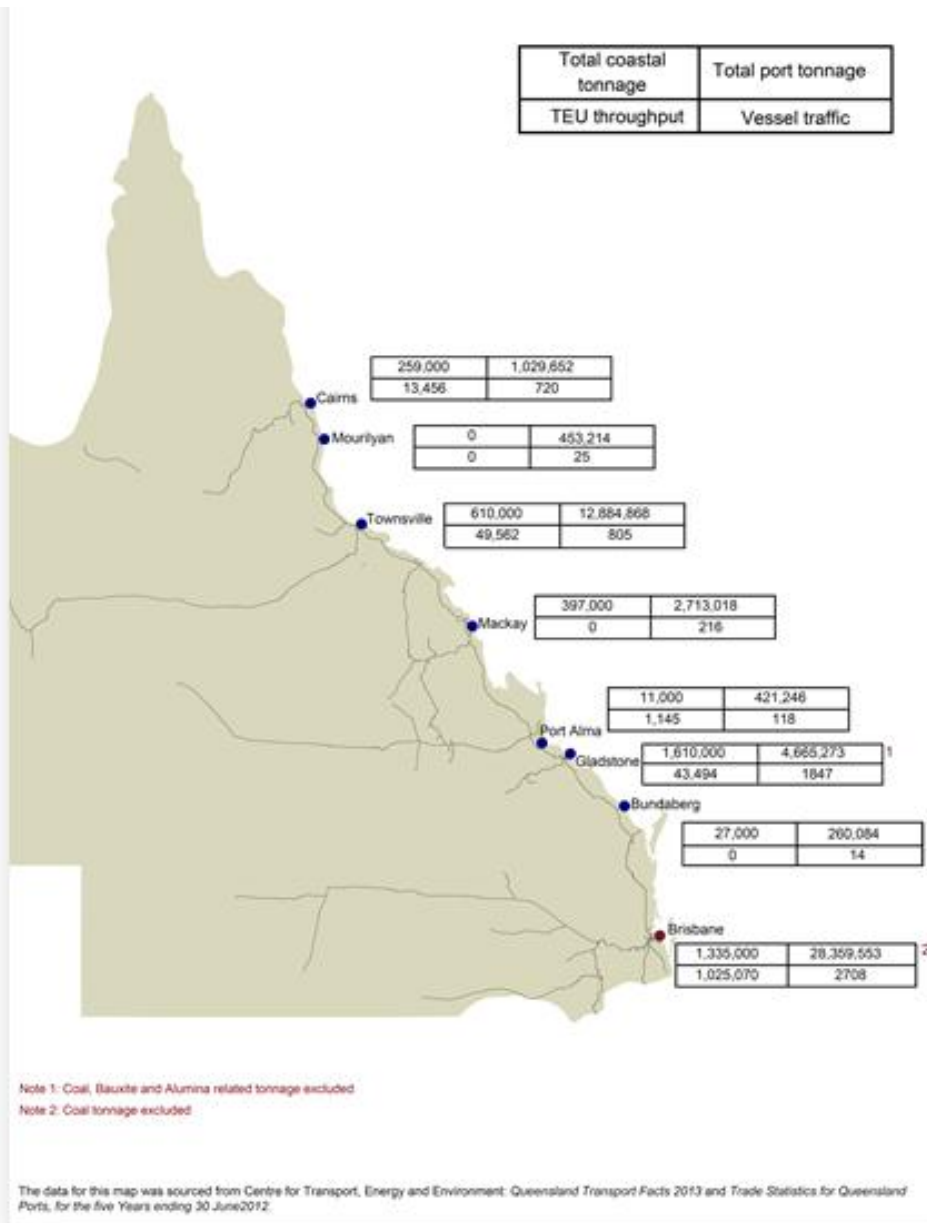
Port of Townsville supports the case for coastal shipping in Queensland/Northern Australia between eastern seaboard ports and Townsville, and Townsville to Darwin as the Corporation believes shipping can be competitive over these long distances.

Revitalising the movement of freight via sea in the domestic transport network is now a focal point in terms of trade growth and efficiency gains at Port of Townsville. Through research, corroborated by industry’s body of evidence, the Port can quantify the economic, environmental and social benefits of actively pursuing domestic sea cargo transportation. Discussions have taken place with a number of shipping lines to progress plans for a coastal shipping service.

The movement of domestic bulk cargo already occurs at POTL. Over 500,000 tonnes of cement is imported annually, in addition to fertiliser and petroleum products. These markets have their own dedicated ships and access to specific facilities. Coastal shipping routes already exist, for example Swire (every 3 week service) and Mariana (NT/Qld/Asia) run a limited service. No infrastructure impediments exist for the Port, nor are there barriers in relation to rail or road for current or potential growth. Market driven investment will occur as required.

Non-bulk domestic coastal trade however has declined dramatically through the Port of Townsville. The frequency of transit times and pricing of shipping services do not attract regular coastal business. The carriage of domestic cargo is often at the mercy of the much established and planned international schedules and volumes.

Figure 3: Summary of Queensland Shipping Activity 2012



Map Source: Queensland Transport and Main Roads<sup>4</sup>

<sup>4</sup> Trade Statistics for Queensland Ports, For the five Years ending June 2012, Transport and Main Roads

The drivers of coastal shipping through Port of Townsville are:-

- Transshipment of cargo to/from international shipping trade routes
- Domestic cargo particularly on long-haul coastal routes i.e. Melbourne-Townsville; Sydney-Townsville; Brisbane-Townsville; Townsville-Darwin.

Coastal shipping is well suited to non-time sensitive and non-urgent cyclical replenishments. Coastal shipping must secure these contestable freights to underpin the service. Regular, stable and reliable

freight volumes will underpin a sustainable service, with efficient scheduled berthing and load/unload rates for cargoes providing for efficient and timely turnarounds.

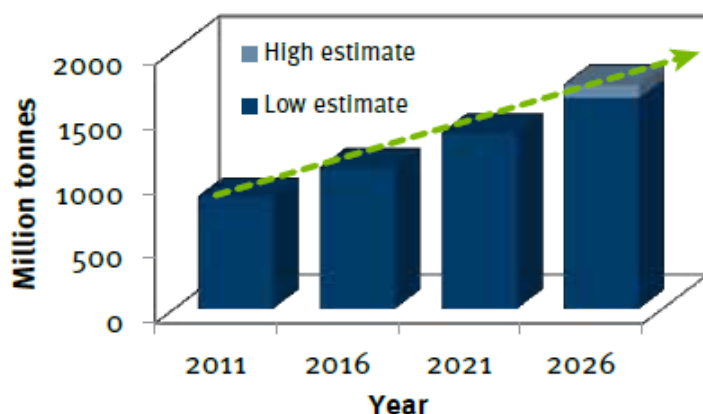
Port of Townsville believes there are major commodity groups that are contestable for coastal shipping. Domestic freight derived from warehouse and distribution operations for major wholesaler and retail chains make up the largest proportion as well as others (furniture, tyres, white good retailers). Townsville is perfectly positioned as the major transport hub to the greater Queensland region north of Rockhampton given its location to service these catchment areas and the existing substantial investments in port, land and transport corridors.

Other contestable freight could include metal manufacturers, steel and alloy producers, building materials, Australian Defence Force, seasonal produce, refrigerated foodstuffs, frozen meat and recycling industries.

There is currently an estimated 200,000 TEUs travelling on rail/road annually between Townsville and Brisbane that could potentially be transported by coastal shipping. For example, there are an estimated 10 trains per week servicing one of the major grocery retailers between Rockhampton and Cairns from Brisbane equating to around 1200 TEU per week. Another example is the 60,000 tonnes of fertilizer which travels from Townsville to Brisbane per annum.

POTL believes there is sufficient suitable freight volume to make coastal shipping attractive.

Figure 4: Estimated future Queensland freight volumes



Source: Pekol Transport and Traffic 2013 and TMR aggregation

Future planning capable of supporting the rate of growth of freight predicted for Queensland is in place at Port of Townsville. Infrastructure provisions provide for an increase in trade throughput of more than double the current volume over the next 20-30 years. These projections position Townsville ideally to cope with a modal shift towards coastal shipping.

Over \$500 million has been invested in port and transport infrastructure in Townsville over the past 5 years to improve efficiencies and generate capacity. The \$217 million Townsville Port Access Road (TPAR) completed in 2012, the \$85 million refurbishment of Berth 10 to facilitate cruise, defence and general cargo vessels in 2013 and the \$81 million Berth 8 (due to come on line in October 2014) are recent examples. During 2014, improved cargo handling equipment will be established at both Berth 10 and Berth 3 in the form of high performance Liebherr heavy lift cranes which will further enhance the Port's general cargo handling capabilities. Stevedores operating in the Port are also currently investing around \$25 million in warehousing and logistics yard infrastructure.



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The Port is linked by road to the 4,900 hectare Queensland Government declared Townsville State Development Area, providing strategic land capacity for growth. The port also has excellent road and rail transport links to the north, west and south. This includes Type 2 road train combination access directly between the Port and communities along the western Flinders Highway corridor, and connecting routes to the central Queensland area via the Gregory Development Road.

Port of Townsville believes a dedicated coastal service could be established as part of a coordinated coastal shipping strategy. To capture market share and reduce the congestion on road and rail modes, a domestically operated service needs to be encouraged and international shipping can participate and supplement as part of a comprehensive service.

The following prerequisites for a domestic coastal service are critical:-

- Regular, frequent and reliable service;
- Timely access via regional road/rail networks to port facilities;
- Coastal pricing that only reflects slightly extended transit times;
- Pricing that is competitive to rail/road;
- A pricing model that incorporates carbon credits;
- Rewarding measurable movement of cargo from land based transport to coastal shipping;
- Incentivise coastal shipping start-up companies that significantly reduce surface congestion and air pollution;
- Facilitating legislation and reducing red tape.

### **Consider the implications of coastal shipping policy for defence support, disaster management, maritime safety, community amenity, environmental sustainability and tourism**

An effective, regular and reliable coastal shipping operation in Queensland would have advantages for many other shipping operations including defence and tourism. By maximise shared use of flexible and appropriately designed infrastructure, the overall costs of coastal shipping services and other industries become viable where standalone operations may not be commercially justifiable. An example is Townsville's recent \$85 million Berth 10 project which caters to the requirements of Defence, Cruise and Commercial shipping on a shared use basis with berthage rules that support the operations of each sector.

Coastal shipping also has significant advantages for remote and regional areas in disaster events such as cyclones and flooding, which often cut off major road and rail routes. A coastal shipping service ensures that vital supplies and goods for recovery efforts are able to be delivered to affected regions in a timely manner, enabling these communities to reconnect after periods of disruption and isolation far more quickly.

The transport sector is one of the industries key to the nation's improved environmental performance. Currently accounting for around 15% of Australia's total greenhouse emissions and the second highest rate of growth of emissions over the 15 years to 2005, the transport industry is going to be facing increased pressure. 36% of domestic transport emissions are freight related, therefore 6% of Australia's total greenhouse emissions are caused by freight transport. To remain below the established threshold for dangerous temperature increases, carbon dioxide equivalents need to be reduced by approximately 20% of current levels in 2040 and by more than 40% of current levels by 2050 (*Climate Change and Australian Coastal Shipping, A Macintosh, 2007*).

Coastal shipping is the most environmentally efficient mode of freight transport, followed by rail, pipeline and then road. For every tonne-kilometre of freight transported, sea consumes only 0.2

mega-joules of energy, as compared to rail's 0.4 and road's 1.4. Further to this, any air pollution caused by sea transport is less likely to affect populated areas than land-based modes of transport.

An important factor to note is that this superior greenhouse performance is achieved with an aging and outdated fleet. A rejuvenated industry, with increased investment would increase greenhouse performance even further. Studies estimate new build engines can achieve up to 30% greater efficiency than existing technology, while existing ships can apply new technology to achieve up to 20% efficiency gains. Incentives for newer 'greener' vessels could assist to entice investment into the coastal shipping fleet.

An increased proportion of transport by sea presents the only viable option to meet the challenge of the growing freight task in this nation, whilst meeting environmental objectives.

**Review the policy and regulatory arrangements of the *Coastal Trading (Revitalising Australian Shipping) Act 2012* including the impacts of the 3 tier licensing system on establishing an intra-state coastal shipping trade in Queensland waters; and**

The intention of the reform measures in the Coastal Trading Act was to reverse the decline in the Australian registered fleet and the pool of Australian maritime skills through:-

- regulatory reforms to modernise the current legislation and provide a more robust regulatory framework for ships and shippers;
- establishing an Australian international register to support Australian shipping in international trades;
- delivering taxation incentives to encourage investment in Australian ships and skills development; and
- a coordinated approach to develop workforce capability across the whole of industry to build a maritime skills base into the future.

Although designed to provide protection to the Australian based maritime industry, the current regime has increased the cost to shippers and their customers and at the same time failed in its aim of revitalising Australian shipping. The Australian industry has continued to contract and a number of international companies have also withdrawn from offering coastal shipping services due to increased costs and administrative burden of compliance with the current regulations. The result is reduced competition, less efficiency and increased cost in coastal cargo movement.

The increased regulatory burdens placed on foreign-flagged ships include:-

- must undertake at least 5 voyages in 12 months, and the loading dates, origin and destination, cargo types and volumes to be specified at the start of that period;
- can only carry cargo if there are no Australian-flagged ships (or foreign-flagged ships transitioning to Australian flags) that can do so;
- if carrying foreign crews, must pay Australian award wages, which are far in excess of International Transport Workers' Federation rates.

**Investigate whether Queensland benefits from the uniform regulation of these vessels under existing Commonwealth legislation, and make recommendations where necessary for proposed amendments.**

Regulation of coastal shipping in Australia must be administered in a way that ensures the sustainability and continued development of the coastal shipping task. Less arduous and lower cost

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access to coastal shipping is necessary to support Australian industries and to provide a viable alternative to road and rail transport options on certain routes.

The key policy objective for the regulation of coastal trade is to both support the most cost effective shipping options and to maintain the Australian maritime industry. Removing all regulations and licensing will see the further weakening of the Australian shipping industry and no amendments or moderation of the existing regulations will see an increasingly non-competitive and degenerating coastal shipping regime.

A mix of Australian-flagged and licensed and foreign-licensed permit vessels is critical for creating competition and providing for flexibility.

Port of Townsville considers that:-

- removing regulation that is stifling the coastal shipping sector can lift Australia's global competitiveness and grow opportunities for investment, exports and jobs, particularly in regional areas which are disproportionately burdened by high-cost shipping;
- an appropriate balance needs to be struck which takes into account the interests of Australian companies (shipping companies as well as companies which use shipping to transport their goods), Australian workers (those employed by shipping companies plus those employed by the users of shipping) and Australian consumers (who will be forced to pay the higher prices associated with increased transport costs);
- the current cabotage and coastal trading regime is deterring foreign ships from operating in Australian waters and has resulted in large price increases for goods transported by foreign ships;
- the current laws restrict the ability of ports to achieve the magnitude of scale of coastal shipping task to meet timely deliveries of goods and reduces availability of commercial vessels in Australian waters;
- the new requirement to carry out five voyages a year to get licences of up to 12 months encourages shippers to include "bogus" voyages in their applications;
- to get a temporary licence and predict requirements for up to a year ahead is extremely difficult (and impractical in most cases).

Repealing parts of the Coastal Trading Act would encourage foreign-flagged vessels into the Australian coastal shipping system lifting competitiveness and fostering opportunities for growth. Amendments are required to remove the inflexibility and limitations of the current legislation.

Port of Townsville offers the following suggestions for consideration:-

- provide exemptions to licensing requirements and importation provisions for foreign-flagged ships stopping at coastal ports on their international routes;
- review of the policy settings and labour practices to ensure these can practically be managed given the nature of the shipping task, and that these promote productivity and competitiveness between transport modes;
- remove all licensing requirements on foreign-flagged vessels that maintain a consistent intra-state service, for example, Townsville – Brisbane in Queensland;
- where licensing is required, simplify the system by eliminating the complex and impractical reporting requirements; include maritime skill development incentives into the regulations to ensure the training and development of Australian staff aboard any vessel, whether Australian or foreign-flagged.