



**SUMMARY REPORT ON THE FINDINGS FROM THE
TASMANIAN ECONOMIC REGULATOR'S INQUIRY INTO BASS
ISLAND LINE'S PRICING POLICIES**

AUGUST 2023

CONTACT DETAILS

Office of the Tasmanian Economic Regulator

Office hours: 8.45am to 5.00pm, Monday to Friday (except public holidays)

Street address: Level 3, 21 Murray Street, Hobart, Tasmania 7000

Postal address: GPO Box 770, Hobart, Tasmania 7001

Telephone: (03) 6145 5899 or international +61 3 6145 5899

Email: office@economicregulator.tas.gov.au

Website: www.economicregulator.tas.gov.au

Published August 2023

ISBN 978-1-922945-02-0

Copyright

© Office of the Tasmanian Economic Regulator

Cover photo: Copyright ©TasPorts

TABLE OF CONTENTS

1	REGULATOR'S FINDINGS AND RECOMMENDATIONS	4
2	BACKGROUND	7
3	INTRODUCTION	8
4	CONDUCT OF THE INQUIRY	11
5	PRICES AND EFFICIENT COSTS	12
6	COMPETITIVE NEUTRALITY AND FULL COST ATTRIBUTION.....	17
7	COSTS AND PRICES IN COMPARABLE MARKETS.....	21
8	PRICING BEHAVIOUR AND INDUSTRY RULES AND PRACTICES.....	25
9	IMPACT OF PRICING BEHAVIOUR ON COMPETITORS AND SUPPLY CHAIN PARTICIPANTS.....	30
10	OTHER MATTERS.....	33
	APPENDIX A: DIRECTION TO UNDERTAKE THE PRESCRIBED BODY INQUIRY.....	38
	APPENDIX B: TERMS OF REFERENCE	39
	APPENDIX C: COMPARABLE MARKETS	44
	APPENDIX D: NON-COMPARABLE MARKETS.....	47
	APPENDIX E: DEFINITION OF KEY TERMS.....	50

I REGULATOR'S FINDINGS AND RECOMMENDATIONS

The Regulator's findings, recommendations and notes from conducting the prescribed body inquiry into Bass Island Line's pricing policies and behaviour are set out below.

I.1 Findings

No.	Description	Reference
1	Based on the Regulator's examination of Bass Island Line's costs and prices and considering the nature and size of the vessel Bass Island Line currently uses to provide sea freight services to King Island, the Regulator found that the revenue resulting from the application of Bass Island Line's pricing policies does not exceed its costs.	5
2	The Regulator's comparison of Bass Island Line's costs against the costs of competitors providing shipping services in the King Island freight market found that Bass Island Line's costs were higher than its main competitor.	5.2 - 5.3
2(a)	The Regulator found that Bass Island Line's administration expenses are higher than those of its main competitor over the period 2020-21 to 2022-23. Further, Bass Island Line does not include all of its overheads in its administration expenses.	5.3
2(b)	Bass Island Line incurs substantial trans-shipment charges and booking agent fees to third party providers which are not incurred by its main competitor due to it using a different business operating model.	5.3
2(c)	The Regulator found that Bass Island Line has recently improved its vessel, the <i>John Duigan's</i> , utilisation rate. However, the Regulator considers that utilisation remains low.	5.2
2(d)	Based on comments provided by stakeholders during the inquiry the Regulator questions the suitability of the <i>John Duigan</i> in terms of its capacity and operability in the conditions and market in which it operates. These issues, in turn, impact on the costs Bass Island Line incurs operating the vessel.	10.1
3	Based on an examination of Bass Island Line's financial information, the Regulator found that Bass Island Line's prices do not appear consistent with Bass Island Line recovering its costs on a full cost attribution basis. However, this finding needs to be treated with caution as there are questions over what the efficient costs should be, given Findings 2(a), 2(c) and 2(d).	6
4	The Regulator found Bass Island Line's prices to be similar to one of its competitors in the King Island freight market, lower than another one of its competitors in the King Island freight market and at the lower end of prices compared to prices in other comparable markets in Australia and overseas.	7

5	<p>Based on a review of Bass Island Line's behaviour, desktop research and commentary from other market participants, the Regulator finds Bass Island Line's pricing behaviours are within the range of behaviours exhibited by its direct competitors and shipping companies serving comparable markets.</p> <p>In particular, Bass Island Line is not unique in not publishing its price schedule, as many shipping companies choose not to publish their shipping rates.</p>	8
6	<p>Bass Island Line is a government-owned and operated business which is operating at a loss. It is a key player in the King Island freight market providing a service requested by the Government. There are several smaller players which appear to be operating profitably, (one providing a shipping service and three providing air freight). The Regulator notes the concerns raised by some of the stakeholders that due to the relatively small size and static nature of the market, Bass Island Line's participation in the market has the potential to discourage other players from entering the market. Notwithstanding these concerns, the Regulator notes that a third player has announced its intention to enter the King Island sea freight market.</p>	9
7	<p>The Regulator found Bass Island Line's prices and those of its main competitor to be similar. This is despite its competitor's lower cost base. The similarity in prices could indicate a degree of competitive pricing as Bass Island Line has to meet its competitor's prices and is unable to price at a cost recovery level. Alternatively, it could mean that there is limited competition with an effective duopoly in shipping operating, however, the profitability data does not appear to indicate this.</p>	9
8	<p>The Regulator finds that the introduction of the trans-shipment arrangement in March 2022, where SeaRoad ships freight between Devonport and Melbourne, has increased costs and therefore prices for many Bass Island Line customers and led to an increase in perishable goods being air freighted rather than transported by sea.</p>	9

1.2 Recommendations

The Regulator recommends:

- A. In the interests of transparency, the Regulator considers there is merit in Bass Island Line publishing its price schedule. The Regulator acknowledges that this carries some risk of embedding a price leadership model. However, on balance, the Regulator considers there is likely to be net benefits due to greater price transparency. Customers should still be able to negotiate prices and other terms and conditions.
- B. Bass Island Line conduct a review to determine the suitability of the *John Duigan* to continue to provide freight services to King Island. The review should assess the size, operational suitability, level of service and the costs incurred operating the *John Duigan* and seek specialist advice to consider the available alternatives. In the event that continuing with the *John Duigan* is considered to be the best option, Bass Island Line should consider whether the *John Duigan's* asset base should be optimised and costs reflect that optimised value.

1.3 Notes

In addition to the Regulator's findings and recommendations from conducting the inquiry, the Regulator notes the following:

- (a) There is a degree of vertical integration in the King Island freight market, which is not unexpected given the size of the market and relatively small population on the island. There is currently one shipping agent on King Island, who acts for a significant number of customers and has the ability to negotiate with both active shipping operators. The decisions made by the agent are important and have the ability to influence outcomes for Bass Island Line and other shipping services.
- (b) Despite the relatively small market and small population, King Island is serviced by a variety of freight operators. In addition to the two shipping providers, a third has recently announced its intention to commence operation, and three commercial airlines provide freight services. King Island customers are able to choose which operator to use, factoring in price, speed and reliability of services.
- (c) Stakeholders provided comments to the Regulator in relation to the level of charges imposed by TasPorts. It is suggested that TasPorts should engage with the King Island community and other stakeholders to explain its charges.

2 BACKGROUND

Under Part 4 of the *Economic Regulator Act 2009* (the Act), the Minister responsible for the Act may direct the Regulator to inquire into, and report on, a matter relating to or affecting the pricing policies of a State Government or Local Government body.

The King Island shipping service is provided by Bass Island Line Pty Ltd which is a subsidiary of the Tasmanian Ports Corporation Pty Ltd (TasPorts), a State-owned Company.

In late 2022, concerns were publicly raised about the reliability, regularity and pricing of Bass Island Line's freight service in the context of cost-of-living pressures facing King Island residents.

On 20 December 2022 the Treasurer, as Minister responsible for the Act, directed the Regulator to conduct an inquiry into Bass Island Line's competitive behaviour and pricing policies.

The Treasurer's direction can be found at Appendix A and the inquiry's Terms of Reference can be found at Appendix B. Under the Terms of Reference, the Regulator is required to assess whether:

1. the prices charged by Bass Island Line for the supply of freight services to customers on King Island on a regular weekly basis reflect:
 - (a) the efficient costs of providing those services (including charges TasPorts imposes on Bass Island Line);
 - (b) are consistent with recovering those costs on a full cost attribution basis in line with competitive neutrality principles;
2. where possible, the costs incurred and prices charged per unit are consistent with that observed in other comparable markets;
3. Bass Island Line's pricing behaviour is in line with relevant industry rules and practices;
4. Bass Island Line's pricing behaviour impacts on other competitors and upstream and downstream supply chain participants; and
5. any other matters that impact on prices that the Regulator considers relevant.

Bass Island Line's pricing policies and their impact on both competitors and supply chain participants have been a key focus of the inquiry, as stipulated by the Terms of Reference. However, the inquiry did not assess King Island's cost of living pressures as this is a much broader question and the supply chains involve several freight providers and retailers, not all of which rely on or deal directly with Bass Island Line.

For the inquiry, information was obtained from TasPorts, Bass Island Line's major customers, sea freight competitors and other interested parties. Staff from the Office of the Tasmanian Economic Regulator met with senior staff at TasPorts, Bass Island Line's major customers and its competitors to discuss issues relating to the inquiry. All entities were cooperative and provided information and responded to queries when requested (and in some cases unprompted).

In undertaking the inquiry, commercially sensitive information was collected. The Regulator has used powers it has under the Act to prohibit the publication of sensitive information, as its public release may have consequences for the provider of the information and other commercial parties. This report provides the Regulator's analysis, findings and recommendations without the confidential information provided to the Regulator.

3 INTRODUCTION

King Island is a remote island situated in the Bass Strait between Victoria and Northwest Tasmania and is 118 nautical miles from Devonport.

Up until 2 April 2017, SeaRoad Shipping provided a regular freight service to King Island. In mid-2015, SeaRoad Shipping announced its intention to withdraw the service once it took delivery of its new ship which was too large to enter Grassy port.

In February 2017, in response to SeaRoad's announcement, and following an unsuccessful attempt to secure a commercial operator to provide these services, the Tasmanian Government requested TasPorts provide an interim shipping service for King Island.

3.1 The Kind Island freight task

King Island has a total area of about 110 000 hectares with 145 km of coastline. In 2021, King Island had a population of 1 654¹ which is slightly lower when compared with the early 2000s.

Airline services are the main mode of transport for tourists and residents to-and-from the island, with flights being about 45 minutes from both Victoria and Tasmania. King Island has regular air services to Tullamarine, Essendon and Moorabbin airports in Victoria, as well as Burnie / Wynyard and Launceston airports in Tasmania.

King Island's economy is mostly made up of businesses involved in agriculture, fishing, mining and tourism. The beef industry is of particular significance with approximately 80 per cent of the island's area being used for grazing.² King Island is home to about 100 000 cattle, mainly Black Angus and Hereford, which represents 22 per cent of Tasmania's 446 000 cattle used for beef production.³

The Dolphin Tungsten Mine located near Grassy holds a significant deposit of high-grade tungsten. The mine previously operated from 1917 but closed in 1992 due to low tungsten prices. Since the mine's closure, the price of tungsten has recovered and it is now classified as a critical mineral by the Australian Government. Group 6 Metals Ltd is currently redeveloping the mine which, from a freight perspective, is expected to require the importation of diesel fuel to generate electricity to power the mine and the export of the tungsten extracted from the mine.

King Island is home to a dairy and artisan cheese factory which creates products for customers across Australia. Bull kelp (a type of seaweed) is also farmed and processed on the island, most of which is purchased by ISP Alginates for the development of various end-products.

The King Island freight task is mature but finite, with a variety of export-oriented industries that rely on sea freight. As an island-based economy, King Island relies on imports for a variety of goods including construction materials, most of its food, household items, fuel, agricultural inputs, vehicles, mining equipment and other items not sourced on island.

Most sea freight is handled through the Port of Grassy whereas all air freight is operated through the King Island Airport located north of the island's main township, Currie. The Port of Grassy is owned by TasPorts and the smaller Naracoopa Jetty is owned by a private entity. The King Island Airport is owned and operated by the King Island Council and relies on subsidies from State and Federal Government for maintenance and upgrades.

¹ Regional population by age and gender, King Island, Australian Bureau of Statistics, 2021.

² Cradle Coast Regional Land Use Strategy 2010 - 2030, 11 May 2022, page 46.

³ Agricultural commodity estimates by Australia, states and territories, Australian Bureau of Statistics, 2021-22.

Sea freight is used to import various bulk cargo, some of which is required on a regular basis, such as diesel and gas. Other bulk cargo imports include fertiliser where the demand is seasonal. Exporting bulk cargo also relies on sea freight due to air freight being an infeasible option. These exports include cattle livestock which are large in number due to the closure of the JB Swift abattoir on the island in 2012. Other bulk exports include bull kelp and dairy products.

In the 10 years to 2021-22, King Island reported imports of 403 288 tonnes and exports of 541 242 tonnes through King Island's ports and wharfs.⁴ These import and export figures include freight through the privately owned Naracoopa Jetty. This imbalance in trade, where exports are greater than imports, has led to businesses needing to freight empty shipping containers back to King Island for use at a later date. The shipment of empty containers adds an additional cost to doing business on the island.

The King Island freight task utilises air freight for perishable goods and smaller items due to the regularity and speed of the service. Of note, Sharp Airlines has reported to freight between 600 kgs to 1 000 kgs of Australia Post items daily, depending on seasonal demands. Along with air and sea freight, trucks are used to transport goods to-and-from the island's shop fronts, transport hubs and factories.

Air freight services are provided by TasFast, King Island Airlines and Sharp Airlines. All airlines provide regular flights to-and-from the island to both mainland Tasmania and Victoria. Eastern Line Shipping also provides a sea freight service; however, unlike Bass Island Line, Eastern Line Shipping has greater flexibility with respect to its schedule and sails when its vessel is at or close to capacity to ensure all voyages are profitable. Eastern Line Shipping's vessel the *King Islander* is partly owned by Greenhams, a large Australian beef processor which buys livestock from across the country, including King Island.

Bass Island Line:

- provides a weekly service from Devonport to Grassy in King Island using its vessel, the *John Duigan*; and
- offers a trans-shipment service from Devonport to Appleton Dock in Melbourne using SeaRoad.

In March 2023, Bass Strait Freight announced its intention to provide a weekly sea freight and passenger/vehicle service for King Island which would directly connect the Port of Grassy to both Devonport and Apollo Bay, Victoria. Bass Strait Freight currently provides the shipping service between mainland Tasmania and Flinders Island.⁵

3.2 Bass Island Line

Bass Island Line Pty Ltd is a subsidiary of a State-owned Company, TasPorts. TasPorts was established on 1 January 2006, under the *Tasmanian Ports Corporation Act 2005*. The Act unified the four previously competing regional ports corporations. In 2011, TasPorts assumed responsibility for the King Island Ports Corporation Pty Ltd. Bass Island Line Pty Ltd was formed in April 2017 and started operation of its dedicated shipping service with the vessel *Investigator II*. In May 2018, Bass Island Line acquired a new vessel, the *John Duigan*.

Bass Island Line provides a regular sea freight service to and from King Island and therefore plays a critical role in its freight task.

Bass Island Line's freight task is highly varied and displays seasonal patterns. Between January 2020 and January 2023, its most-shipped goods were fertiliser, sand, general cargo, diesel, empty containers and

⁴ TasPorts, 2021-22 Annual Report, page 21.

⁵ [Services – Bass Strait Freight](#) (accessed 10 August 2023).

trailers and dairy products. Of these, fertiliser and sand were subject to significant variation in monthly quantities shipped.

Other goods, such as general cargo, diesel and kelp tend to be shipped in uniform quantities each month, displaying little variation. Following Bass Island Line's route change in March 2022, cattle livestock export quickly became a significant part of its freight task.

In 2022, Bass Island Line trialled a weekly refrigerated shipping service at approximately half the price compared with the air freight services used for perishable and chilled goods. Based on discussions with stakeholders, the Regulator understands that the refrigerated shipping service did not attract any interest from the island's retailers due to pre-existing business relationships with air freight providers and the more frequent and reliable service those providers delivered.⁶

Since commissioning the *John Duigan*, Bass Island Line has altered its sailing routes and service delivery. A more detailed history of Bass Island Line's service and the King Island shipping service is set out in Appendix B.

⁶ Office of the Tasmanian Economic Regulator, Transcripts from meetings conducted on King Island between 22 and 26 May 2023.

4 CONDUCT OF THE INQUIRY

The Regulator's conduct of the inquiry comprised the following major tasks:

- Liaising with key staff from TasPorts and issuing a number of information requests to TasPorts seeking information relating to Bass Island Line's operations.
- Analysing financial and other information provided by TasPorts (for example, Board papers and financial statements), major customers, supply chain participants and some of Bass Island Line's major competitors.
- Conducting desktop research and accessing publicly available information from a range of sources.
- Considering the findings from previous reviews conducted into the King Island freight task; and
- Staff from the Regulator's office visiting King Island and consulting with major customers and key stakeholders.

5 PRICES AND EFFICIENT COSTS

Under the Terms of Reference, the Regulator was required to assess whether the prices charged by Bass Island Line for the supply of freight services to customers on King Island reflected the efficient costs of providing those services.

The Regulator was also required to examine the charges TasPorts imposes on Bass Island Line. The Regulator's assessment of TasPorts' charges is set out in Section 10.3 of this Report.

5.1 Regulator's approach

In addressing this term of reference, the Regulator met with staff from TasPorts and requested financial performance information relating to Bass Island Line's operations.

During consultation, Eastern Line Shipping, one of Bass Island Line's competitors, provided financial performance information and other related data to the Regulator.

5.2 Regulator's analysis

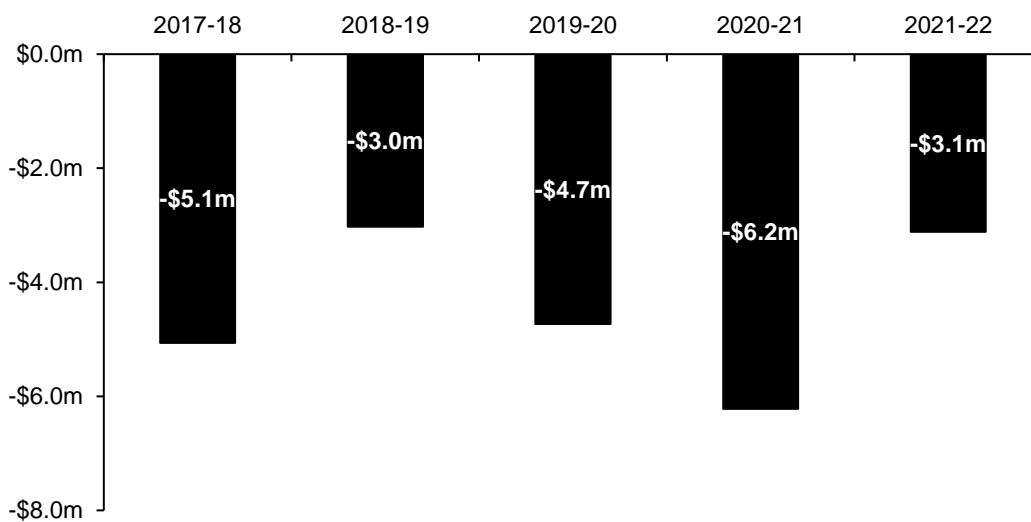
The Regulator examined and compared Bass Island Line's and Eastern Line Shipping's costs at an aggregate level as set out in Sections 5.2.1 and 5.2.2 and then compared specific cost components as set out in Section 5.3.

5.2.1 Bass Island Line's financial performance

The Regulator obtained financial data from TasPorts with respect to Bass Island Line for the period from 1 July 2017 to 31 January 2023.

Figure 1 shows Bass Island Line's annual operating deficits for the past five financial years.

Figure 1: Bass Island Line's annual Trading Operating results - 2017-18 to 2021-22⁷



⁷ The Regulator has adjusted Bass Island Line's annual trading result to remove some large one-off items and better reflect the underlying result. As such, Figure 1 will not match Bass Island Line's trading result as recorded in TasPorts Annual Reports.

The financial difficulties Bass Island Line has experienced providing the service are reinforced by the outcomes from TasPorts' investigation of alternative shipping service models ranging from full divestment through to joint-venture and various service agreement options. Through this process, TasPorts engaged with a number of third-party shipping operators between late 2020 and mid-2021. However, no viable alternative for the service was identified unless the Government was prepared to provide a subsidy to the operator.

Relevant to the inquiry and to the costs incurred by sea freight service providers, in its 2014 report the Productivity Commission pointed out that:

Sea freight is characterised by large fixed costs.⁸

and

The relatively short distance across Bass Strait (about 420 kilometres) is also an important influence on the costs of these shipping services. The short voyage means vessels also spend more time in port, incurring proportionately higher port and stevedoring charges compared to vessels on longer routes (Net Sea Freight, sub. 26).⁹

Analysis of Bass Island Line's financial performance for the most recent full financial year for which data was available, 2021-22, revealed that it completed 123 sailings in that year with reported expenditure of \$10.4 million and revenue of \$7.3 million¹⁰. That is, on average, Bass Island Line lost around \$25 000 per sailing.

In assessing Bass Island Line's costs, the Regulator recognises the expectation for Bass Island Line to provide a weekly service to King Island, subject to weather conditions, with additional sailings to reflect customer demand.

⁸ Productivity Commission, 2014, Box 2.3, page 55.

⁹ Ibid, page 133.

¹⁰ TasPorts Annual Report 2021-22

The *John Duigan* regularly sails well below its capacity. Despite this, Bass Island Line has not changed its sailing schedule to a less regular service to reduce its costs due to the expectation of a weekly voyage to King Island. The Regulator's review of Bass Island Line's Board Papers confirmed that, on an annual basis, Bass Island Line's service has been meeting the expectation of a weekly scheduled service.

Regular sailings to King Island deliver essential commodities such as fuel, grain and fertilisers and take valuable exports off the island. However, due to the cost structure and varying freight volumes, the regular service can result in unprofitable sailings that have a negative impact on Bass Island Line's financial results. It is acknowledged that Bass Island Line has recently improved the *John Duigan's* utilisation rate. However, the Regulator considers that this remains low.

5.2.2 Competitor's financial performance

The Regulator obtained financial information for 2020-21, 2021-22 and 2022-23 (1 July 2022 to 31 January 2023¹¹) from Eastern Line Shipping, Bass Island Line's main sea freight competitor.

Eastern Line Shipping ships freight to and from King Island and Victoria (Port of Welshpool) several times a week through a roll on / roll off vessel, the *King Islander*, which is owned by Greenham, a major beef livestock and meat processor. Eastern Line Shipping primarily transports cattle for Greenham from King Island to mainland Tasmania, but also carries other cargo and has depots in Launceston and Stanley and a pick-up and delivery service.¹²

At a high level, the Regulator's analysis of this data showed that, apart from 2020-21¹³, while both entities' annual revenue was similar, Eastern Line Shipping's annual expenses were materially lower than Bass Island Line's.

5.3 Regulator's analysis of specific costs

The Regulator compared the specific costs incurred by Bass Island Line and its major competitor. The specific costs analysed were:

- crew costs;
- stevedoring
- repairs and maintenance;
- depreciation and vessel charter costs;
- administration expenses;
- booking agent fees;
- trans-shipment charges;

¹¹ At the time of writing, Bass Island Line's financial statements for 2022-23 were not available. The Regulator has therefore calculated expenses for the full 12-month period based on the figures Bass Island Line provided for the seven month period between 1 July 2022 to 31 January 2023. The figures used in this report may therefore not be consistent with the values reported publicly for 2022-23.

¹² Based on <https://kingisland.net.au/business/eastern-line-shipping> (accessed 7 August 2023).

¹³ The *John Duigan* was in dry dock for several months during 2020-21. Expenses were largely unchanged at around \$10 million but revenue was significantly lower for that year.

- hire charges;
- port charges;
- finance expenses; and
- infrastructure levy.

In examining these costs, the Regulator found that Bass Island Line and Eastern Line Shipping had broadly similar administration expenses in 2020-21. However, Eastern Line Shipping has reduced its administration expenses over the period to 2022-23, whereas Bass Island Line's have increased slightly over that time. It is acknowledged that Bass Island Line's administration costs do not cover all of its overheads (refer to Chapter 6).

5.4 Bass Island Line's prices

When Bass Island Line commenced operation in April 2017 it adopted the former operator, SeaRoad Shipping's, pricing structure. Bass Island Line applied these prices for 2017-18 and 2018-19.

Bass Island Line applied a variable fuel charge from 1 July 2019 and increased the base price for freight services in each year from 2019-20 to 2022-23. In 2022-23, Bass Island Line introduced one tariff for cargo going directly to Devonport and a second tariff for cargo being trans-shipped to Appleton Dock in Melbourne.

These price increases were relatively low when compared with global freight prices for 40-foot equivalents (FEUs) which increased rapidly in the two years to March 2022 before returning to the previous level in March 2023.¹⁴

5.5 Findings

The Regulator's examination of costs and prices found that:

- A comparison of Bass Island Line's prices with those of its competitors, Bass Strait Freight and Eastern Line Shipping, suggests that Bass Island Line does not appear to use its costs to directly inform its pricing policies and prices. This is consistent with what happens in many markets, however, it is not sustainable over the longer term.
- The revenue from the application of Bass Island Line's prices does not exceed its reported costs (ie its costs excluding costs calculated on a full cost attribution basis).
- Bass Island Line's costs are higher than its main sea freight competitor.

In particular, the Regulator found that:

- Bass Island Line's administration expenses are higher than those of its main competitor over the period 2020-21 to 2022-23. Further, Bass Island Line does not include all of its overheads in its administration expenses.
- Bass Island Line incurs substantial trans-shipment charges and booking agent fees to third party providers whereas Eastern Line Shipping does not incur trans-shipment charges due to its different operating model and uses in-house resources for bookings.

¹⁴ [Container Shipping Cost Calculator \[2023\] - Freightos](#) (accessed 7 August 2023)

- There is no evidence to suggest the annual depreciation Bass Island Line is claiming with respect to the *John Duigan* is unreasonable in terms of shipping industry standards and having regard to the ATO's depreciation guide.
- The approach to calculating annual depreciation of the *John Duigan* does not appear to be unreasonable. However, depending on the results of examining the suitability and scale of the *John Duigan*, the asset base may need to be optimised for purposes of estimating costs.
- Bass Island Line has recently improved the *John Duigan's* utilisation rate. However, the Regulator considers that this remains low.

6 COMPETITIVE NEUTRALITY AND FULL COST ATTRIBUTION

In addition to requiring the Regulator to examine Bass Island Line's costs and prices, the Terms of Reference require the Regulator to assess whether the prices charged by Bass Island Line for the supply of freight services to customers on King Island on a regular weekly basis are consistent with recovering costs on a full cost attribution basis in line with competitive neutrality principles.

6.1 Competitive Neutrality principles

Competitive neutrality principles, as stipulated under National Competition Policy, require all significant government business activities to be corporatised. However, if full corporatisation is not feasible, full cost attribution must be applied to offset any competitive advantage arising from public ownership.

As Bass Island Line is corporatised, the Regulator has undertaken a theoretical full cost attribution exercise to inform the inquiry. This exercise is not intended to reflect the efficient costs of operating Bass Island Line nor is it suggested that Bass Island Line's prices should reflect the theoretical full attribution costs.

6.2 Full cost attribution

As set out in the Department of Treasury and Finance's guidelines, the application of full cost attribution results in a cost that consists of:

- i) operating costs (direct and indirect); plus
- ii) capital costs (direct and indirect); plus
- iii) competitive neutrality costs such as taxes and guarantee fees.¹⁵

For full cost attribution purposes, the Regulator has assessed Bass Island Line's costs:

- as if it were a stand-alone entity that does not have the benefit of receiving financial support from a parent company; and
- based on the costs associated with the vessel that it currently uses to provide the services to King Island, the *John Duigan*.

6.2.1 Identification of costs on a full cost attribution basis

The Regulator has identified the following additional costs after applying the full cost attribution methodology:

- principal, interest and guarantee fees associated with funds notionally borrowed to finance the acquisition of the *John Duigan*, its fittings and other minor related plant and equipment,¹⁶
- interest and guarantee fees on funds notionally borrowed to fund Bass Island Line's annual operating deficits (ie as a proxy for the financial support TasPorts has provided); and
- a portion of TasPorts' committee fees, IT and HR support provided, and rent and other minor costs funded by TasPorts free of charge.

¹⁵ Department of Treasury and Finance, *Guidelines for Implementing Full Cost Attribution Principles in Government Agencies*, 1997, page 11.

¹⁶ Section 11.1.2 of this Report considers issues relating to TasPorts' decision to purchase the *John Duigan*.

The Australian Government 10-year bond yield has been used as a proxy for the interest rate used in calculating full attribution costs in line with competitive neutrality principles. The 10-year bond yield represents the Australian Government's cost of debt, which is similar to the cost of debt for the Tasmanian Government and by extension, TasPorts. The Government Guarantee Fee rates are determined by the Treasurer on an annual basis and have been used to estimate Bass Island Line's Government Guarantee Fee liability. The bond yield rates used by the Regulator in this Report are set out in Table 1.

Table 1: Commonwealth 10-year bond yield¹⁷

Description	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 onwards
Commonwealth 10-year bond yield (%)	2.70	2.24	1.03	1.18	2.12	3.63

TasPorts advised the Regulator that it also provides to Bass Island Line, at marginal cost or no cost, information technology, human resources, environmental management services and rent. TasPorts advised the Regulator that these unaccounted costs were not charged to Bass Island Line on the basis that they are not considered material. The Board of TasPorts also has three sub-committees, of which Bass Island Line is one.

Table 2 sets out the additional costs the Regulator has identified under full cost attribution while Table 3 sets out Bass Island Line's total costs including its full cost attribution costs.

Table 2: Additional costs identified under full cost attribution for 2021-22

	2021-22 (\$)
Deemed interest and guarantee fees relating to the funding of the acquisition of the vessel <i>John Duigan</i>	786 981
Deemed interest and guarantee fees relating to TasPorts' financial support	581 953
One-third share of TasPorts' committee fees	13 283
Other costs including rent, HR support and IT support	195 108
TOTAL	1 577 325

Table 3: Bass Island Line's total costs for 2021-22, including those identified under full cost attribution

	2021-22 (\$)
Reported costs	10 418 273
Full Cost Attribution Costs	1 577 325
TOTAL	11 995 598

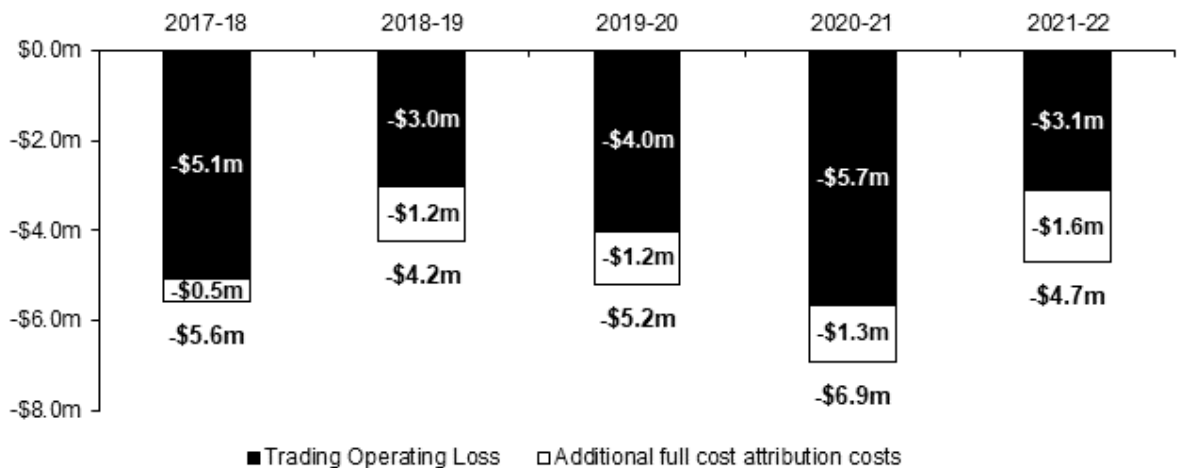
Unsurprisingly, and as shown in Figure 2, adding full cost attribution costs result in Bass Island Line's operating position worsening from a reported loss in 2021-22 of \$3.1 million to a deficit of \$4.7 million.

¹⁷ Commonwealth 10-year bond yield is calculated as year-average. 2022-23 is year-average to 28 February 2023.

As discussed in Chapter 5, Bass Island Line's revenue has not been sufficient to recover its costs. In 2021-22, Bass Island Line reported \$7.3 million in revenue, which, based on the total costs set out in Figure 2, is estimated to be \$4.7 million below the amount required to recover all costs for that year.

The average loss per sailing, as discussed in Section 5.2.1, increases to approximately \$40 000 with the inclusion of full cost attribution costs.

Figure 2: Bass Island Line's net operating deficits before and after inclusion of full cost attribution costs - 2017-18 to 2021-22¹⁸



6.2.2 Estimating Full Cost Attribution costs

6.2.2.1 Deemed principal, interest and guarantee fees relating to the acquisition of the *John Duigan*

The Regulator considers it unlikely a stand-alone business with Bass Island Line's historical and prospective financial outcomes would be able to raise the capital needed for the purchase of the *John Duigan*. The Regulator therefore determined that leasing a vessel or purchasing it through a loan with equal monthly repayments would be relatively equal in cost when taking into account Government guarantee fees.

The Regulator has also assumed a 20-year loan would be in place with respect to the purchase of the *John Duigan* consistent with the useful life for cargo ships as set out in the ATO's 2021 depreciation guide. As the *John Duigan* was commissioned in May 2018, the assumed 20-year loan applies from 1 May 2018.

Based on information provided by Bass Island Line, the Regulator has calculated the monthly repayments, interest and guarantee fees relating to a 20-year loan to cover the cost of the vessel, its fittings and associated minor plant and equipment.

6.2.2.2 Deemed interest and guarantee fees relating to TasPorts' financial support

TasPorts has provided Bass Island Line with cash injections and has paid some expenses on Bass Island Line's behalf to cover its operational deficits.

¹⁸ The Regulator has adjusted Bass Island Line's annual trading results to remove some large one-off items and better reflect the underlying result. As such, the trading operating loss figures may not match Bass Island Line's trading result as recorded in TasPorts Annual Reports. Totals may not sum due to rounding.

To capture the cost of support provided by TasPorts, interest and Government guarantee fees have been applied to the average of the opening and closing balances of the amounts owing to TasPorts. This recognises that funds are gradually advanced over the year to meet Bass Island Line's operational shortfalls. These repayments do not include a principal component on the basis that a rational business in Bass Island Line's financial position would likely make interest-only repayments with the intention of repaying the principal from future profits.¹⁹

In calculating the interest and Government guarantee fees, the amount owing to TasPorts includes the additional costs identified through full cost attribution, reflecting the Regulator's modelling of Bass Island Line's annual operating deficits.

6.2.2.3 Managerial and other support provided by TasPorts

The Regulator has allocated one third of TasPorts' Committee Fees²⁰ to Bass Island Line. The Regulator has also estimated the costs relating to services provided by TasPorts for IT, HR, rent and other minor items.

6.3 Findings

Based on its application of full cost attribution principles, the Regulator found that Bass Island Line's operating position worsens when full cost attribution costs are included. As set out in Chapter 5, a comparison of Bass Island Line's prices with those of its competitors, Bass Strait Freight and Eastern Line Shipping, suggests that Bass Island Line does not use its costs to inform its pricing policies and prices.

Based on an examination of Bass Island Line's financial information, the Regulator found that Bass Island Line's prices do not appear consistent with Bass Island Line recovering its costs on a full cost attribution basis. However, this finding needs to be treated with caution as there are questions over what the efficient costs should be, given the findings relating to the utilisation of the *John Duigan* (refer to sections 5.2 and 5.3).

¹⁹ If principal and interest was accounted for in relation to this item, the shortfall between Bass Island Line's revenue and full cost attribution expenses would be even greater.

²⁰ TasPorts has three Board sub-committees, with one relating to Bass Island Line.

7 COSTS AND PRICES IN COMPARABLE MARKETS

The Regulator was required to assess, where possible, whether the costs Bass Island Line incurs and the prices it charges per unit are consistent with that observed in other comparable markets.

In the absence of specific information gathering powers in relation to prescribed body inquiries²¹, the Regulator has not been able to obtain detailed information relating to costs incurred and prices charged by shippers operating in comparable markets apart from information about costs and prices relating to the King Island freight task.

Noting the Regulator's comparison of costs for Bass Island Line and Eastern Line Shipping as set out in Chapter 5, in this chapter the Regulator has assessed how Bass Island Line's prices compare to prices observed in other comparable markets.

7.1 Background

The King Island sea freight environment has significant geographical differences to other markets in Australia. For example, the sailing conditions in Bass Strait and particularly around King Island can be rough and lead to regular cancellations of sailings due to safety concerns. Additionally, King Island's distance from Devonport of approximately 125 nautical miles is shorter than other shippers sailing to small, isolated islands. This makes it difficult to draw comparisons with other routes.

7.2 Regulator's approach

In addressing this aspect of the Terms of Reference, the Regulator assessed the outcomes from previous reviews and conducted research and analysis of pricing information for other comparable markets where that information was publicly available.

The Regulator followed a similar approach to that applied by the Department of State Growth when it compiled its 2013 Report (see Section 7.3.1 below) and benchmarked freight charges with those observed in markets comparable to King Island (however, annual trade volumes, annual trade capacity and speed of the ships have not been included given the assumptions needed to calculate these figures, and the limited insights they would provide for the task at hand).

Given 10 years has passed since the 2013 Report, shipping services in comparable markets were re-assessed, noting that King Island's freight task is unique and an exact comparison may not exist.

Comparable markets include island-based economies in Australia and overseas but may also include isolated economies reliant on sea freight that are not separated by bodies of water. These small and isolated economies will have the common thread of low sea freight volumes, a negative balance of trade which can require the transport of empty shipping containers and a relatively infrequent sea freight service ie similar to the situation with King Island.

Appendix C provides additional details about the comparable markets the Regulator has considered in compiling this Report.

²¹ The Regulator possesses such powers in relation to its other statutory functions.

7.3 Regulator's analysis

7.3.1 King Island Shipping Service Project Report

The Tasmanian Department of State Growth analysed comparable markets in Australia and overseas in compiling its 2013 King Island Shipping Service Project Report.²²

The Department's Report used a benchmarking approach to compare the main King Island shipping service with other relevant island or remote communities' shipping services.

The analysis included the following aspects:

- the scale and mix of cargoes catered for by the ships deployed on the route;
- the cost of the shipping service (freight rates);
- the frequency of the shipping service;
- the port-to-port transit times and speed of the ships;
- the reliability of the shipping service in terms of on-time arrivals (schedule integrity);
- the flexibility of shipping capacity to cater for seasonal variations in freight volumes (namely 'peak' seasons); and
- the requirements of the route in terms of ship solutions which are able to operate both safely and reliably given sea conditions and available port infrastructure.

Comparable shipping services using a variety of vessels (roll-on roll-off (Ro/Ro), lift-on lift-off (Lo/Lo), containership, general cargo and multi-purpose) were analysed where freight rate data was publicly identified, which included:

- the Bass Strait (Victoria and mainland Tasmania connections);
- Flinders Island (north-east of mainland Tasmania)
- Norfolk Island (an external territory of Australia in the South Pacific Ocean);
- Lord Howe Island (an island territory of NSW in the Tasman Sea);
- Christmas Island and Cocos (Keeling) Islands (external Australian territories collectively known as the Indian Ocean Territories);
- coastal New Zealand (north/south Island connections);
- Chatham Islands (east of New Zealand); and
- Shetland Islands (north of Scotland, United Kingdom).

Other shipping services, such as to and from Kangaroo Island in South Australia, were considered but not analysed. The Kangaroo Island services were not considered comparable as its passenger / car ferry service is a short route and has limited freight capacity.

Assumptions used to make realistic comparisons included a weight of 15 tonnes per TEU to reflect a mixture of both light and heavy goods. To ensure Tasmania's Ro / Ro routes were comparable to non-Tasmanian routes an assumed stevedoring cost of \$12 per tonne was added.

From the benchmarking analysis the Department concluded that large determinants of freight costs were freight volumes, the balance of trade and frequency of sailings. Low-volume, infrequent customers were also found to pay higher freight rates when compared to high-volume, frequent customers who, at times, may receive discounts on standard rates.

²² [King Island Shipping Service | Department of State Growth](#).

Despite most of the benchmarked services operating in high-income economies, it was noted that shipping services for the Indian Ocean Territories and Norfolk Island could operate with cheaper foreign-crewed vessels, while the Bass Strait islands are constrained to Australian-crewed vessels which require the payment of relatively higher wages.

The Department's analysis found that the closest comparison to the King Island shipping service, and its trade, was the Shetland Islands' Ro / Ro shipping service. However, the Shetland shipping service's freight costs were much lower due to government subsidies and far higher freight volumes which provided economies of scale.²³

7.3.2 Assessment of shipping services in comparable markets

The Regulator also analysed current prices charged per TEU in other comparable markets. It was found that Bass Island Line's charges are similar to the charges of the other providers operating in Bass Strait, but below that of shippers in other comparable markets.

Appendix C sets out the shipping services in comparable markets that the Regulator's assessed. Thirteen shipping routes were assessed, most of which are based in Australia including Flinders Island, Lord Howe Island, Norfolk Island, Chatham Islands (New Zealand), Christmas Island and Cocos (Keeling) Islands. These islands are serviced by dedicated sea freight providers at varying frequencies (ie weekly, fortnightly etc).

A number of coastal Northern Territory and Queensland shipping services were also assessed, all of which are serviced via sea freight services provided by Sea Swift, a private operator which provides sea freight services to over 50 different remote communities using a fleet of over more than 50 vessels.

Like Bass Island Line, Sea Swift provides a service with fluctuating freight volumes and is affected by weather conditions that can restrict vessel access to port.

Appendix D sets out details of the markets examined by the Regulator that were deemed not comparable to the King Island freight market. This included islands connected to mainland Australia through daily passenger / vehicle ferries such as Kangaroo Island and the islands in Moreton Bay in Queensland.

Regular ferry services are also typically provided for shorter sea routes that experience high volumes of passengers and, at times, cargo. These services are not considered comparable to King Island's freight-only shipping service which is provided on a weekly basis.

The Regulator considered other services, such as the sea freight service for the Falkland Islands and Faroe Islands were somewhat similar to the King Island freight task. However, without publicly available sea freight rates, comparisons for the purposes of this inquiry were unable to be made.

Relatively high freight charges to ship freight to and from isolated communities was a common thread among the shipping routes examined by the Regulator.

Details for each comparable shipping service, including a comparison of indicative freight rates per tonne and sailing distances are shown in Table 4.

²³ Shetland Islands have a population of about 23 000 people.

Table 4: Comparison of indicative freight rates by shipping service

Shipping service	Government support provided?	Sailing distance (nm)	Sailing frequency	Freight charges per tonne (\$AUD)
Bass Strait (Vic to Tas)	Yes (TFES)	286	Twice daily	62.7
Shetland Islands	No	195	Twice daily	107.7
King Island	Yes (TFES)	125	Weekly	
Flinders Island	Yes (TFES)	68	Weekly	123.0
Bathurst Island (Wurrumiyanga)	No	44	Twice weekly	170.6
Melville Island (Milikapiti)	No	119	Twice weekly	187.6
Melville Island (Pirlangimpi)	No	73	Twice weekly	219.1
Chatham Islands	No	400	Every 10 to 12 days	338.4
Nhulunbuy (Gove)	No	449	Twice weekly	342.5
Thursday Island, Horn Island, Seisa and Weipa	No	Various	Every 3 to 7 days	404.6
Lord Howe Island	No	318	Fortnightly	584.7
Norfolk Island	At times	790	Monthly	616.3
Christmas and Cocos (Keeling) Islands	No	1 800 - 2 200	Every 4 to 6 weeks	883.7

Notes:

1. Sea freight rates and sailing frequencies were obtained from a range of sources including websites and submissions to Parliamentary inquiries. Freight rates were indexed by Australian CPI, as necessary, for comparative purposes.
2. Comparative prices should be treated with caution given the origin of data, differing port infrastructure and potentially varying prices levied on different cargo-owners.
3. Freight rates have been compared using the price per tonne for general cargo, with an assumed 15 tonnes per TEU. An assumed 15 tonnes per TEU is used for comparative purposes as an average of light and heavy freight. This same assumption was made in the Department of State Growth's 2013 Report.
4. Freight rates have been adjusted to capture GST and wharfage costs where possible. However, prices have not been adjusted for the Tasmanian Freight Equalisation Scheme (TFES), stevedoring costs and other costs / benefits that may be incurred by a cargo-owner, such as insurance.
5. Sailing distances are recorded in nautical miles (nm) and are there to provide a benchmark for distances, not an exact length of the shipping route. The following exchange rates have been used for the purposes of this comparison: \$USD / \$AUD 1.45, \$NZD / \$AUD 0.93 and £UKP / \$AUD 1.78.

7.4 Findings

The Regulator found Bass Island Line's prices to be similar to one of its competitors in the King Island freight market, lower than another one of its competitors in that market and at the lower end of prices compared to prices in other comparable markets in Australia and overseas.

8 PRICING BEHAVIOUR AND INDUSTRY RULES AND PRACTICES

The Terms of Reference required the Regulator to assess whether Bass Island Line's pricing behaviours are in line with relevant industry rules and practices.

8.1 Background

While the shipping industry is subject to a large number of rules and regulations regarding safety, security and environmental protections, there is a lack of industry-wide rules regarding the price structure for sea freight, with the exception of the national competition policy principles discussed in Chapter 6 of this Report.

8.2 Regulator's approach

The Regulator understands that the intent behind this term of reference is for the Regulator to examine Bass Island Line's pricing policies and determine the extent to which the types of charges it imposes are consistent with direct competitors and freight service providers in comparable markets.

In the absence of any industry rules regarding pricing behaviours, the Regulator compared Bass Island Line's pricing behaviours against its competitors as well as shipping companies servicing comparable markets, where pricing information was publicly available. The list of shipping companies used in the analysis included:

- Eastern Line Shipping: competitor to Bass Island Line in the King Island freight market;
- Bass Strait Freight: new competitor to Bass Island Line in the King Island freight market, and also operates in the Flinders Island freight market (comparable island market);
- Neptune Pacific Direct Line: operates in a comparable island market of Norfolk Island;
- Birdon: operates in a comparable island market of Lord Howe Island in New South Wales;
- Chatham Islands Shipping: operates in a comparable island market in New Zealand;
- Zentner Shipping: operates in a comparable island market of Cocos (Keeling) Islands;
- Northlink Ferries: operates in a comparable island market of Shetland Islands in Scotland; and
- Sea Swift: operates in comparable island markets in Queensland and the Northern Territory.

8.3 Regulator's analysis

8.3.1 Availability of pricing information

Bass Island Line's price schedule is not publicly available, and any potential customers that might want to compare Bass Island Line's prices with those of its competitors would have to contact Bass Island Line or its shipping agent for this information. However, the choice not to publish prices is not unique to Bass Island Line as Eastern Line Shipping and Bass Strait Freight, Bass Island Lines' direct competitors do not publish their prices for King Island (as of August 2023). Bass Strait Freight does, however, publish its prices for Flinders Island. Bass Strait Freight indicated that it intends publishing its rates for the King Island service once the business has established it as an ongoing route.

Neither of Zentner Shipping²⁴ nor Sea Swift publish their shipping rates.²⁵ However, Birdon, Chatham Islands Shipping and Neptune Pacific Direct Line publish their shipping rates and Northlink Ferries' shipping rates can be found through an online freight ferry ticket agent.

Based on the practices the Regulator observed from Bass Island Line's competitor and freight service providers in comparable markets, it is therefore not unusual for a shipping company to withhold its pricing information.

In a market like the King Island freight market, where there is a large government owned player who can operate at a loss, it is difficult for competitors to enter and gain market share, according to stakeholders.

The Regulator therefore suggests that Bass Island Line consider publishing its price schedule with the objective of improving transparency in the market. The Regulator acknowledges the risk that it could further embed a price leadership model where competitors price match with Bass Island Line's prices. However, on balance, the Regulator considers there is likely to be net benefits due to greater price transparency in the market. Customers should still be able to negotiate prices and other terms and conditions.

8.3.2 Methodology for determining the shipping rate for containerised freight

There is no consistent methodology for determining shipping rates for containerised freight with rates based on weight or volume or a combination of weight and volume.

Bass Island Line offers two shipping rates for containerised freight based on weight; one for light-weight containers and the other for heavy-weight containers.

Eastern Line Shipping, Bass Strait Freight and Chatham Island also offer two shipping rates for containerised freight, but these rates are based on volumes. Eastern Line Shipping and Bass Strait Freight charge one rate for 20-foot containers and another for 40-foot containers, and Chatham Island charges one rate for 10-foot containers and another for 20-foot containers.

Birdon, Sea Swift and NPD L all offer one shipping rate for general freight. Sea Swift and NPD L's rates apply to either weight or by cubic metre volume, whichever is greater, whilst Birdon only charges a per cubic metre rate. This approach provides more flexibility to customers.

8.3.3 Surcharges

In addition to shipping rates, Bass Island Line's pricing structure includes the following surcharges:

- fuel;
- wharfage;
- infrastructure levy;
- stock facility;
- hazardous goods; and

²⁴ The shipping rates for Zentner are sourced from the report, *Governance in the Indian Ocean Territories - Final Report: Economic Development and Governance* (March 2016).

²⁵ The shipping rates for Sea Swift are sourced from the House of Representatives Standing Committee on Indigenous Affairs report, *Report on food pricing and food security in remote Indigenous communities* (November 2020).

- over-dimensional.

As discussed in Section 5.4, Bass Island Line adopted SeaRoad's pricing structure, including its surcharges, when it commenced in 2017. With respect to the surcharges listed in Bass Island Line's price schedule, infrastructure levy, wharfage and fuel apply to all freight and are itemised on Bass Island Line's customer invoices.

8.3.3.1 Fuel surcharge

Fuel surcharges are one of the most common surcharges applied in the shipping industry. Bass Island Line, Chatham Islands Shipping and Sea Swift all apply fuel surcharges. While fuel surcharges are common, the fuel surcharge percentages vary between shipping companies. According to Bass Island Line's price schedule, the fuel surcharge can vary from month to month.²⁶

Despite a recent increase in the fuel surcharge, Regulator received positive feedback during consultation from Bass Island Line's customers regarding its fuel surcharges. In particular, customers noted that Bass Island Line's fuel surcharge was not as sizable as other shipping companies.

8.3.3.2 Wharfage

Bass Island Line is not unique in separating wharfage charges from its shipping rate.

The level of wharfage and how the wharfage is charged are set by TasPorts.

8.3.3.3 Infrastructure levy

TasPorts imposes an infrastructure levy on shipping companies to recover the costs of upgrading infrastructure at Devonport. This cost is unique to Bass Island Line among the companies operating in the King Island freight market, as it is the only shipper that currently uses the roll-on / roll-off ramp in Devonport. Bass Island Line passes this cost onto its customers.

During consultation some of Bass Island Line's customers expressed dissatisfaction about the infrastructure levy, particularly at not being informed about how long the surcharge would be applied for.

8.3.3.4 Stock facility

TasPorts charges stock facility levies for the usage of its stock facilities. These charges are separate from wharfage. Bass Island Line and Eastern Line Shipping both pass this cost onto their customers.

8.3.3.5 Hazardous goods surcharge

A surcharge for hazardous goods is another commonly applied charge in the shipping industry. Bass Island Line applies a fixed surcharge to its customers for the transportation of hazardous freight. For 2022-23, Bass Island Line's hazardous goods surcharge was less than 10 per cent of its shipping rate from King Island to Devonport or from King Island to Melbourne. By comparison, Sea Swift's hazardous freight surcharge is 25 per cent of the total shipping cost excluding GST and Birdon has a higher shipping rate for hazardous freight, which equates to a 17 per cent surcharge.

8.3.3.6 Over-dimensional surcharge

Bass Island Line's price structure includes several different over-dimensional (or out of gauge cargo as described in Bass Island Line's terms and conditions) surcharges. While over-dimensional surcharges

²⁶ Bass Island Line's price schedule as of March 2023.

are considered common in the shipping industry²⁷, none of the other shipping operators discussed in this chapter include such a charge in their price schedule.

8.3.3.7 Summary

While Bass Island Line imposes an infrastructure levy and over-dimensional surcharge that its direct competitors and shipping companies servicing comparable markets do not, the type of surcharges it applies are, overall, comparable with the range of surcharges applied by these companies.

The level of fuel surcharge and hazardous surcharge imposed by Bass Island Line is low compared to other shipping companies. However, from the information available, Bass Island Line would appear to be somewhat unique in the Australian shipping industry in terms of the wide variety of surcharges and levies it imposes.

These charges raise the total shipping cost paid by Bass Island Line's customers and make it more difficult for customers to estimate total shipping costs.

8.3.4 Trans-shipment arrangement

From 2017 to March 2022, Bass Island Line offered two routes, Melbourne - Port of Grassy and Port of Grassy - mainland Tasmania with the same shipping rate. In March 2022, Bass Island Line transitioned to a weekly service between Grassy and Devonport (rather than Bell Bay) and contracted its regular Melbourne port service to SeaRoad.

Following this change, Bass Island Line decreased the shipping rates for the Devonport route compared to the previous Bell Bay route and increased the shipping rates for the Melbourne route.

The Regulator compared the shipping rates offered by Bass Island Line, Eastern Line Shipping and Bass Strait Freight for King Island - mainland Tasmania as a proportion of the King Island - Melbourne shipping rate.

Bass Island Line's proportional shipping rates are similar to Eastern Line Shipping's rates. This suggests either that the differential in shipping rates is in line with the pricing behaviour of a competitor in the private sector, or that there is limited price based competition.

Bass Strait Freight's proportional shipping rates are different from Bass Island Line. However, the Regulator acknowledges that Bass Strait Freight is in its infancy in offering a service to King Island and the pricing of its services to the port of Welshpool in Victoria is currently the same as its Flinders Island service.

8.4 Findings and recommendations

8.4.1 Findings

Generally, Bass Island Line's pricing behaviours are within the range of behaviours exhibited by its direct competitors and shipping companies serving comparable markets. Therefore, the Regulator finds that Bass Island Line's pricing behaviours are in line with relevant industry rules and practices.

Bass Island Line charges a range of surcharges, most of which are common types of surcharges in the shipping industry. The Regulator notes that Bass Island Line imposes more surcharges and levies on its customers than other shipping companies.

²⁷ <https://shipware.com/blog/types-of-shipping-surcharges/>

Bass Island Line is not unique in not publishing its price schedule, as many shipping companies choose not to publish their shipping rates citing commercial-in-confidence reasons.

8.4.2 Recommendations

In the interests of transparency, the Regulator considers there is merit in Bass Island Line publishing its price schedule. The Regulator is aware that this carries some risk of embedding a price leadership model, however, on balance there is likely to be net benefits from providing greater transparency in the market.

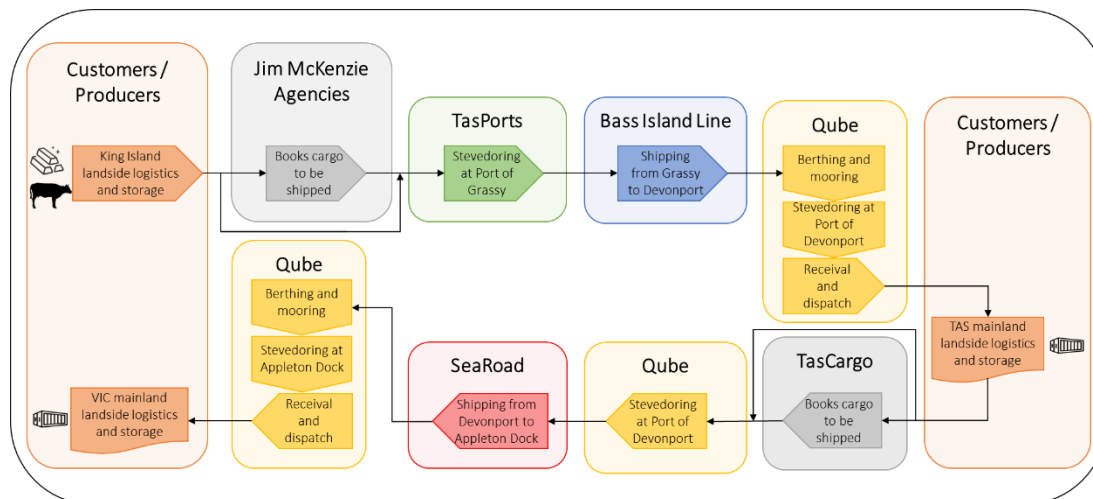
9 IMPACT OF PRICING BEHAVIOUR ON COMPETITORS AND SUPPLY CHAIN PARTICIPANTS

The Terms of Reference require the Regulator to assess the impact of Bass Island Line's pricing behaviours on other competitors and upstream and downstream supply chain participants.

9.1 Background

Although Bass Island Line is a shipping company, its operations extend to maritime logistics through connections with its customers, trans-shipment partner, service companies, port authorities and shipping agents. As sailing the *John Duigan* is the only component of the freight task directly managed by Bass Island Line, the performance of other entities is vital to the efficient provision of services. Figure 3 presents a diagrammatic representation of Bass Island Line's shipping service from on-island customers and producers through to off-island customers and producers.

Figure 3: Diagrammatic representation of the Bass Island Line shipping service



'Upstream' and 'downstream' supply chain participants typically refer to parties involved on either side of the manufacturing process, with the suppliers of raw materials existing upstream of manufacturing, whilst distributors and consumers are downstream participants.

9.2 Regulator's approach

This aspect of the Terms of Reference was addressed by directly consulting with Bass Island Line's major stakeholders to gain an understanding of the impact Bass Island Line's pricing behaviour has on its competitors and in the supply chain of its customers.

During the targeted consultation process, representatives for the Regulator met with representatives from twelve entities:

- Saputo (King Island Dairy);
- Kelp Industries;
- King Island Stockfeeds and Rural Supplies;
- King Island Foodworks;
- Jim McKenzie, in his capacity as shipping agent Jim McKenzie Agencies and administrator of Currie Cargoes;

- Hydro Tasmania;
- King Island Hospital and Health Centre;
- King Island Council;
- King Island Shipping Group;
- Eastern Line Shipping;
- JBS Australia; and
- Bass Strait Freight.

Eight of these entities are direct or indirect customers of Bass Island Line; two are competitors of Bass Island Line; and the two remaining entities represent the broader King Island community.

Further discussion about the role and relationships of intermediaries in the King Island freight market is included in Chapter 10.

9.3 Regulator's analysis

9.3.1 Impact on competitors

Despite the relatively small market and small population, King Island is serviced by a variety of freight operators.

Bass Island Line's competitors are the sea freight service providers - Eastern Line Shipping and Bass Strait Freight, as well as the air freight service providers - Tasfast, King Island Airlines and Sharp Airlines. King Island customers are able to choose which provider to use, factoring in price, speed and reliability of service.

The Regulator has contacted all of Bass Island Line's competitors for consultation, however, the Regulator did not receive any responses from the three air freight service providers.

9.3.1.1 Air freight

The air freight service providers are likely to have benefited from Bass Island Line's introduction of trans-shipment arrangements in March 2022. Some of Bass Island Line's customers with perishable goods noted their increased usage of air freight since the trans-shipment arrangements were introduced, as the latter adds additional time to the journey if goods are being freighted to or from Melbourne.

One customer advised that they have increased the usage of air freight because Bass Island Line applies an over-dimensional surcharge to freight that exceeds its defined dimensions. The customer noted that the full rate is applied even if an item is only slightly over-dimension. This has increased their freight costs.

In September 2022, Bass Island Line began offering a new refrigerated container service. According to customers the Regulator consulted with on King Island, Bass Island Line's charges were approximately 20 cents per kilogram cheaper than the air freight service offered by King Island Airlines. Bass Island Line's refrigerated service was not taken up by customers. According to customer feedback, the lack of take up was due to customers preferring to support a local airline, which also provides a passenger transport service, over potential savings in freight costs. Other customers noted reliability of service as a key factor in their decision to continue using air freight.

9.3.1.2 Sea freight

As discussed in Section 8.3, no sea freight service providers currently publish their respective price schedule.²⁸ As both Eastern Line Shipping and Bass Strait Freight commenced their King Island operations after Bass Island Line, it is possible that both competitors followed Bass Island Line's pricing behaviour of not publishing a price schedule.

Despite the absence of publicly available pricing information the Regulator obtained prices from each of the three shippers during the inquiry and was able to compare shipping rates.

Despite Eastern Line Shipping's annual expenditures from 2020-21 to 2022-23 being below those of Bass Island Line, its total return shipping price for a 20-foot container in 2022-23 is similar.

By the Regulator's estimation, Eastern Line Shipping's total return shipping rate is slightly cheaper than Bass Island Line. This is consistent with feedback from King Island customers during consultation.

Despite the lower rates offered by Eastern Line Shipping, during consultation some customers on King Island noted their preference to use Bass Island Line due to the higher standard of service provided by Bass Island Line.

Eastern Line Shipping indicated during consultation that it is difficult to compete against a government body like Bass Island Line, which can continue to operate without seeking to be profitable. Eastern Line Shipping notes that a commercial operator with Bass Island Line's level of losses would have been forced out of the market. This has hindered Eastern Line Shipping's capacity to grow and gain market share.

Bass Strait Freight announced its intention to enter the King Island freight market in March 2023 and since then has been in the process of developing the route to Apollo Bay. Bass Strait Freight currently provides an on-demand service from King Island to Welshpool.

9.3.2 Impacts on customers

Bass Island Line uses the services of Jim McKenzie Agencies as a booking agent on King Island.

Jim McKenzie Agencies is also the administrator for Currie Cargoes Pty Ltd, which is the main freight forwarder on King Island. Currie Cargoes has 40 shareholders, most of whom are businesses or individuals who freight goods on and off King Island.

Businesses that use Bass Island Line's services through Currie Cargoes are invoiced by Currie Cargoes and do not engage directly with Bass Island Line. For these customers, the pricing behaviours of Bass Island Line have an indirect impact.

Unlike Bass Island Line, Currie Cargoes charges one shipping rate for volume and weight that is inclusive of fuel surcharge, wharfage, infrastructure levy and GST. Currie Cargoes also charges a hazardous charge per consignment for hazardous freight.

According to Currie Cargoes' price sheet, its prices are subject to change without notice, which provides Currie Cargoes the flexibility to pass on any changes to Bass Island Line's pricing to its freight customers.

During consultation, some customers of Bass Island Line expressed dissatisfaction about Bass Island Line increasing its freight rate for the King Island - Melbourne route as part of the trans-shipment arrangements. Affected customers estimated that their total freight costs have increased by between 13 and 20 per cent.

²⁸ Bass Strait Freight has announced that it intends publishing its price schedule for King Island.

Many customers noted during their meeting with the Regulator's staff that while they understood Bass Island Line's objective of encouraging inbound freight from mainland Tasmania to King Island to increase the proportion of Tasmanian produce on the island, this doesn't align with their existing freight processes and has only increased freight costs and shipping times.

One of the direct customers of Bass Island Line also expressed dissatisfaction about Bass Island Line's surcharge for goods that are over-dimension, which the customer considered to be applied too strictly, adding additional cost and complication even for minor over-dimension items.

The majority of customers consulted during this process were dissatisfied with Bass Island Line's scheduling of freight services, including changes to its sailing schedule in the event of bad weather. Customers noted that while it is important for safety reasons to cancel sailings during poor weather, the *John Duigan* is "...almost always..." delayed during bad weather. Customers also advised the Regulator that there have also been some instances where the ship has sailed early to avoid bad weather.

Customers that ship perishable goods prefer earlier sailings as opposed to delayed sailings to ensure goods are received on the island instead of staying in storage at the port of Devonport. Inversely, customers that ship livestock prefer Bass Island Line's approach to delay sailings in the case of bad weather.

Bass Island Line's unreliable schedule has increased inventory holding costs for some customers, as they have to hold more goods in storage to ensure a certain level of supply for the residents of King Island.

One customer noted that they were not negatively impacted by Bass Island Line's pricing policies and the reliability of the *John Duigan*, because they were able to pass the increased costs for shipping directly onto their customers and their goods are not time sensitive. No other customers commented on whether they were able to pass the shipping cost increases entirely onto their customer base.

Further information on the reliability and suitability of the *John Duigan* can be found in Section 10.1.

While the prices of many goods were observed to be higher on King Island than on mainland Tasmania, it is not possible to establish the degree to which these prices are driven by Bass Island Line's pricing policies. Many factors are likely to contribute, including the freight prices of the air and sea freight competitors and the nature of the captured market on the island.

9.4 Findings

The King Island sea freight market is mature and finite, with two principal operators and the recent announcement by another private operator of its intended entry into the market. Concerns have been raised by stakeholders about the dominance in the market by a large Government owned and operated business that consistently runs at a loss, making it difficult for other privately owned businesses to grow market share.

The Regulator finds that the introduction of the trans-shipment arrangement in March 2022 has impacted the supply chain of many Bass Island Line customers and led to an increase in perishable goods being air freighted rather than transported by sea.

10 OTHER MATTERS

The Terms of Reference required the Regulator to assess whether there are any other matters that impact on prices.

In response, the Regulator identified the following issues that impact (or may impact) on prices which the Regulator considers should be brought to the Minister's attention:

- (a) the suitability of the *John Duigan* and the decision to purchase rather than lease the vessel;
- (b) the role of intermediaries in the King Island freight market; and
- (c) concerns about TasPorts' behaviour and fee levels.

10.1 The *John Duigan*

The Regulator was provided with feedback from stakeholders regarding whether they considered the *John Duigan* to be a suitable vessel to provide sea freight services to King Island.

The Regulator also examined TasPorts' decision to purchase the *John Duigan*, rather than to lease a vessel.

10.1.1 Suitability of the vessel

The Regulator notes the concerns raised in the media about the *John Duigan's* suitability for the King Island freight task (see for example²⁹). The issue has also been raised in Parliament.

All Bass Island Line customers that met with staff from the Regulator's office use Bass Island Line's service for inbound or outbound sea freight on a weekly basis. The volume of their freight needs range from a few pallets to multiple containers. No parties consulted with expressed any concern regarding Bass Island Line's ability to provide a satisfactory level of service when the service operates.

However, a number of the parties expressed dissatisfaction regarding the reliability of Bass Island Line's service due to the *John Duigan* not sailing in bad weather, particularly during the winter period. The information provided to the Regulator suggests that in the winter period, there is between a 50 and 75 per cent chance that Bass Island Line's sailing to King Island will be delayed. This delay can be lengthy (cited as up to six days during 2022-23³⁰) and can have significant impacts on some businesses. However, Bass Island Line will not sail in bad weather conditions to maintain the welfare of its crew and any livestock on board. Due to bad weather conditions in the Bass Strait, approximately 40 per cent of Bass Island Line's sailings to King Island are delayed by an average of between 1.5 and 1.9 days³¹. Some stakeholders did advise the Regulator that, when the *John Duigan* operates, the quality of the service is superior to that provided by other operators.

Some stakeholders considered that the unreliable nature of Bass Island Line's service is due to the *John Duigan's* unsuitability for the conditions of Bass Strait. Some stakeholders pointed out that the *John Duigan* is a barge, with a flat bottom and square front, rather than a ship with a keel and pointed bow and, due to its design, it is unable to sail during poor weather conditions (particularly during winter), meaning that it often sits idle.

The Regulator notes that the *John Duigan's* potential non-suitability for the King Island freight task impacts not just on Bass Island Line's costs but also on its revenue. That is, if the *John Duigan* is sitting idle and not able to sail, Bass Island Line still has to meet the substantial fixed costs associated with the vessel while, at the same time, its revenue earning capacity is reduced.

Some stakeholders also provided the opinion that the *John Duigan* is too large a vessel to undertake a weekly King Island schedule.

²⁹ *King Island supply ship John Duigan back in dry dock, slammed as not 'fit for purpose'*, www.abc.net.au (3 September 2020).

³⁰ Office of the Tasmanian Economic Regulator, Transcripts from meetings conducted on King Island between 22 and 26 May 2023.

³¹ Office of the Tasmanian Economic Regulator, Transcripts from meetings conducted on King Island between 22 and 26 May 2023.

Without expert shipping knowledge, it is difficult for the Regulator to substantiate the claims made in relation to the appropriateness of the *John Duigan*, or to assess the impact which the suitability or otherwise of the vessel might have on Bass Island Line's costs and revenue. However, as set out in the recommendation below, the Regulator believes that Bass Island Line needs to carry out further work on this.

10.1.2 Decision to purchase or lease the vessel

The Regulator also examined TasPorts rationale for purchasing the *John Duigan* instead of chartering the *John Duigan* or another vessel.

While the Regulator does not have expert shipping knowledge, the Regulator considers TasPorts' decision to purchase rather than lease the *John Duigan* does not appear to be unreasonable at the time the decision was made.

10.1.3 Recommendation

In light of the issues set out in Section 10.1.1, the Regulator recommends Bass Island Line commissions work to review the suitability of the *John Duigan* to continue to provide freight services to King Island. The review should assess the size, operational suitability and the costs incurred operating the *John Duigan* and seek specialist advice to consider the available alternatives. In the event that continuing with the *John Duigan* is considered to be the best option, then Bass Island Line should consider whether the asset base should be optimised and costs should reflect that optimised value.

10.2 Role of intermediaries

There is a degree of vertical integration in the King Island freight market. This is not unexpected given the size of the market and the relatively small population on the island.

Based on information provided to the Regulator during consultation, the level of vertical integration means that there are some long standing relationships between the various players in the freight market. The full extent of those relationships and the implications for costs, prices and competition are difficult to establish. The Regulator considers that investigating these issues is outside the scope of this inquiry. However, the inquiry notes that there is currently one shipping agent on King Island, who acts for a significant number of customers and has the ability to negotiate with both active shipping operators. The decisions made by the agent are therefore important and have the ability to influence outcomes in terms of the utilisation rate of the *John Duigan* and other shipping services.

That said, the recommendation made in Section 8.4.2 of this Report relating to requiring Bass Island Line to publish its prices may assist in increasing the overall transparency of the King Island freight market.

10.3 TasPorts' practices and charges

During consultation, stakeholders expressed dissatisfaction with some of TasPorts' practices and with the charges it imposes. As a monopoly service provider, some stakeholders were concerned that the relationship between TasPorts and Bass Island Line could potentially lead to anti-competitive behaviour.

In particular, stakeholders raised issues in relation to:

- Stevedoring - some customers claimed that the stevedoring arrangements provided by TasPorts at the Grassy Port are inefficient and costly, with TasPorts not incentivised to improve efficiency. In addition, Bass Island Line's sea freight competitors have noted difficulties in securing a stevedoring licence for the Port of Grassy, notwithstanding TasPorts has issued them stevedoring licences for other ports.
- Grassy Port access - the port at Grassy can only handle one ship at a time. There were also claims made that while there is 24-hour lighting in place, TasPorts does not permit vessels to use the

Grassy Port at night. TasPorts cites safety concerns relating to navigation out of the port as the reason for imposing this restriction.

- Wharfage fees - TasPorts imposes wharfage fees on all cargoes that load or discharge from vessels using TasPorts' berths. The wharfage fees are uniform across all mainland Tasmanian ports, with separate fees levied on King and Flinders Islands. Based on publicly available information, the Regulator compared TasPorts' wharfage charges with those imposed at other price regulated ports in Australia. The results are shown in Table 5.

Table 5: Wharfage charges per TEU, 2022-23

Port	Jurisdiction	\$ / TEU (exc. GST)
Ports North (Cairns)	QLD	117.64
King and Flinders Island	TAS	113.00
Port Hedland	WA	111.77
Port of Darwin	NT	104.72
Port of Melbourne	VIC	101.43
Flinders Port (Adelaide)	SA	95.60
Mainland Tasmania	TAS	91.00
Fremantle Port	WA	80.76

- As shown in Table 5, TasPorts' wharfage charges for King Island are higher than the charges imposed at TasPorts' other Tasmania ports, as well as the wharfage charges for all other regulated ports in Australia apart from Cairns.
- In response to the Regulator's questions about the wharfage charge differential between King Island and other mainland Tasmanian ports, TasPorts stated that, while it is committed to maintaining state-wide pricing, the cost of maintaining infrastructure for shipping services is higher for King Island and Flinders Island due to the islands' geographic isolation.³²
- Wharfage - the total amount of wharfage charges for Bass Island Line customers has increased since the introduction of the trans-shipment arrangements in March 2022. Additionally, on 30 March 2023, the King Island Courier noted concerns raised around a number of issues including TasPorts' charges. It was claimed that TasPorts levies three sets of wharfage charges in relation to the King Island freight task, which is more than what was previously levied when SeaRoad Shipping provided the service.
 - The Regulator has confirmed that this is the case; Bass Island Line customers using the trans-shipment service run by SeaRoad now incur wharfage charges for the port of Grassy plus two sets of wharfage charges at the port of Devonport, one for unloading the *John Duigan* and another for loading the SeaRoad vessel. During consultation, some customers claimed the trans-shipment arrangements were introduced to increase TasPorts' revenue. Bass Island Line's wharfage costs comprise wharfage paid to TasPorts, and wharfage paid at Victorian ports.
 - The Regulator has examined TasPorts' wharfage revenue from Bass Island Line over the past five years as shown in Table 6. The level of wharfage received by TasPorts from Bass Island Line decreased between 1 July 2017 and 30 June 2021, before increasing by around one-third in 2021-22. This trend was consistent with stakeholder feedback provided to the Regulator.

³² TasPorts, Response of 14 July 2023 to a query from the Regulator, page 3.

Table 6: TasPorts' wharfage revenue from Bass Island Line from 1 July 2017 to 30 June 2022

Description	Financial year				
	2017-18	2018-19	2019-20	2020-21	2021-22
TasPorts' wharfage revenue from Bass Island Line	\$702 561	\$482 596	\$363 806	\$216 177	\$430 440

Following stakeholders' comments to the Regulator in relation to the level of charges imposed by TasPorts, the Regulator suggests that TasPorts should engage with the King Island community and other stakeholders to explain its charges.

APPENDIX A: DIRECTION TO UNDERTAKE THE PRESCRIBED BODY INQUIRY

Deputy Premier
Treasurer
Minister for Infrastructure and Transport
Minister for Planning

Level 10, Executive Building, 15 Murray Street, Hobart
Public Buildings, 53 St John Street, Launceston
GPO Box 123, Hobart TAS 7001
Phone: (03) 6165 7701; Email: Michael.Ferguson@tas.gov.au



Mr Joe Dimasi
Tasmanian Economic Regulator
Level 3
21 Murray Street
HOBART TAS 7000

Dear Mr Dimasi

Prescribed Body Inquiry - Bass Island Line Pty Ltd pricing policies

Thank you for your letter of 20 December 2022 confirming that you have no proposed amendments to the draft Terms of Reference (ToR) I provided to you regarding the Prescribed Body Inquiry (the Inquiry) into the pricing policies of Bass Island Line Pty Ltd.

In accordance with section 39 of the *Economic Regulator Act 2009*, I now provide my formal direction for you to undertake the Inquiry into the pricing policies for Bass Island Line Pty Ltd. The approved ToR for the Inquiry are attached.

Pursuant to section 39(4)(f) of the *Economic Regulator Act 2009*, TasPorts will fund the costs of the Inquiry.

In accordance with the ToR, the report on the findings of the Inquiry should be provided by 31 August 2023.

Yours sincerely

A handwritten signature in blue ink that reads "Michael Ferguson".

Hon Michael Ferguson MP
Deputy Premier
Treasurer

20/12/22

End

APPENDIX B: TERMS OF REFERENCE

PRESCRIBED BODY INQUIRY
BASS ISLAND LINE PRICING POLICIES
December 2022
Terms of Reference

Prescribed Body Inquiry

The Treasurer has requested the Tasmanian Economic Regulator to inquire into the pricing policies of Bass Island Line Pty Ltd by undertaking a prescribed body inquiry under Part 4 of the *Economic Regulator Act 2009*.

The inquiry concerns Bass Island Line's pricing policies as they relate to its provision of freight services to King Island and is to be conducted in accordance with these Terms of Reference.

Terms of Reference

The Regulator's inquiry is to assess whether:

1. the prices charged by Bass Island Line for the supply of freight services to customers on King Island on a regular weekly basis reflect:
 - (a) the efficient costs of providing those services (including charges TasPorts imposes on Bass Island Line);
 - (b) are consistent with recovering those costs on a full cost attribution basis in line with competitive neutrality principles;
2. where possible, the costs incurred and prices charged per unit are consistent with that observed in other comparable markets;
3. Bass Island Line's pricing behaviour is in line with relevant industry rules and practices;
4. Bass Island Line's pricing behaviour impacts on other competitors and upstream and downstream supply chain participants; and
5. any other matters that impact on prices that the Regulator considers relevant.

Where discrepancies or issues are identified with respect to terms 1 to 5 inclusive, the Regulator is to provide recommendations on how Bass Island Line's pricing policies could be improved.

The Appendix to these Terms of Reference provides background information relating to Bass Island Line's operations and history.

Key Deliverables

The Regulator is to deliver a report on the findings of the prescribed body inquiry to the Treasurer by **31 August 2023**.

Costs

In accordance with Section 39(4)(f) of the *Economic Regulator Act 2009*, TasPorts is liable to pay the costs of the prescribed body inquiry.

APPENDIX 1

Background

Bass Island Line is a wholly owned subsidiary of the Tasmanian Ports Corporation Limited (TasPorts) TasPorts, a state-owned company responsible for eleven Tasmanian sea ports and the Devonport Airport.

Bass Island Line has provided a freight service for King Island since 2017, following the withdrawal of the previous private operator and in the ongoing absence of a viable private sector alternative.

Bass Island Line caters for containerised, bulk and vehicle cargo and livestock, offering a weekly direct service between King Island (Grassy) and Devonport. Bass Island Line also offers a trans-shipment service to Victoria, through the privately owned SeaRoad Shipping at Devonport.

Bass Island Line is incorporated under the Corporations Act 2001 and, under the Government's governance framework for Government businesses, is required to make tax equivalent payments and pay debt guarantee fees (where appropriate) and is subject to the same legislative, regulatory and environmental requirements as private shipping operators.

King Island freight task

King Island has a population of approximately 1 600. Like other island communities, King Island is reliant on sea freight for many of its basic needs, as well to provide access to export markets.

The freight task to King Island is diverse, seasonal and relatively small. In 2020-21 the King Island sea freight task was 162 645 tonnes or 8 507 twenty-foot equivalent units (TEU). This represented 1.1 per cent of all freight through Tasmanian ports.

The King Island freight task is a combination of general freight, refrigerated freight, hazardous goods and livestock. Farming is the predominant freight generating sector, with beef production and dairy processing of key significance to the King Island economy.

Imports include food and groceries for residents and visitors, construction materials, household items, fuel, agricultural inputs, vehicles, mining equipment and any other items not sourced from King Island.

Shipping service: historical context

2001-2017: SeaRoad shipping

King Island shipping services operated on a commercial basis without direct Government involvement by SeaRoad Shipping from 2001 up until the replacement of the SeaRoad Mersey I vessel in early 2017, with the replacement vessel too large to call at King Island.

The SeaRoad service had operated a call each Sunday to the Port of Grassy as a regular diversion of its Melbourne to Devonport service. Until 2009, the ship called at King Island on the north-bound journey. In that year, the route was reversed, with the King Island call then made on the southbound journey until cessation of the service in 2017.

The triangular service allowed the fixed costs of the service to be shared across other Bass Strait freight, noting the very small proportion of freight destined to, or originating from, King Island.

The south-bound King Island call meant that freight destined for mainland markets had a longer journey but remained on board at Devonport. The south-bound call benefited movement of livestock to Tasmania, as well as direct movement of goods from the mainland to King Island. The bulk of goods destined for King Island originate from the mainland.

2017-2022: Bass Island Line commences, market testing, vessel and schedule issues

Following the cessation of the SeaRoad service in 2017, the commercial market failed to offer a reliable and affordable King Island shipping service. At this time, the Tasmanian Government intervened to ensure a regular shipping service to the island continued, and Bass Island Line commenced delivery of a regular shipping service.

The Bass Island Line service schedule initially rotated between a Melbourne – Grassy route and Grassy – Bell Bay route.

The current vessel in service, *John Duigan*, came into service in May 2018. In 2020, *John Duigan* was taken offline for repairs, and returned to service in November 2020. During that time, Bass Island Line chartered a vessel from Eastern Line to fulfil the freight task.

Attempts have been made to facilitate the provision of a commercial shipping service for King Island. In late 2018, TasPorts undertook a process to gauge interest from potential operators. Proposals were sought in April 2019 and subsequently evaluated by a panel comprising representatives from TasPorts, Bass Island Line and the Department of State Growth.

No market participants were short-listed on the basis that no proposals sufficiently demonstrated that they were able to achieve an improved service outcome without substantial ongoing involvement and support from TasPorts. The challenging marine environment and limited freight demand contribute to the difficulty in finding a commercial solution.

It is the Government's intention to continue to ensure a service is provided for as long as necessary until a sustainable alternative solution is developed.

2022: Bass Island Line service changes

From 14 March 2022, Bass Island Line transitioned to a weekly service between King Island and Devonport (rather than Bell Bay) and ceased its regular Victorian port call, which had seen a decline in demand and was no longer operationally viable.

The new service schedule is supported by the Tasmanian Government's investment of a new \$2.4 million multi-user roll-on roll-off (RORO) ramp at the Port of Devonport. Some of this cost is being recovered through a levy which is passed onto Bass Island Line.

As part of implementing the service change, Bass Island Line undertook a review of freight costs and was able to achieve a reduction in rates for the King Island/Devonport leg, which TasPorts estimates will benefit approximately 70 per cent of the King Island freight task.

The change in route implemented by Bass Island Line has primarily benefitted movement of livestock, which can now come direct into Devonport.

However, submissions from some King Island businesses have requested direct mainland access, based on relationships built up with Victorian businesses. Some exports, such as live animals, rely on a direct link to market, while for less time-sensitive products, cost is likely to be a greater consideration than travel time.

Island stakeholders have noted that while Bass Island Line's changes have resulted in decreased costs between King Island and Devonport, there have been increases in freight rates between King Island and Victoria. They also claim a lack of certainty around freight rates before shipment. The changed route also affects imports sourced from the mainland which are transhipped through Devonport.

Other freight services

King Island's freight task is served by both sea and air freight services.

Eastern Line provides three to four shipping services each week between King Island and the Port of Stanley, and approximately one service per month between King Island and Victoria. Eastern Line carries livestock (cattle), medical goods, groceries, trucks, machinery, horse floats, fertiliser and equipment for local businesses.

Air freight is also available, carrying a range of products including time sensitive (fresh) freight that is not suited for transport via surface transport (road or sea) options. Exports are generally moved direct to mainland and international markets through Melbourne. This includes Sharp Airlines, which operates twice daily services into Currie and Essendon. Perishable products, which should be suitable for refrigerated sea transport are instead transported by air, which is the most expensive mode, as is reflected in consumer prices. It is noted that when Bass Island Line offered a refrigerated service for perishable food, no businesses on King Island utilised the opportunity.

Re-establishment of scheelite mining may be a catalyst for a new entrant to seek to operate a direct mainland service. However, the fragmented nature of the King Island freight task, combined with its small volumes, will continue to make provision of a dedicated freight service for the island a challenging proposition.

Observations

Freight terms

Rates for freight carried by Bass Island Line are negotiated with customers on a case-by-case, commercial basis. Bass Island Line does not publish shipping costs (including trans-shipment costs for goods transhipped using SeaRoad Shipping) on the basis that it could place Bass Island Line at a commercial disadvantage.

Goods carried by Bass Island Line are subject to the Terms and Conditions provided on the Bass Island line website: www.bassislandline.com.au which includes conditions relating to charges and payment.

Subsidy arrangements for customers

Eligible Tasmanian goods being transported to an international destination via a mainland port attract assistance of \$700 per Twenty-foot Equivalent Unit (TEU) under the Australian Government's Tasmanian Freight Equalisation Scheme (TFES).

International goods shipped from King Island and the Furneaux Group are eligible for a further 15 per cent loading, taking the per-TEU assistance to \$805 for eligible freight destined for overseas markets.

From 1 July 2021 the TFES was extended to eligible imported goods. The Ministerial Directions do not include an additional loading for imports to King Island.

Vehicles travelling between King Island and the Australian mainland are eligible for assistance under the Bass Strait Passenger Vehicle Equalisation Scheme.

Competition

Competitive Neutrality Principles aim to ensure that government businesses do not enjoy any net competitive advantage simply as a result of their public ownership.

As noted, Island stakeholders have noted that that Bass Island Line's operations have resulted in significant increases in freight rates between King Island and Victoria and expressed concern regarding

a lack of certainty of freight rates before it is shipped. The changed route also affects imports sourced from the mainland which must be now transhipped through Devonport.

The dedicated King Island - Devonport Bass Island Line service has resulted in a measure of competition (from Eastern Line) between King Island and mainland Tasmania. However, the extent of competition is limited by considerations of market (live cattle are shipped by most direct route to abattoir), final destination of goods and vessel capacity.

APPENDIX C: COMPARABLE MARKETS

Flinders Island

- Flinders Island is located in the Bass Strait between Victoria and north east Tasmania. The island has a population of approximately 900.
- The island relies on imports for fuel and other essential goods not produced locally. Exports include livestock, seafood and agricultural produce. However, exports are not at the same level as King Island.
- Bass Strait Freight Pty Ltd provides the island with a weekly sea freight service, which also takes passengers and vehicles, between Bridport and Lady Barron. The shipping service also provides an on-demand service for livestock and other unique cargo.
- Bass Strait Freight operates two purpose-built Ro/Ro vessels, the *Matthew Flinders III* and the *Matthew Flinders IV*.
- Freight rates are published on Bass Strait Freight's website.

Lord Howe Island

- Lord Howe Island is a World Heritage site and is located in the Tasman Sea between Australia and New Zealand and is approximately 570 kms from the Australian mainland. The island has a population of about 450 and is considered an unincorporated area of NSW.
- The island's economy is tourism-dependent with the number of visitors at any one time capped at 400 to limit over-crowding. However, the island also exports various Kentia Palm products derived from the plant which is native to the island.
- Sea freight services are provided by Birdon's Island Trader which delivers goods to the island once every fortnight from Port Macquarie (NSW).
- The Island Trader has a lifting capacity of four tonnes with a crane installed on the boat and a diesel fuel cargo carrying capacity of up to 60 000 litres.
- Freight rates are published on Birdon's website.

Norfolk Island

- Norfolk Island is located in the Pacific Ocean to the north of New Zealand and approximately 1 400 kms from the east coast of Australia. The island has a population of about 2 200 people and is under the authority of the Australian Government.
- The island's economy is reliant on tourism with an average of more than 34 000 people visiting the island each year. The island's main exports include wood and seeds from the Norfolk Island pine. Norfolk Island relies on imports for most goods.
- In 2022, the Australian Government sought views from the Norfolk Island community on its need for a long-term sustainable sea freight service in response to its ongoing sea freight supply shortage.
- Ahead of further consultation the Australian Government committed to subsidise four monthly barges from Brisbane to Norfolk Island, operated by Neptune Pacific Direct Line (NPDL), from November 2022 to February 2023.
- In November 2022, NPDL announced it would acquire a new vessel that has the flexibility to meet Norfolk Island's shipping needs over the long-term. It is intended that this new vessel will commence operations in April 2023 and will operate between Brisbane, Norfolk Island, Auckland, Norfolk Island and Brisbane.
- Freight rates of the Australian Government's interim service are published on the Norfolk Community Facebook page.

Tiwi Islands (Bathurst Island and Melville Island)

- The Tiwi Islands comprise of two main islands - Bathurst and Melville, which are located 80 km north of Darwin. The islands have a population of around 2 300 with most residents of aboriginal descent.
- The Tiwi economy is supported by industries such as local government, education, community services, arts, tourism, football, forestry and transport.
- The largest community is Wurrumiyanga (Nguuu) on Bathurst Island. On Melville Island there are two smaller communities, Pirlangimpi (Garden Point) and Milikapiti (Snake Bay).
- Sea Swift provides each community listed above with a regular sea freight service from Darwin. Each community is levied a different rate to reflect the cost of the service. These sea freight services can, in some cases, operate up to three times per week.
- Freight rates were made available by Sea Swift through its submission to the Australian Parliamentary Inquiry into Food Pricing and Food Security for Indigenous Communities.

Thursday Island, Horn Island, Seisa and Weipa

- Thursday Island and Horn Island are two islands of the 274 smaller islands that make up the Torres Strait Islands. These islands are located in the waterway separating north Queensland and New Guinea.
- Thursday Island has a population of about 2 800 and Horn Island has a population of around 500. The Torres Strait Islands have a population of approximately 4 100 more broadly. The islands' populations are primarily indigenous peoples.
- The islands are 800 km from Cairns and depend on sea and air freight for goods not sourced locally.
- Seisa is a small town located on the northern peninsula of Queensland with a population of about 300, most of which are indigenous peoples.
- Weipa is a small coastal town located on the west coast of Queensland in the Gulf of Carpentaria. Weipa has a population of about 4 000 people and is around 800 km by road from the nearest city of Cairns.
- Rio Tinto operates a bauxite mine in Weipa with much of the land surrounding the town leased for this purpose.
- Sea Swift provides a weekly sea freight service to Thursday Island, Horn Island, Seisa and Weipa at a flat rate. Sea Swift tranships cargo from Horn Island to the smaller island communities within the Torres Strait Islands.

Nhulunbuy (Gove)

- Nhulunbuy is similar to Weipa in that it is an isolated coastal community with mining as a key part of the economy. The town has a population of about 3 300 and is to the east of Darwin.
- The town is mainly known for its bauxite and alumina mines owned by Rio Tinto.
- Sea Swift provides Nhulunbuy with a regular sea freight service from Darwin, where the town operates as a service hub to tranship goods to other remote communities in the area.

Christmas Island and Cocos (Keeling) Islands (Indian Ocean Territories)

- The Indian Ocean Territories are located to the south of Indonesia and about 2 600 kms from Perth. The territories are about 1 000 kms apart but receive sea freight services from the same provider.
- Christmas Island has a population of about 1 700 and the Cocos (Keeling) Islands has a population of approximately 600. The Australian Government has responsibility for the territories and facilitates the delivery of services normally provided by a state government.

- Zentner Shipping is privately owned and provides a dedicated shipping service to the Indian Ocean Territories from Fremantle every four to six weeks. The Australian Government is the single largest user of the shipping service.
- Sea freight for the territories is not Government subsidised. However, the Australian Government subsidises the territories' weekly air freight services.³³
- Residents on the territories note that the sea freight service is unsubsidised, unreliable and inefficient. Payment to ship empty shipping containers to Fremantle is sometimes needed. The Australian Government's Department of Infrastructure and Regional Development stated that the sea freight service's regularity is strongly influenced by weather.
- Freight rates for the Cocos (Keeling) Islands were provided by a shipping freight customer through the Australian Government's Governance in the Indian Ocean Territories - Interim Report: Economic Development. These freight rates have been assumed to apply to Christmas Island as well.

Chatham Islands (New Zealand)

- The Chatham Islands are located in the South Pacific Ocean to the east of New Zealand and have a population of around 800. Fishing, agriculture and tourism are the islands' main source of income. The islands are a part of New Zealand.
- Chatham Islands Shipping Ltd provides a sea freight service to the main island every 10 to 12 days. Sea freight rates are published on the company's website.

Shetland Islands (United Kingdom)

- The Shetland Islands are located north of Scotland and have a population of approximately 23 000. The islands' most prominent exports include aquaculture products, fish and fossil fuels.
- The Shetland Islands Council has reported that the cost of living on the islands is around 20-65 per cent higher than the UK average.
- The Shetland Islands Council operates an inter-island ferry service that connects the various islands. This service has received government funding in the past.
- The Department of State Growth's 2013 Report shows a very small cost for the Shetland Islands' shipping service. It is likely that this figure relates to the short-route inter-island ferry service, which is not comparable to the King Island freight task.
- However, Freightlink provides two daily ferry services to the main island which allows trucks to transport general cargo from Aberdeen in Scotland. The Shetland Islands' freight pricing has been calculated by assuming the shipment of a truck that is 10 metres long carrying one TEU, plus the standard 20 per cent Value-Added Tax.³⁴

Bass Strait (Victoria to mainland Tasmania)

- Sea freight between Victoria and mainland Tasmania is characterised by number of shipping services, including SeaRoad and TT-Line shipping high volumes of freight.
- Due to the high freight volumes this shipping route is not directly comparable to King Island's freight task.
- Average sea freight rates were obtained from the Tasmanian Freight Equalisation Scheme Monitoring Report, 2018.

³³ *Governance in the Indian Ocean Territories - Interim Report: Economic Development*, Chapter 4 - June 2015, page 26.

³⁴ The UK's Value-Added Tax, or VAT, is similar to Australia's Goods and Services Tax (GST).

APPENDIX D: NON-COMPARABLE MARKETS

Market/community	Details
New Zealand (North to South island)	This shipping service was used as a benchmark in the Department of State Growth's 2013 Report. Given the relatively high volumes of freight compared with King Island, this service is not considered comparable to King Island's freight task. Prices for freight are not publicly available.
Faroe Islands	<p>The Faroe Islands are located to the north of the Shetland Islands and have a population of about 53 000. Fish products account for around 90 per cent of the islands' total exports by value.</p> <p>Faroe Ship provides weekly departures from the islands to ports in Iceland, Scandinavia, the UK, and continental Europe. The volume of freight and narrow scope of exports differs from King Island.</p> <p>Sea freight rates are not available to the public. Given sea freight rates are not available and the freight task differs to King Island, it is not considered a comparable market.</p>
South Atlantic Islands of Ascension, St Helena, Tristan da Cunha and the Falklands	<p>These islands, located in the South Atlantic, have their freight services provided by Richard James International Ltd.</p> <p>Although the freight task could be considered similar to King Island, due to the variety of imports, the isolated nature of the islands and possible low balance of trade, comparisons have not been made due to the limited pricing data available.</p> <p>A Review of Future Freight and Passenger Shipping Options for St Helena and Ascension Island included indicative sea freight rates for St Helena in 2009 but were not considered reliable.</p>
The Whitsundays	The Whitsunday islands are a tourist destination serviced by passenger ferries. Hayman Logistics provide the islands with a barge service for freight and vehicles. Freight rates are not available without a booking request.
Kangaroo Island	Kangaroo Island has a population of approximately 4 900 and has a range of exports including, among other things, lamb, beef, seafood, wheat, canola, cheeses, alcohol, wool and cosmetics.

Market/community	Details
	<p>Like King Island, there is no meat processing facility on island but live animals may be moved off island through trucks via the sea ferry.</p> <p>Given the island's proximity to mainland Australia, SeaLink provides the island with a regular vehicle/passenger ferry service that operates each day.</p>
Groote Eylandt (Anindilyakwa) Island	<p>Groote Eylandt is located to the east of the NT in the Gulf of Carpentaria.</p> <p>The island has a primarily indigenous population of about 1 500 with one of its townships established for GEMCO's manganese mine.</p> <p>Sea Swift provides a trans-shipment service to the island through its hub at Nhulunbuy (Gove). Given the island is serviced by a trans-shipment service from a secondary port that relies on Darwin, it was not deemed comparable to King Island's freight task.</p>
Elcho Island (Galiwin'ku) Island	<p>Elcho Island is located to the northeast of Darwin. The island's population of about 2 200 is largely indigenous.</p> <p>It is understood that Sea Swift provides a trans-shipment service to the island through its hub at Nhulunbuy (Gove) and therefore is not considered comparable to King Island's freight task.</p>
Milingimbi (Yurruwi) Island	<p>Milingimbi Island is to the west of Elcho Island and has a population of about 1 100, most of which are indigenous.</p> <p>It is understood that Sea Swift provides a trans-shipment service to the island through its hub at Nhulunbuy (Gove) and therefore is not considered comparable to King Island's freight task.</p>
Gulf Islands including Mornington Island	<p>The Gulf Islands are home to about 1 200 indigenous people, most [all] of which reside on Mornington Island.</p> <p>Sea freight services are provided by Carpentaria Freight. Freight rates are not publicly available.</p>
Palm Island	<p>Palm Island is located about 50km north of Townsville has a population of about 1 200. Palm Island Barge Co provides sea freight services to the island. Freight charges are not publicly available.</p>
Magnetic Island	<p>Magnetic Island has a population of about 2 500 and its economy is mainly based around tourism.</p> <p>The island has a daily vehicle/passenger ferry service operated by Magnetic Island Ferries and SeaLink.</p> <p>Islands serviced regularly by ferries are not considered comparable to King Island's freight task.</p>
Moreton Bay Islands	<p>There is a collection of islands in Moreton Bay (near Brisbane), all of which are serviced by either a passenger / vehicle ferry or a barge service.</p>

Market/community	Details
	<p>These ferry services are provided by a number of providers including SeaLink, Micat (the Moreton Island Ferry) and the Amity Trader.</p> <p>Given the relatively frequent ferry service and proximity to Brisbane, these services are not thought to be comparable to King Island's freight only shipping service.</p>
K'gari (formerly known as Fraser Island)	K'gari has a population of about 150 and is known for its nature tourism. Mantra Ray Fraser Island Barges services the island twice a day. This service is not considered comparable to King Island's freight task.
Rottnest Island	Rottnest Island is a tourist destination and is serviced by a number of ferries from Perth.
Bruny Island	SeaLink provides Bruny Island with a regular vehicle / passenger ferry service that operates every day of the year.
Bribie Island	Bribie Island is connected to mainland Australia by bridge and is therefore not comparable to King Island's freight task.
Phillip Island	Phillip Island is connected to mainland Australia by a bridge and is not comparable to King Island's freight task.

APPENDIX E: DEFINITION OF KEY TERMS

Term	Definition
Capacity	The cargo volume a ship can carry expressed in, for example, tonnes or TEUs.
GRT	Gross Registered Tonnage
Pilotage	Charges comprising a fixed charge (plus a charge per GRT for vessels greater than 9 999 GRT), covering pilot services and pilot launch at the ports of Bell Bay, Burnie, Devonport and Hobart. A pilot is required for all vessels exceeding 35 metres in length overall (LOA), unless an Exempt Master is in charge of the vessel.
Stevedoring	Payments made to port authorities for services relating to the loading and unloading of freight.
TEU	Twenty-foot equivalent unit. A unit of measurement used to determine cargo capacity for container ships and container ports based on the dimensions of a 20-foot-long (6.1 m) shipping container. For example, a 40-foot-long container is two TEUs.
TFES	Tasmanian Freight Equalisation Scheme.
Tonnage	Charges applied to vessels exceeding 35 metres in length overall (LOA) that enter TasPorts' Port Pilotage Areas (including shipping channels). Charges apply for the first day or part thereof with a reduced charge for each subsequent 24-hour period or part thereof.
Trans-shipment freight charges	Charges relating to the unloading of a shipment from one vessel, storage, and loading it on to another vessel.
Utilisation rate	The percentage of a vessel's cargo capacity that is being used. Increased utilisation reduces costs per unit of cargo.
Wharfage	Charges applied for both the import and export of sea freight and payable as specified by the port authority or by tonne, cubic metre, or kilolitre of cargo, whichever is the greater.

Source - TasPorts' *Schedule of Ports Charges 2022-23* unless otherwise noted.

