

Air Freight Proposal

Presented to the Department of Infrastructure, Regional Development and Cities

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*A reliable, scheduled and regular air freight service from mainland
Australia*

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Executive summary

Freight is a critical driver for the economy of Norfolk Island and the establishment of a regular, reliable air freight service is the desirable solution for its fast turnaround, safe passage of cargo and overall cost effectiveness for the customer.

There is currently 12,000kg in backlogged cargo in mainland Australia with considerably more which is unable to be delivered to forwarders as they are not accepting more cargo until the backlog is cleared. With the new freight ship carrying only a portion of the cargo of the previous ship it's not likely this backlog will clear in the immediate future.

Norfolk Island business owners, residents and government bodies currently rely on limited and unreliable cargo facilities provided by Air New Zealand flights. As there is no direct seafreight service between mainland Australia and Norfolk Island, importing goods that are essential to the Island by seafreight from mainland Australia via New Zealand is a long and risky process.

The loss of the direct air service from Auckland has placed even greater pressure on the four-five weekly Air New Zealand flights from mainland Australia. The direct air service from Auckland typically averaged 1,500kg per flight. The success of the airline passenger service from mainland Australia and tourism growth has resulted in year on year increases to inbound passenger numbers over the past 5 years, which has in turn significantly reduced cargo capacity. The existing Air New Zealand flights from mainland Australia are unable to cope with the extra air freight demand since the loss of the Auckland flights.

While there are no identifiable gaps in the demand for inbound freight the challenge for a commercial provider continues to be the outbound load which is often limited. Without a reliable outbound load freight services are forced to charge customers a fee which is not tenable to the market.

In time there may be export markets which take some of this load (particularly in agrifoods and health/beauty industries), however as this develops another plan is required to achieve the air freight goal.

The most likely customer of outbound freight services is Norfolk Island Regional Council who require waste to be removed from Norfolk Island. However, the cost of this service is not something that NIRC can bear alone.

Consultation with a broad range of stakeholders points to a NIRC subsidy for waste removal as being the most equitable and viable means of ensuring a regular air freight service.

Background

Regional Development Australia facilitated a Freight Roundtable of Norfolk Island Importers, Freight Representatives in June 2018. A list of attendees can be found at (attachment one).

The Roundtable delegates unanimously agreed the current freight arrangements were inadequate, and the following outcomes were desirable:

- A reliable, scheduled airfreight service from mainland Australia
- The airfreight service would run at a minimum of every month
- A dedicated airfreight aircraft is utilised, rather than relying on the Air NZ

The current freight situation in Norfolk Island

Air freight

There is currently no regular, dedicated air freight service for Norfolk Island.

Air NZ typically carries 1,500kg on their twice weekly scheduled A320 passenger services from Sydney & Brisbane. Priority is given to passengers' baggage, Australia Post mail, express cargo and perishables before any other air cargo is carried.

Poor weather also causes additional fuel uplift, reducing capacity. In the past, airlines would use Noumea as an alternate landing aerodrome in the event, however since the requirement for passengers to carry a passport from mainland Australia to Norfolk Island was removed in 2016, the airlines have been unable to use Noumea as an alternate. This means that more fuel must be carried when an alternate is required to use Brisbane or Auckland which are a longer flight.

Current General cargo Price to the customer \$2.40/kg
plus

- Security Charge \$0.13/kg (Minimum \$13.30)
- Airway bill fee \$30.00
- Export Entry \$35.00 (if value of goods over \$2,000)
- Norfolk Island Waste Management Levy \$0.26/kg

The current service is supplemented by the occasional, ad-hoc air freighter aircraft.

Sea freight

There is currently no direct sea freight service from mainland Australia to Norfolk Island. All cargo originating in mainland Australia is shipped from Sydney or Brisbane to Auckland; then transshipped via the Southern Tiare.

The vessel Southern Tiare is scheduled every five weeks from Auckland to Norfolk Island.

Current price

The current price for 1m³ of seafreight from either Brisbane or Sydney to Norfolk Island is

Base Ocean Freight \$260.00m³ plus
Bunker Adjustment Factor \$90.00m³ (Fuel Surcharge)
Norfolk Island Stevedoring Surcharge \$17.00m³
Lighterage Ship to Shore \$40.00m³ (charged by the Council)
Waste Management Levy \$41.00m³ (charged by the Council)
Cartage from Pier to our warehouse \$50.00m³
Customs EDN \$95.00 per shipment

Total \$593.00 for the minimum of 1 cubic metre by sea
Industry advise tells us that a typical 1m³ shipment would have a weight of approximately 300kg. This gives an effective rate of \$2.00 per kg*

*Not included in these charges is the cost of having the cargo packed onto a Strapped /Wrapped Pallet so that the cargo can withstand the 19 times the cargo will be handled by a Forklift and the Lighterage transport from ship to shore at the Island, or the cost of Marine Insurance. These costs vary quite considerably with each shipment but can add another \$1.00/kg.

NB the ship now servicing Norfolk Island carries only 1,210T freight versus 2,433T carried by the previous seafreight service. This creates further delays in accessing freight on island.

Current challenges

There are ongoing back logs for air freight cargo and it can often take some months for air freight cargo to arrive after being lodged.

Due to Health and Safety and manual handling laws, cargo carried by Air New Zealand is limited to a maximum of 32kg for each item. There are also size restrictions which further impact on the goods able to be transported by air.

Sea freight is slow. From mainland Australia via Auckland is a minimum of 6 weeks for sea freight to arrive on Norfolk Island. Because of this long voyage many grocery items cannot be sent by sea. The sea freight service also poses difficulties for businesses in key Norfolk Island industries (tourism and hospitality) as the goods are often damaged when they arrive.

All seafreight must be packed onto strapped/wrapped pallets to withstand both the transshipment handling in Auckland, and the lighterage from ship to shore at Norfolk Island. Overall, cargo is forklifted 19 times from lodgment in mainland Australia to delivery to the Norfolk Island importer.

Packing also poses a challenge for cargo leaving Norfolk Island by sea. Freight must be packed into containers (Basel Convention) and there are no container packing facilities on Norfolk Island. Therefore, both packing and unpacking cargo for sea freight is a long and potentially unsafe process.

Sea freight is charged on the volume of the cargo, rather than the weight further disadvantaging the above-mentioned businesses who require bulky goods such as fridges, washing machines and furniture.

The current freight situation also impacts essential services on island. Regular parcel post service from mainland Australia to Norfolk Island takes on average of 3 months to reach Norfolk Island. Access to perishable goods (including fruits and vegetables) is also limited and there have been noted examples of critical medicines being delayed.

Yet, a regular air freight service has been cost prohibitive in the past. This is primarily due to the lack of back load coming from Norfolk Island to the mainland. Norfolk Island Airlines who had previously operated some of the ad-hoc air freighters between mainland Australia and Norfolk Island over the past five years advised that, depending on the type of load (weight versus volume), and the quantity of outward cargo, underwriting of up to \$20,000 per flight would be necessary to make the service viable for a commercial operator.

The local cargo operator, Burnt Pine Travel have operated ad-hoc freighters for several years on demand. Over the past few years, this has been 3-4 per year. These operations have only been possible due to subsidy from either the Commonwealth, Council or Australia Post. This year, Burnt Pine Travel has operated charters in January, May and September. The January charter was an emergency charter to import food products following the cancellation of seafreight services that month. It carried predominantly chilled goods for 2 importers who paid a premium to alleviate a food shortage. The May and September charters were made possible by carrying a full load of Council waste back to mainland Australia. There is an additional service scheduled for October. These services clear the backlogs of cargo and provide space to uplift perishable cargo to Norfolk, however do not return a commercial profit. Importers on these charters pay \$3.65/kg which after forwarders fees and terminal fees represents \$2.75/kg net.

The business case for a regular airfreight service

The following industries would be the immediate beneficiaries of a regular, reliable air freight service from the mainland to Norfolk Island

Tourism and Hospitality industries

- Reliable supply of perishable items
- Reduce potential cargo damage in comparison with sea freight
- By using airfreight over sea freight, Importers can reduce the amount of stock they need to keep on hand by increasing the frequency of their orders
- Alleviate the current time procurement planning takes
- Enable faster turnaround for urgent items which are bulkier

Agriculture

- Faster turnaround for critical vet supplies

Freight industry

- A regular air freight service will enable Norfolk Island importers to plan orders with their suppliers in time for the air freight service date
- Enable more thorough planning for bulk orders utilising sea freight services
- Goods can be imported with a much shorter lead time thereby reducing the overhead of storage in Sydney / Brisbane.
- Reduce the amount of stock on hand (3 month worth by seafreight as opposed to 3 weeks via airfreight) reducing risk of loss to the importer
- Relieve excess demand

Other

- Importing of essential testing equipment that is too large for airline freight services. This includes fuel gauge/meter calibration equipment required annually to allow fuel supply (aviation and domestic)
- Importing and re-exporting medical testing equipment
- Importing fragile larger items such as solar hot water systems and panels and whitegoods, not suitable for seafreight and too large for airline airfreight

The following social, health and community impacts should also be taken into consideration

Provision of essential services

- improve regular supply of perishable and fresh foodstuffs to the Island
- With the regular parcel post service from mainland Australia to Norfolk Island currently taking an average of three months, air freight would present a significant improvement.
- Free space on the scheduled Air New Zealand flights thereby increasing capacity to uplift mail, fruit, vegetables and other perishables weekly
- A regular air freighter service would complement the Air New Zealand passenger services to Norfolk Island. It would:
 - Relieve excess demand
 - Enable importation of urgent, heavier items and
 - Allow importers to plan bulk shipments in line with scheduled freighter dates

Freight demand

Inbound

There is no shortage in demand for inbound freight services. At the time of writing this, there is presently over 12,000kg in backlogged cargo in mainland Australia with considerably more which is unable to be delivered to forwarders as they are not accepting more cargo until the backlog is cleared. By surveying the 3 largest airfreight importers on the Island, there is the following demand for a regular freighter service:

Foodland Supermarket

Alone has indicated a monthly air freight order of close to 30% of available inbound freight capacity (based on a monthly service) including:

- 1,000kg potatoes
- 1000kg perishable dairy and delicatessen lines and
- 1,000kg of mixed grocery lines

Foodlands have experienced regular offloads of fresh produce which includes fresh milk and gluten free products essential to certain diets. Due to capacity restraints, shipments must be smaller which increases the cost of the product to the consumer due to the high cost of inspection fees, documentation, etc. spread over a smaller shipment. A freighter service would ensure regular uplift of essential foods, potentially decrease the cost and greatly reduce the losses due to offloading cargo.

Should there be a regular freighter service, Foodlands have expressed a required volume of 4,000-5,000kg per month for a monthly service or 2,000-2,500 per fortnight for a fortnightly service. Commitment based on a sell rate to the importer of \$3.65/kg.

Slicks & Sons (Butchery)

Due to capacity issues by air, Slicks and Sons have moved a \$AUD35,000 shipment of chilled stock by seafreight via Auckland. This includes beef, lamb, cheese, bacon, ham and small goods. Due to delays in the shipping the shipment is not now due until 24-26OCT which means it has been in transit for over 2 months. By the time the shipment arrives on Norfolk, 80% of it will be passed used by date. Aside from the large loss in this case, the impact on the company of having large amounts of money tied up in stock is a drain on cashflow and a burden to the business.

Slicks & Sons have experienced regular offloads of their air cargo. This can be often for 1-2 weeks. Most of the airfreight imported has a short shelf life of 10-14 days such as milk, cheese, and dairy. Cargo offloads risk making the stock unsellable or at least significantly reduce the period they must sell the stock once received.

Slicks and Sons butchery have imported perishables on each freighter operated over the past 2 years. General uplift is 3-4 tonne. If there was a regular freight service, they have committed a need for 2,000-3,000kg per month for a monthly freighter or 1,000-2,000kg per fortnight for a fortnightly service. Commitment based on a sell rate to the importer of \$3.65/kg.

Norfolk Island Building Supplies/Pete's Place

This company is the largest importer into Norfolk Island. They have a large import business by sea for traditional seafreight items such as building materials. By airfreight, the companies combined would contribute over 1,000kg per week in airfreight from mainland Australia. The company has had significant offloads from and has been unable to stock their shelves. At the time of writing this, the company has over 3,000kg of cargo being held at freight forwarders in Sydney and Brisbane awaiting uplift, and more freight at the supplier unable to be delivered to the forwarders.

If there was a regular freighter service, the company has expressed a requirement for 4,000kg capacity per month for a monthly service or 2,000kg per fortnight for a fortnightly service. Commitment based on a sell rate to the importer of \$3.65/kg.

A B737 freighter aircraft flying from Brisbane to Norfolk Island has a practical capacity of 10-12 Tonne depending on variables such as weather. The three larger importers between them have a cargo requirement of approximately 11 tonne per month by themselves. The demand for airfreight will only increase as passenger numbers on the airline service increase. In addition, the developing cruise industry into Norfolk Island will put greater demand on the need for airfreight. The industry is expanding from 4 cruise ship visits in 2019 carrying 2,900 passengers to 13 visits in 2020 placing over 16,000 cruise passengers on Island for a day that year.

Outbound

The key challenge in creating a viable air freight service is to maximise the outbound load.

The cost of a freighter charter needs to be recovered by the freight uplifted. The B737 freighter can practically carry 10 Tonne into Norfolk and 12 tonne out. If the aircraft is full in both directions, then the costs are divided over 22 tonne. Given that there is no real cargo backload to mainland Australia, the costs of the aircraft must be divided over the 10 tonne of imports to Norfolk. Without a backload cargo, the cost required per kilogram on 10 Tonne to cover costs is uneconomical.

While there is a small demand for outbound freight generated via postal services, the primary entity likely to use the service is Norfolk Island Regional Council who will dispose of e-waste, metals and perhaps into the future asbestos. Burnt Pine Travel has this year operated 2 services uplifting E-waste and whitegoods waste with another due in October.

At present there is 137 Tonnes of Asbestos awaiting approval for uplift to mainland Australia. In addition, the Island has imported and is installing a waste baler to bale waste that was previously disposed of on Island and now needs to travel directly back to mainland Australia due to international law. Without a seafreight service between mainland Australia and Norfolk Island, airfreight is the only option at present. Once operational, it is estimated by Council that it will produce 300-500 Tonnes of waste per year for export to mainland Australia.

There is also a small and sporadic market in shipping the personal effects of seconded government staff back to the mainland following contracts.

While there is not a high demand for product export currently, there is scope to enhance business activities in this area, particularly in the agrifoods and beauty industries.

Proposal

Following conversations with on Island businesses (including freight service providers), Norfolk Island Regional Council and the representatives of the Department of Industry, Regional Development and Cities, the preferred business proposal follows.

Funding is provided to Norfolk Island Regional Council to subsidise waste removal from Norfolk Island to the mainland.

The proposal offers 2 solutions which provide a range of commitment which in turn provides a range of outcomes.

The local Aircraft Ground Handler and Freight Operator, Burnt Pine Travel currently has facilities and equipment to operate and handle the adhoc freighter operations. If a scheduled freighter service was implemented for a period of 24 months, the company would require approximately \$155,000 to purchase and import handling equipment required to efficiently operate a fortnightly or monthly freighter service. Subject to the number of services and the duration of the contract, the operator would self-fund this equipment.

Scenario

The following table would represent the user cost for freight based on the following assumptions

Assumptions:

- Based on two options
 - Option 1 - Average of one flight per month
 - Option 2 - Average of one flight per fortnight
- over a twenty-four-month period
- With a guaranteed load of ten Tonnes inbound and twelve Tonnes outbound per flight
- a Norfolk Island Regional Council budget of \$150,000-\$250,000 per annum for waste removal
- The Norfolk Island Regional Council makes ready a minimum of twelve tonne of waste for uplift on each service

Subsidy scenarios

| Scenario | Freighter Service per year | Proposed commonwealth subsidy (Annual) | Norfolk Island Regional Council waste removal budget (annual) | Resulting unit cost for inbound cargo to Norfolk Island | Minimum uplift of Waste from Norfolk Island to mainland Australia (tonnes) | Minimum Cargo capacity from mainland Australia to Norfolk Island (tonnes) |
|----------|----------------------------|--|---|---|--|---|
| 1 | 12 | \$360,000 | \$150,000 | 3.65/kg | 144 | 120 |
| 2 | 12 | \$360,000 | \$150,000 | 3.65/kg | 144 | 120 |
| 3 | 26 | \$780,000 | \$250,000 | 3.65/kg | 312 | 260 |
| 4 | 26 | \$780,000 | \$250,000 | 3.65/kg | 312 | 260 |

Attachment one – Freight Roundtable meeting minutes

Attended by:

Duncan Evans (Transam Argosy Shipping & NI Accommodation Manager)

Teresa Cook (Norfolk Forwarding Services)

Grant Gardener (Burnt Pine Travel Cargo)

Dave Jeffrey (NI Mechanical)

Peter Meers (Woodward's Agencies/Pete's Place)

Suzy Merriment (on behalf of Charles Christian-Bailey – Christian Bailey Agencies)

Bruce Taylor (NIRC)

Peter Walkinshaw (Foodland)

Tim Cotter (AusIndustry)

Jan Johnson (RIO RDANI)

Via phone:

Bart Murray (Burnt Pine Travel Airport Services and Cargo)

Bill Woodruff (DIRDC)

Simon Pellatt (DIRDC)

Absent Pauline & Michael Porter (Pumpkin's Patch fresh food importers)

Facilitated by: Kerry Grace, DRD RDAMNC and RDANI