PRODUCTIVITY COMMISSION INQUIRY:
TASMANIAN FREIGHT SUBSIDY ARRANGEMENTS

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ROBERTS LIMITED SUBMISSION

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Executive Summary

Tasmania may be geographically separate from Australia and isolated by the presence of Bass Strait but it is neither separate nor isolated from the national market-place. It is a net exporter of agricultural commodities and manufactured food-stuffs and a net importer of wheat and other grains.

The Tasmanian Freight Equalisation Scheme (TFES) and the Tasmanian Wheat Freight Subsidy (TWFS) provide assistance in the form of a rebate on the cost of transporting goods across Bass Strait. The value of freight assistance is expressed, in part, in the ongoing viability of agricultural businesses.

However, the freight cost disadvantage of using shipping services to transport goods across Bass Strait is already a significant impost borne by Tasmanian businesses and their customers. The freight assistance to eligible businesses and enterprises only partially mitigates the real costs of transport across Bass Strait. Regular audits and a mechanism for measuring the changes to freight-cost disadvantage need to be introduced to ensure freight assistance continues to mirror the real cost.

Roberts and its subsidiary companies handle a significant proportion of the state’s grain imports, exports of seed-grain, livestock and wool. While the freight assistance schemes amend the freight disadvantage of shipping, for the most part, the assistance is only available for the transport of agricultural outputs, not inputs. Any adjustment to the value of freight assistance will not impact on the method of transport but likely result in a change to the basis for manufacturing and primary production in Tasmania. In other words, shipping is the only form of transport available for agricultural commodities and manufactured goods and any change to the value of the freight assistance will only affect the volume of goods transported. The effect on farmers and agricultural produce manufacturers will likely be to shift effort to those higher-value products that are not as sensitive to the costs of transport.

Elsewhere in Australia, businesses are able to seek out the most cost-effective method of transport. The lack of alternative transport options places increased importance on the retention of these two assistance packages.

BACKGROUND

Roberts Limited is Tasmania's biggest agribusiness and real-estate company. It employs more than 700 people in rural supplies, wool, livestock, seeds and grains, feed processing, rural finance and insurance, rural real-estate, and residential and commercial real estate operations.

Roberts Limited operates 17 rural supplies stores and 28 real-estate agencies in Tasmania. Roberts Limited also owns feed manufacturer Monds & Affleck, grain handling company Tasmania Grain Elevators, and two machinery agencies.

The company has an annual turn-over of $1 billion and has significant involvement in the movement of agricultural products across Bass Strait.

OBJECTIVES

The objectives for this submission are to:

- detail the freight task that is specific to the Roberts Group of companies and the effect that the subsidies have on the nature of the freight task;

- highlight the freight cost disadvantages that are evident in Tasmania;

- comment on the apparent effectiveness of the current arrangements; and

- propose alternatives to current arrangements.

WHEAT AND OTHER GRAIN IMPORTS AND SEED GRAIN EXPORTS

Freight Task

Tasmania is a net importer of grain and can only produce approximately one-third of its total needs. An estimated 130-150,000 tonnes of grain is consumed in Tasmania each year for use by the livestock, flour processing, and stock-feed manufacturing industries. Approximately 40-50,000 tonnes of grain is locally produced, with the remainder imported predominately in containers. This is due to higher costs and reduced assistance associated with importing wheat in mini-bulk shipments (Tasmanian Wheat Freight Scheme[1]).

In years of drought conditions, an additional volume of approximately 40,000 tonnes of imported grain is required as drought conditions impact on local harvest volumes as well as creating extra demand for subsistence feeding of livestock. This is above the normal production-based supplementary feeding of livestock, mainly dairy cows.

Assistance for mini-bulk shipments is limited to wheat and is capped at $1.2 million regardless of demand. Most grain is imported using containers because other grain types are not eligible for assistance under the TWFS and the level of assistance for mini-bulk shipments is not modeled on the freight disadvantage that the TFES arrangements seek to adjust. To highlight this, the sole company that is able to manage the supply-chain logistics for mini-bulk shipments, Tasmanian Grain Elevators, has only twice used the MV Enterprise in the past two years.

Wholesale seed that has been produced in Tasmania is to be sold to mainland re-sellers. There is substantial potential for increased activity in this area in coming years and will apply to palletised pasture seed and early generation cereal seed that is under grown in Tasmania.

Recent and continuing re-alignment in the temperate pasture seed market in Southern Australia will lead to increased opportunities. Further, with the implications of climate change and tighter inventory issues, Tasmania is being seen as a potential 'drought proof' area for production and multiplication of important seed lines. TFES helps overcome the freight issues and helps to bring

[1] Review of the Tasmanian Wheat Freight Scheme, 2001 – Centre for International Economics

Australia-wide opportunities to Tasmania for Roberts Seeds and its grower partners

Freight Cost Disadvantage

Despite the added costs of filling and decanting containerized freight, it attracts a Tasmanian Freight Equalisation Subsidy of approximately $34 per tonne. After subsidies are paid, containerized freight is approximately $15 per tonne less than bulk cargo.

The Wheat Freight Subsidy attracts a maximum $20.60 per tonne (flat-rate) subsidy and the scheme is capped at $1.2 million. It is an arbitrary amount[2] that can vary, especially in drought-years when larger grain quantities are needed. The capped amount means the TWFS provides less assistance when grain demand is highest.

Effectiveness of Current Arrangements

The economic viability of grain-using businesses in Tasmania is dependent on the price of wheat landed in Tasmania and the price of imported processed products that compete with the local product.[3] With the assistance, the price landed in Devonport has parity with the price paid in Melbourne.

Due to the added benefit derived from TFES, almost all grain imported into Tasmania is transported in containers. In part, this is because Bass Strait shipping is more expensive than shipping direct to overseas destinations. There is one mini-bulk shipping service that operates across Bass Strait. Tasmanian Grain Elevators quotes the expense of transporting mini-bulk shipments across Bass Strait as the most significant impediment to ongoing employment of the service. For instance, it is more expensive to transport goods over Bass Strait than it is to move some commodities from Fremantle to Melbourne. There are other cited examples of shipping costs being more expensive between Devonport and Melbourne than shipping from Tasmania to South East Asia.

Bulk grain imports, under the TWFS, are restricted to wheat imports. The MV Enterprise, the vessel that provides mini-bulk services to Tasmania, allows for separation of grain-types and there are storage facilities and infrastructure

[2] Ibid
[3] Tasmania Wheat Freight Subsidy Scheme, CIE, 2001

available that would allow for imported grain types to be handled. However, due to the lack of inclusion in a bulk grain subsidy, wheat-alternatives are forced to be shipped in containers.

Along with other industry partners, Tasmanian Grain Elevators is responsible under Tasmanian Government regulations, for managing the logistics of a strategic feed-grain reserve as part of the Feed-Grain Emergency Management System for use in times of drought and extreme hard-ship. Ongoing use of containers, away from stored bulk imports, places in question the long-term viability of the capital infrastructure at Devonport including the silos and handling equipment. Without this critical infrastructure, other mechanisms for managing droughts or hard-ship will need to be developed.

Tasmania has recently introduced new quarantine measures that aim to protect the state from the outbreak of invasive weeds. The cost of surveillance and testing adds $2.00/t to the cost of grain, based on the testing methodology of 10% of containers imported into Tasmania at a cost of $165 per test. More than 4,000 containers of grain are imported into Tasmania each year. Bulk-grain shipments, by their nature, are consistent in quality, and only attract one test.

Grain end-users in the dairy industry, the feedlot, and intensive industries now use a variety of grain-types due to better production outcomes, animal husbandry effects, and cost. Lack of access to bulk imports of grains other than wheat forces end-users to purchase containerized grain.

There are inequities that exist within the TFES that allow for distortion within the market for grain processing. For instance, Victorian stock-feed manufacturers can process overseas imported product and export it to Tasmania where it attracts assistance. However, Tasmanian stock-feed manufacturers are not able to attract subsidies for the same ingredients when shipped from Victoria. This creates an unfair advantage for interstate processors who are able to freight cheaper products into Tasmania. Some products are only able to be sourced from overseas – and the processing sector in Tasmania should not be disadvantaged by interstate processors who can work within the regulations to unfairly attract assistance when the scheme itself aims to ensure Tasmania maintains a viable manufacturing industry base.

Alternatives to Current Arrangements

Expand eligible grain types for bulk imports. Alternative grain types such as barley, triticale, and lupins are all used in stock-feed manufacturing and as inputs in intensive production farming. At present, these grain types are not eligible for assistance in bulk-grain imports and can only attract subsidies if they are imported in containers. Consideration needs to be given to expand the eligibility criteria for the TWFS to include other grain types in mini-bulk shipments.

Increase bulk-grain assistance to provide parity with containers. The level of assistance paid for bulk-grain needs to be adjusted to provide parity with the containerized price-model that is allowed under the TFES. The TWFS should not be capped and funding should be in parallel with review arrangements set for the TFES.

Reduce paperwork. The TFES is complex to administer. There are onerous obligations for collecting data, duplication of paperwork, and administrative on-costs that absorb clerical effort. There needs to be an emphasis on simplifying the processes to reduce the administrative liability of the TFES. However, simplifying the administrative processes does not justify the introduction of a flat-rate which would not deliver equitable assistance for shippers of agricultural commodities and processed products.

LIVESTOCK EXPORTS

Freight Task

Livestock movements are largely dependent on interstate demand which is driven by seasonal and market conditions. Livestock are able to be moved from Tasmania to areas that are recovering from drought, as background feeders to supply to processors after additional feeding, directly to processors, to feedlots for additional feeding, and to breeders as mating stock.

In 2004, sheep exports to the mainland included 229,580 adult sheep, 1548 stud sheep, and 100,197 lambs principally in Victoria and South Australia.
Cattle exports included 60,074 adult cattle, 1,207 stud cattle, and 11,036 calves.

Stud stock is transported to interstate Shows and Events for the purpose of promoting Tasmanian studs, stud sires, or semen from sires. Unless sold, all stud stock is returned to Tasmania. While the numbers of stock that are shown at interstate events are small, so are the number of businesses that undertake this venture. The relative cost to these businesses is not unsubstantial, with the freight cost of $4330 per trailer or $2620 net of assistance for each leg.

Freight Cost Disadvantage

The assistance paid amounts to an average $31.90 per head for adult cattle and $24.59 per head for calves. The assistance paid for sheep amounts to an average of $4.70 per head for adult sheep and $3.88 per head for lambs. The assistance paid for livestock transport removes some of the cost barrier of transport, valued at between $40-50 per head for cattle and $5 per head for sheep for moving livestock to Victoria. It is estimated that road transport of a consignment of lambs across the sea-leg from Devonport to Melbourne would cost between $800-850 whereas the cost to sea-transport the same livestock is $2000.

Under the current rules, livestock that are transported interstate for promotional purposes at events and shows are only eligible for assistance for the first-leg. Show-horses and race-horses attract subsidies both ways. The freight cost disadvantage is significant, with the freight for stud rams at $164 each instead of $99 with assistance on both legs.

Effectiveness of Current Arrangements

Interstate livestock buyers use Tasmania for restocking, breeding, feedlots and as a market for sourcing finished livestock for processing. The open-market is supported by the assistance as it removes some of the transport disadvantage that occurs across Bass Strait. Without this assistance, the price paid to farmers would decrease by the equivalent of the assistance and there would be cost disincentives for interstate buyers to enter the Tasmanian market to buy livestock.

There are currently three licenced export meat processing plants operating in Tasmania. These are H W Greenham at Smithton, and Tasman Group Services operating at King Island and Longford. Other significant domestic works include Devonport City abattoir and Tasmanian Quality Meats at Cressy. The number of abattoirs has slowly rationalised due to lack of available stock. There is a shortage of stock on the mainland because of overseas demand. This shortfall draws on Tasmanian livestock that are able to be economically shipped due to the availability of freight assistance.

Tasmanian abattoir demand for livestock is based, in part, on modest export orders and limited service-operations for local butchers. Most processed beef and sheep-meats that are available in Tasmanian supermarkets are imported from interstate. Rationalisation of Tasmanian abattoirs is a reflection of how the supermarkets manage their supply-chains despite the availability of locally sourced products. TFES assistance supports a viable Tasmanian beef and sheep industry by allowing livestock to move interstate where there is demand for a quality, reasonably priced product.

If the assistance was removed or significantly altered, it would affect the ability of livestock to be exported economically intrastate. An additional 300,000 sheep and 70,000 cattle would be available for sale and processing in the Tasmanian market and this would have a significant impact on the supply-demand model, putting pressure on the price paid for processed livestock. With one meat processor in Tasmania that services the sheep-meat industry and two beef-meat processors, there are limited market opportunities for primary producers and a finite processing capacity. Without access to interstate markets, prices would likely drop dramatically and livestock producers would likely shift production to other, more profitable, forms of farming. If this situation eventuated, there would be less animals available for processing, causing more rationalisation. This model has occurred in the Tasmanian wool industry where prices have been at historic lows for the past six years, and there has been a drop of 30-40% in the volume of wool produced.

As with stock-feed manufacturers, capital intensive infrastructure such as abattoirs are dependent on being able to source product that has parity with interstate prices. If prices in Tasmania are disproportionately higher than mainland prices, or there are not enough livestock available for processing, there is an economic incentive to move the manufacturing-base to where there is stable supply and fair priced product available.

The anomaly that exists for stud sheep and cattle, where only one leg of the journey is eligible for assistance, needs to be rectified. Show and race-horses are eligible for assistance on both legs and so it must be agreed that the stud-livestock that are taken to interstate events should also be eligible for assistance.

Alternatives to Current Arrangements

The current assistance arrangements support robust interstate trade in livestock that helps provide competition in Tasmania where there are a small number of processing facilities. Interstate trade also assists processors in other states to source livestock when there are seasonal shortfalls in their own markets, as well as enable the movement of livestock from drought areas to more productive regions.

WOOL EXPORTS

Freight Task

Tasmania's wool exports are worth an estimated $80 million.

Roberts conducts one specialized wool sale in Tasmania in February each year. The remainder of Tasmanian wool is sold by sample at auction in Melbourne and is stored in Tasmania and shipped direct to the customer. Wool is mostly dumped into sea-containers where it is compressed to decrease its volume.

Freight Cost Disadvantage

Roberts or its clients are not eligible for a subsidy despite the fact that almost all Tasmanian wool is exported to overseas markets.

Effectiveness of Current Arrangements

To receive assistance, under the rules, the wool has to be processed in Australia. This advantage enables wool-brokers to offer incentives that cannot be offered by Roberts.

Alternatives to Current Arrangements

Wool is a commodity that can only be cost-effectively freighted using sea-transport. The cost disadvantage of Bass Strait is able to be exploited by competitors while Roberts has elected to pursue the most cost-effective method of transporting wool. This has involved ongoing investment in expensive compression equipment to "dump" or reduce the volume of wool bales.