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SUBMISSION TO

Submission No 110

House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs

Parliamentary Enquiry into Community Stores in Remote Aboriginal and Torres Strait Islander Communities

By

Sea Swift

Setting Shipping Standards.

Contents

1. Introduction

I would like to take this opportunity to acknowledge the traditional owners of the regions in which we operate and thank the Enquiry for the opportunity to respond on behalf of Sea Swift – the major sea freight provider in the Torres Strait region.

2. Sea Swift background

Sea Swift is a privately owned company based in Cairns and has provided shipping services to the Torres Strait region for over 20 years. Sea Swift operate a fleet of cargo vessels and landing barges in order to provide for the sea freight needs of some Cape York and all Torres Strait island communities.

Two line haul vessels, the Trinity Bay and the Newcastle Bay, depart from Cairns weekly to deliver cargo to Horn Island, Thursday Island, Seisia, and Weipa. The Outer Torres Strait Island (OTSI) cargo is trans-shipped at Horn Island to one of three landing barges, Malu Titan, Malu Warrior, or Malu Chief, for delivery to the respective communities. Capacity is such that freight movements are normally able to be completed ex-Cairns within seven days to even the most remote community, and within four days to Horn Island and Thursday Island.

In addition to the three landing craft a tug and barge combination operates cross harbour from Horn to Thursday Island on a daily basis generally transporting vehicular freight.

Sea Swift have worked closely with the various Island communities over the last 20 years not only to meet their freight requirements, but also to support local communities through various sponsorships and employment opportunities. In fact in the Torres Strait region 67% of our depot staff, 50% of our barge crews and all of our agents identify themselves as being of Aboriginal or Torres Strait Islander decent.

3. Transport System Issues and Constraints

Unlike most other freight providers Sea Swift offer essentially a flexible door-to-door service in order to meet most customer needs, however there are a number of issues which constrain the provision of freight services to the Torres Straight region on a regular basis. These include, but are not limited to:

- The climatic conditions,
- High travel and rental costs (for labour and crewing),
- A varying quality of infrastructure (in particular ramps and access channels), and
- A lack of commercial enterprises worthy of providing volumetric back freight options.

Coral reefs are prolific in the area making navigation more difficult and travel more dangerous for larger vessels. Some of the larger communities (ie. Thursday Island and Badu) have more protected offshore passages, but most communities have seasonally exposed approaches and mooring facilities. Weather extremes are a concern hampering safe access by barge to communities and threatening smaller vessels. Tides and strong currents also effect safe navigation, and may restrict services at specific times of the day or month to some communities.

Climatic issues aside, the inability to use larger vessels to offset rising commercial overheads, and the relatively high cost of shipping from southern ports over 1000km away also have an impact. Port charges add further to the cost base with levy's being applied in Port Kennedy (Horn Island and Thursday Island) 5 times higher than those applied in Cairns, this consequently has a further negative impact on the cost of goods for all Torres Strait residents.

The main issues at Island delivery points are the maintenance of berthing dolphins, barge ramps, and access channels. Problems include:

- Insufficient swing basin size and channel depth and width due to an increase in barge size over time in order to improve efficiencies
- Reduced channel and swing basin depths due to siltation
- Poor protection from seas afforded by groynes or breakwaters
- Deteriorating barge ramps and poor road surfaces directly off the ramps

The entire region is, without exception, totally dependent on marine transport to deliver almost all of the requirements of daily life, and as such improving our service delivery and efficiency is Sea Swifts' primary goal.

4. Freight Rates

Northern freight rates have historically been inconsistent with the cost of service varying due to predatory pricing by other sea freight entrants. The rates previously provided by other entrants were proven to be unsustainable and resulted in the closure of services. During the period of predatory activity Sea Swift matched these freight rates to avoid disadvantaging businesses that preferred the Sea Swift service.

Along with internal cost cutting measures and a continuing focus on efficiencies as well as ensuring our vessels are maintained for sustainable operation, it has been necessary for Sea Swift to adjust freight rates to a sustainable level in order to avoid the further closure of sea freight services.

Although a more recent scheduled rate adjustment effective from 1st July 2009 only reflected CPI, some client discount rates were adjusted much more substantially in order to provide consistency, logic, fairness and transparency. Those substantially adjusted represented rates historically lower than their peers mainly due to the reasons mentioned above.

Approximately twenty (20) clients were adversely affected by the 1st July alignment of freight discounts determined by freight usage combined with a logical alignment of freight classifications. Seventy-two (72) clients benefited from the rate restructure including supermarkets and community councils.

Sea freight rates are charged by whichever is greater between the cubic metre measurement or the tonnage weight. The cubic metre measurement is nearly always the greater and the accepted transport industry conversion is that 0.333 tonne equals one cubic metre.

5. Freight revenue breakdown by service sector and client classification

Approximately 50% of Sea Swifts services are tailored for the delivery of general cargo and freight, the balance being for services to the fishing industry and the delivery of fuels and oils to the remote power stations in the region.

In terms of General Cargo approximately 22% is directly for retail operations whilst the balance supports The Construction industry and personal freight requirements.

63% of Retail freight supports IBIS operations whilst the balance is delivered to other retail operators in the area.

6. Discount Scale

Sea Swift provides a scale of freight discounts determined by freight usage. Discount levels are 5%, 10% and 15%. Approximately 120 client accounts benefit from a freight discount. Some clients are benefiting from discounts above the 15% maximum due to Contracts that were in place prior to the freight restructure effective 1st July 2009. As and when these Contracts expire, Sea Swift will continue to move towards a fair playing field with consistency and transparency in respect to the determination of sustainable freight rates.

7. Fuel Surcharge

The Sea Swift Fuel Surcharge is calculated on a percentage of freight charge revenue to recover the extra cost of fuel from a base 38.5 cent per litre (2003/2004) ex diesel fuel excise. If A is the cost of fuel in 2003/2004 and A+B is the cost of fuel today, then B is recovered via a fuel surcharge applied to freight charge revenue.

The Sea Swift fuel surcharge was reduced from 9.50% down to 7.91% on 1st July 2009 and will be adjusted quarterly based on the above formula.

8. Perceived Freight Cost Anomalies

Shipping freight rates do not take into consideration the cost of the product or cargo being transported. A product that is low in cost and large in volume will be charged at the same rate as a product that is high in cost and low in volume. Some examples of this would be bread, rice and lettuce which are all low in cost to purchase but large in volume and therefore have a higher freight cost percentage. As such, freight charges evaluated as a percentage of the product cost can vary significantly. Produce in general has a significantly higher freight cost percentage due to its' cubic metre volume and low purchase cost.

There have been many examples cited throughout the Parliamentary Enquiry of high priced goods, the inference being that the high costs are as a direct result of freight charges. This misconception must be addressed as freight charges represent 10-20% of the retail price of goods in the region even though anecdotally the retail price is, in many cases, reportedly priced twice that experienced in Mainland centres.

9. Freight Subsidy

There have been many suggestions of introducing a freight subsidy into the Torres Strait region. If this were to be the case then careful consideration would need to be given to the following:

- How a subsidy would provide parity across the region, ie. Bamaga/Seisia (able to be supported by road based transport for part of the year) compared to Horn Island and the Outer Torres Strait islands which rely solely on sea based transport.
- How a subsidy would be calculated, as some of the Island communities Sea Swift currently supply freight services to are heavily cross subsidised by other services within Sea Swift. If the true cost of providing services to these communities (ie. More remote, with minimal infrastructure and population) was taken to account they would therefore be more heavily subsidised that Thursday Island for example.
- How a subsidy would be applied. In Tasmania for example subsidies are predominately applied to those industries exporting to the Mainland in order to provide parity with similar Mainland industry groups. As there are little to no export industries in the Torres Strait, consideration would need to be given to where such a subsidy would land, ie with the freight provider, with the retailer, or with the customer.
- How a subsidy would be paid, ie assuming a rebate is paid to the end user proof of charges rendered would need to apply. Further, allowance would need to be made for actual payment to be remitted either into bank accounts or as tax rebates for example.

There are recent examples of where government subsidies have been placed with transport providers (ie. Macair) yet due to the failure of the organisation have not been passed on to end users in one form or other. Additionally placing subsidies with a provider of services could essentially place the provider in an anti-competitive position. Instead Sea Swifts' position would be to support a freight subsidy on the basis it sits with end use customers in the region.

Additionally should the introduction of a freight subsidy occur, heavy scrutinisation of pricing and charges in the region would need to apply as unscrupulous operators could see this as an opportunity for profiteering.

As responsible operators of long standing in the region, Sea Swift would be happy to be involved in further discussions in order to resolve some of the issues raised in this paper.

Fred White

Chief Executive Officer – Sea Swift