Submission to Productivity Commission Review of the Tasmanian Freight Equalisation Scheme

June 2006

Norske Skog
Boyer

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1. Executive Summary

This submission supports the retention of the Tasmanian Freight Equalisation Scheme (TFES) and its continued administration by the Commonwealth Government.

Norske Skog believes the current scheme is delivering on its stated objective of being a "cost equalisation scheme to alleviate the freight cost disadvantage incurred by shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea".

Whereas manufacturers in other parts of Australia have the option of at least two competing modes of transport such as road, rail and sometimes sea, Tasmanian industry has no alternative but to use sea.

The transport system used by Norske Skog from Tasmania is designed to provide the best/ most efficient system for transporting our product across Bass Strait. It is not influenced by the availability of TFES assistance.

Information and analysis contained in this submission demonstrates that Tasmanian shippers such as the Boyer Mill continue to suffer a significant freight cost disadvantage compared to similar transport tasks on the Australian mainland. Supporting evidence is provided in relation to "Wharf to Wharf" freight costs and the additional costs associated with shipping from Tasmania. Further information is also provided in relation to comparable mainland transport costs for the identical product.

Norske Skog would be concerned if the Commonwealth Government sought to use the current review as justification to wind back TFES assistance and then hand the scheme over to the Tasmanian Government. Any reduction in assistance would have major negative impacts on Tasmanian industry and the Tasmanian and Australian economies. Given the capital intensity of manufacturing industry (including papermaking) it is a very bold assumption to suggest that loss of capacity and jobs in Tasmania would be matched by new capacity and increased employment on the Australian mainland. The reality is that the lost production could be met from under-utilised or new capacity overseas, such as Indonesia, China and Korea.

Handing the TFES over to the Tasmanian Government would place at risk the level of assistance available to industry; first due to the likely reduction in funding from the Commonwealth Government and secondly as a result of pressure from other State funding priorities.

Rather than increase the level of risk and uncertainty to industry, the Commonwealth Government should seek to leverage the benefits of TFES by maintaining its support for the current scheme and providing increased certainty, which industry can use as the basis to help justify ongoing capital investment in the State.

Norske Skog is not aware of any areas of rorting or non-compliance with existing TFES rules, but believes that if such practices do occur then they should and can be dealt with under the current scheme, without the need to make fundamental changes or amendments that may risk penalising other shippers.

2. Overview of Norske Skog and the Boyer Mill

Norske Skog

Norske Skog is a world-leading producer of newsprint and magazine paper, with 24 wholly and partly owned mills in 15 countries on five continents.

Norske Skog's mills and sales network confer a unique position. Local presence and knowledge combined with Norske Skog's global strength distinguish it from other paper companies.

The world market for newsprint and magazine paper is about 60 million tonnes and the group has about 13% and 8% of these segments respectively. The group's operating revenue in 2004 was approximately NOK 25.3 billion. If Norske Skog's wholly and partly owned mills run at full capacity, a single day's production would circle the world seven times with a strip of paper 1.6 metres wide.

Vision, goal and strategy

Norske Skog is recognised as a world leader in the paper industry. The goal is to deliver the best shareholder value in the industry. To reach this objective, the company has opted to be a low-cost producer, pursue profitable growth and focus on its core business, newsprint and magazine paper.

Values

All operations at Norske Skog are based on three core values: openness, honesty and cooperation. Its success as a global company builds on cooperation between different cultures and values.

Australasia

Norske Skog has three paper mills in Australasia; Boyer in Tasmania, Albury in New South Wales and Tasman in New Zealand. Together these mills have an annual capacity of approximately 900,000 tonnes of newsprint and related grades, with sales worth around $900 million.

Since the late eighties, Norske Skog has been actively involved in wastepaper recycling in Australia. Today, its Recycled Fibre Division collects over 200,000 tonnes of paper each year. Most of this is recycled at Norske Skog Albury, with the balance sold to other local paper producers or exported.

Norske Skog Boyer

Norske Skog Boyer is a significant contributor to the Tasmanian and Australian economies, with annual production of around 295,000 tonnes. This represents about 40% of the newsprint and related grades used in Australia each year. 97% of this production is transported to mainland Australia customers

The mill is situated alongside the Derwent River, 36km from Hobart and slightly downstream of the township of New Norfolk. It produced Australia's first newsprint in 1941 and remains one of Tasmania's largest employers, operating 24 hours a day, seven days per week, and 52 weeks of the year.

The economic benefits to the Tasmanian economy extend far beyond the local community in the Derwent Valley. The Boyer Mill is a significant customer for electricity and coal. It also uses pine logs and sawmill chips from around the state and regrowth eucalypt from Southern Tasmania.

Norske Skog Boyer has clearly demonstrated a strong commitment to the forest and forest-based industry, to local employment and to the Tasmanian and Australian economies, with annual production of approximately $295 million. Local spending on goods and services is over $120 million annually. This includes $34 million on wages and a further $86 million on goods and services that are used in papermaking, such as electricity, coal, wood costs (royalties, harvesting and transport) and rail. This expenditure does not include other costs such as depreciation, maintenance, mainland distribution costs, finance charges etc.

In addition to the above, capital expenditure over the past 10 years has totalled $90 million.

Norske Skog Boyer uses three main sources of fibre - radiata pine, regrowth eucalypt and recycled fibre. Radiata pine logs are transported to the mill from plantations around Tasmania. The mill also buys some radiata pine chips direct from sawmills in Northern Tasmania.

Regrowth eucalypt logs are obtained from forests close to the mill.

Recycled fibre (RCF) is made by recycling and deinking old newspapers and magazines. This is done at the company's recycling plant at Albury. The RCF is shipped to Boyer as back-freight using the same special units designed to transport newsprint.

Norske Skog Boyer has two paper machines, PM2 and PM3. They run at speeds in excess of 1050 and 1200 metres per minute respectively and produce around 800 tonnes of paper each day.

Norske Skog Boyer produces a range of paper grades, including newsprint and uncoated, high brightness specialty grades suitable for offset colour printing.

Norske Skog Boyer is a major customer of Tasmania's rail networks and Bass Strait shipping, contributing significantly to the viability of these operations.

Each year the mill transports over 1,000,000 tonnes of finished product and raw materials such as radiata pine, regrowth eucalypt, recycled fibre, coal and chemicals.

In the mid nineties the company completely redesigned its finished goods handling systems. This involved the stretch wrapping of large paper rolls onto specially designed modules. These units are transported by rail to the port at Burnie and then shipped to mainland customers. The plastic wrapping is collected from customer sites and recycled. The system includes the use of vacuum forklifts and special skate loading systems and has greatly reduced product damage.

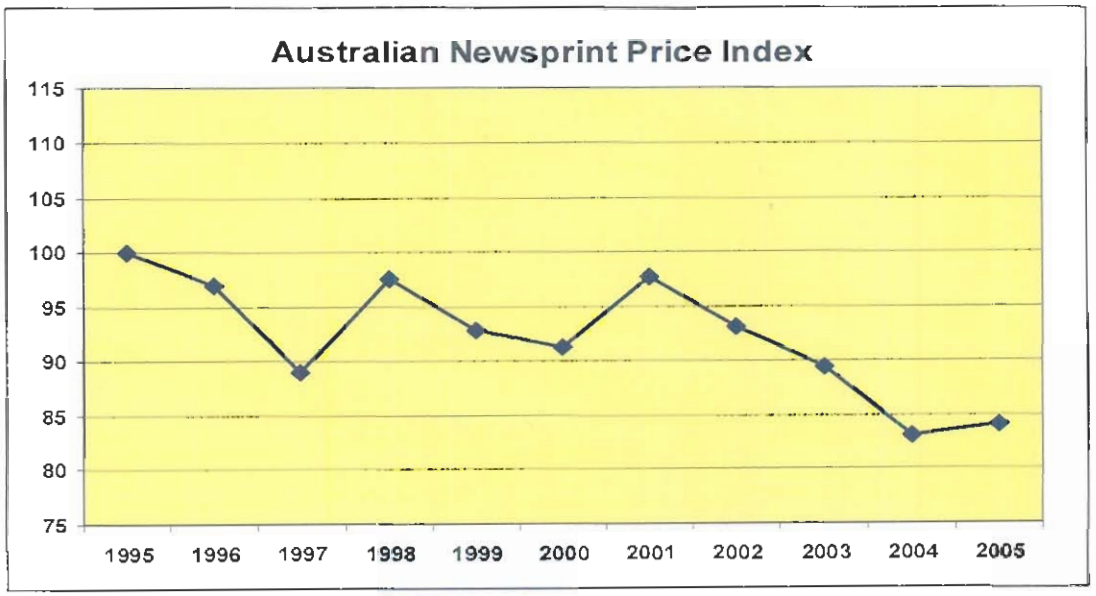
Norske Skog has also introduced "total inventory management" for some of its customers which involves Norske Skog taking responsibility for managing publisher inventory as well as its own. This leads to lower working capital requirements for both parties and significant reductions in product damage during transport and storage. Total inventory management requires very sophisticated inventory and distribution systems. Norske Skog has put these in place throughout Australasia, with publisher support.

Competition in the Market Place

Newsprint is traded internationally and its price is determined by global demand and supply. Although Norske Skog is Australia's only domestic newsprint manufacturer there is intense competition in the market place from other international players. Newsprint produced in Australia has no tariff or other trade protection.

Norske Skog's newsprint contracts in Australasia contain a pricing formula that reflects global market conditions. These contracts do not allow the company to pass on any changes in costs.

The diagram below shows an index of the newsprint price that Norske Skog has received in nominal dollars over the last ten years.



The diagram shows that although the newsprint price fluctuates over time, in nominal terms there has been a significant decrease in price of 16% over the last 11years, an average of 1.5% per annum. In real terms this is significantly larger at about 4% reduction year on year.

To remain competitive in this industry, it is therefore essential to main tight controls on all costs and to continuously seek opportunities for improvement.

3. Transport Networks

Boyer Mill Transport Network

As part of the company's continuous improvement program, a partnership was established in 1996 with a consortium of specialist transport service providers. This group distributes finished product from the Boyer and Albury mills to Norske Skog's customers around Australia.

The system that we use in Tasmania is designed to provide the best / most efficient system for transporting our product across Bass Strait. It is not influenced by the availability of TFES assistance.

The freight task from Tasmania to mainland Eastern Australia substantially involves the use of Unitised Paper Modules (UPM's) (Fig 1). These specialised and unique units were specifically designed to transport paper reels from the Boyer Mill to the mainland customer, taking into account the difficulties associated with crossing Bass Strait. These units have fold down legs and "skate" floors to enable the paper reels to be unloaded efficiently and with minimal damage at the customers. These are also used to back-freight 100,000 tonnes per annum of deinked pulp from the Norske Skog Albury Mill to the Boyer Mill

Fig 1. Unitised Paper Module (UPM). Note the looded (with deinked pulp) UPMs in the background and the ability to nest the empty UPMs for transport and storage.

Paper reels are loaded onto the UPM's within the Boyer warehouse, largely using vacuum forklift to minimise damage. The reels (including the UPM) then has stretch wrap applied in four stages (*Fig. 3).* The stretch wrap has provides very effective weatherproofing and load constraint which is able to withstand the rigors associated with the transport to the mainland.

Fig. 2 UPM being loaded with paper reels at the Boyer Mill Warehouse.

Fig 3. Stretch wrap being applied to loaded UPM.

The stretch wrapped units are assembled outside the warehouse (fig 4) ready to be loaded onto the train with large 40 tonne forklifts (fig 5). Five days a week a dedicated train leaves with paper for the Burnie wharf. The laden UPMs are loaded onto Maffi trailers and then onto ships. On arrival in Melbourne the UPM's are unloaded onto the wharf and then loaded onto trucks (fig 7) to be delivered directly to customers or into staging warehouses. At the customer's warehouse the stretch wrap is cut (collected by the driver for recycling) and the reels unloaded often using a skate dock.

Fig 4. Loaded UPM's being assembled on the large warehouse "hardstand".

Fig 5. UPM being loaded onto the Train by large forklift

Fig 6. Loaded Train, ready for despatch

Fig 7. UPM's unloaded from the ship at Port Melbourne, being loaded on B-Double trucks, with skeleton trailers. For Metropolitan customers deliveries standard semitrailers are used due to the short distances involved.

Paper reels that are transported to Western Australia are loaded into standard containers and railed to the Bell Bay for shipping to Fremantle.

Albury Mill Transport Network

As noted earlier Norske Skog also has a Mill at Albury NSW. As the overall distribution requirements are the same it provides a good mainland comparison of the impact of transporting across Bass Strait.

The Albury network is significantly simpler, requiring fewer handling steps and does not require the "containerisation" of the reels.

Paper reels are loaded directly by a skate dock onto high productivity trucks *(figs. 8 and 9).* These are then transported directly to the customer's warehouse and unloaded using a skate dock.

In addition using this mode of transport (as compared to that needed across Bass Strait) enables more opportunities for the capture of back loading opportunities, thus reducing significantly transport costs. Examples of these are shown in *figures 12 &13.*

Fig 8. Newsprint reels being loaded via a skate dock.

Fig. 9 Loaded high productivity B-Double truck.

Fig 10. B-Double truck transporting newsprint direct to customers

Fig 11. Skote unloading from B-Double truck at a customer site

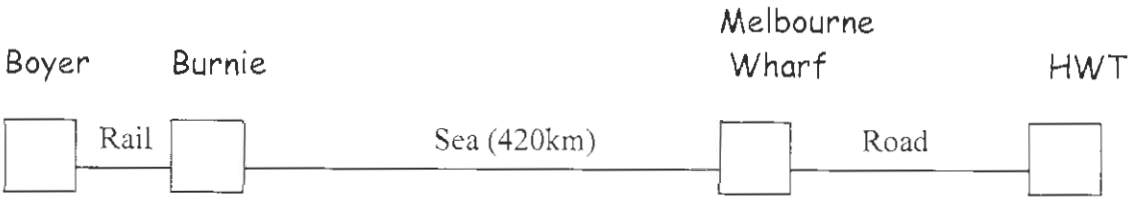
Fig 12. Many of the paper truck deliveries from the Albury Mill are then back loaded with waste paper for recycling at the Albury Mill

Fig 13. Truck/trailer (MEPA) transports chemicals to the Albury Mill and then back loads with Paper.

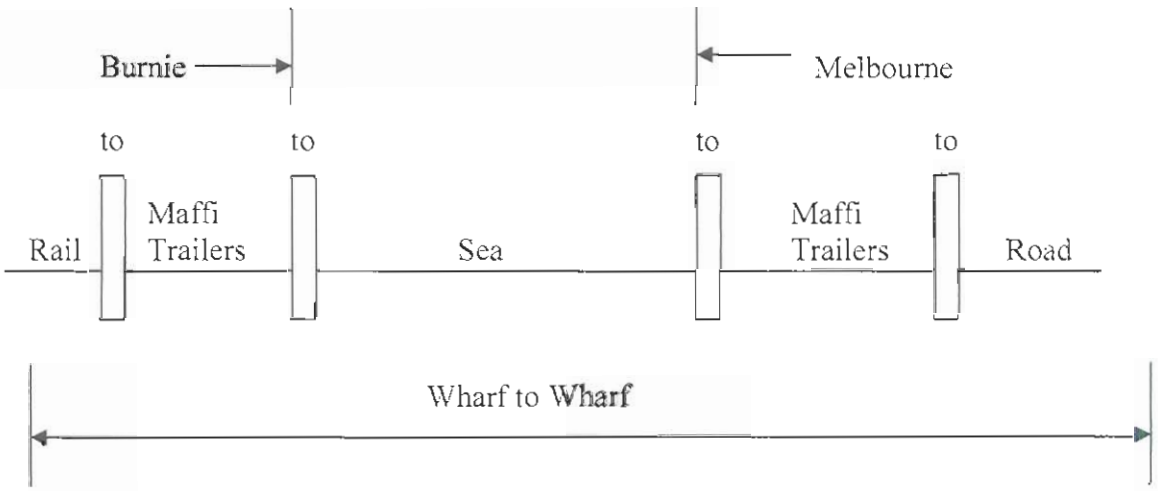
Overview - Freight Route Comparisons

The following schematics show the significant differences between the Boyer Mill, with the need to transport across Bass Strait and Albury that is totally land based.

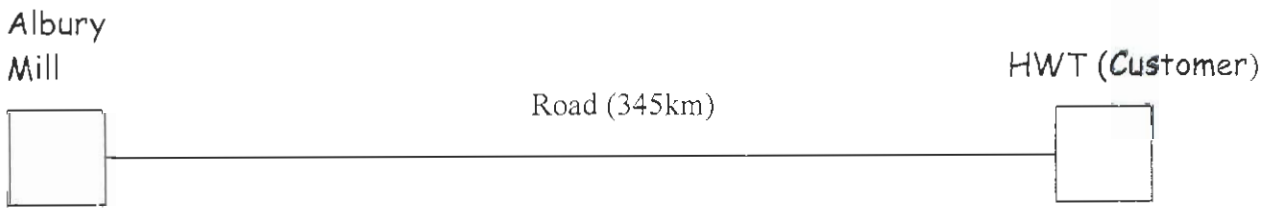
Boyer to Melbourne Customer



The same route carries paper reels northbound and de-inked (and other production consumables) southward.
At the wharf further activity is involved and Norske Skog's wharf to wharf definition is represented below. Moving from left to right on the diagram represents the northbound and right to left the south bound.



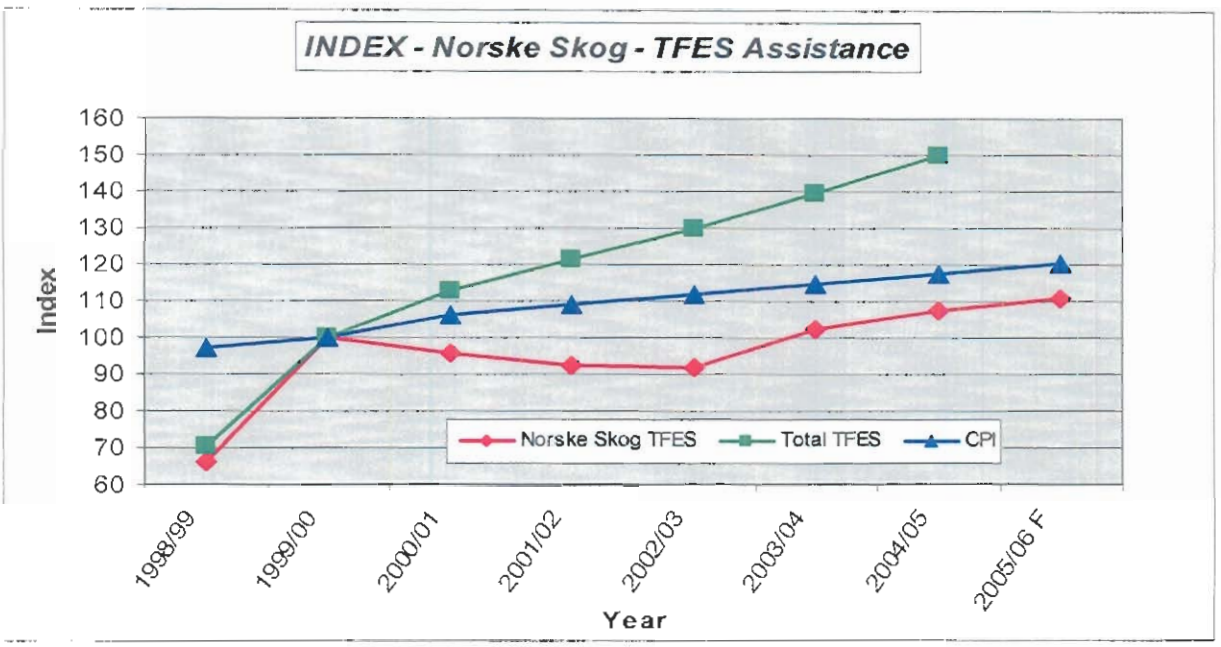
Albury to Melbourne Customer



4. TFES Statistics

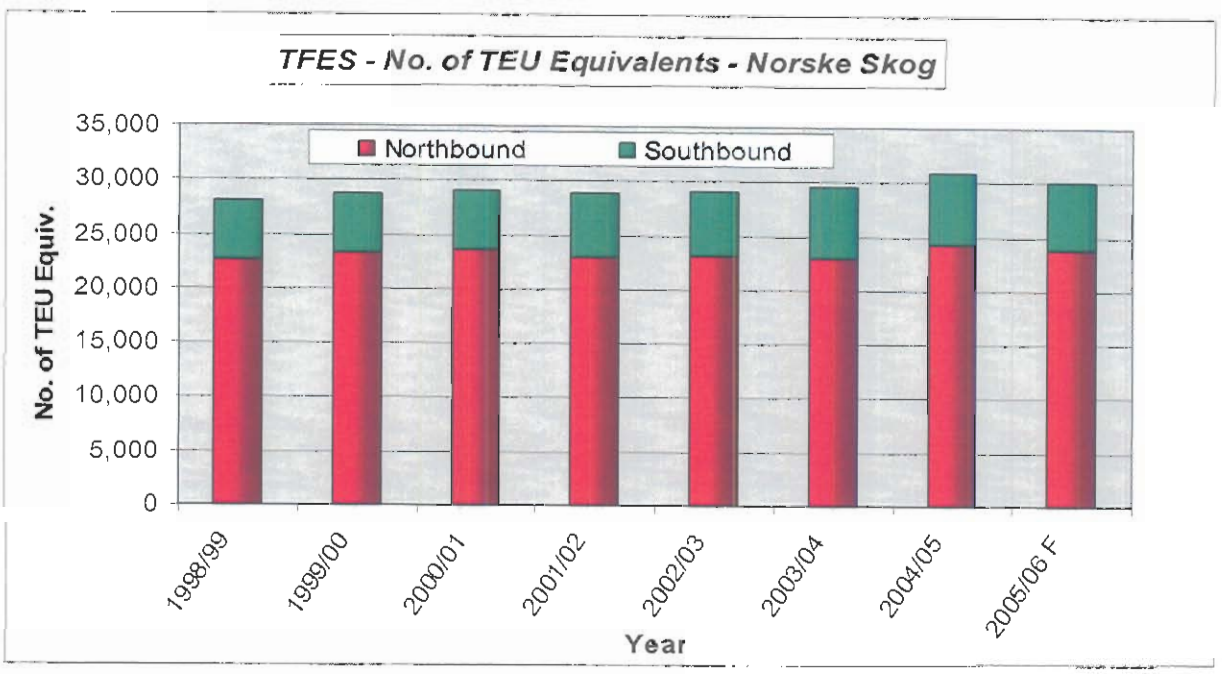
The following graphs show TFES assistance and other key statistics over the period from 1998/99 to 2005/06.
Further information and analysis is contained in a confidential submission to the Productivity Commission.

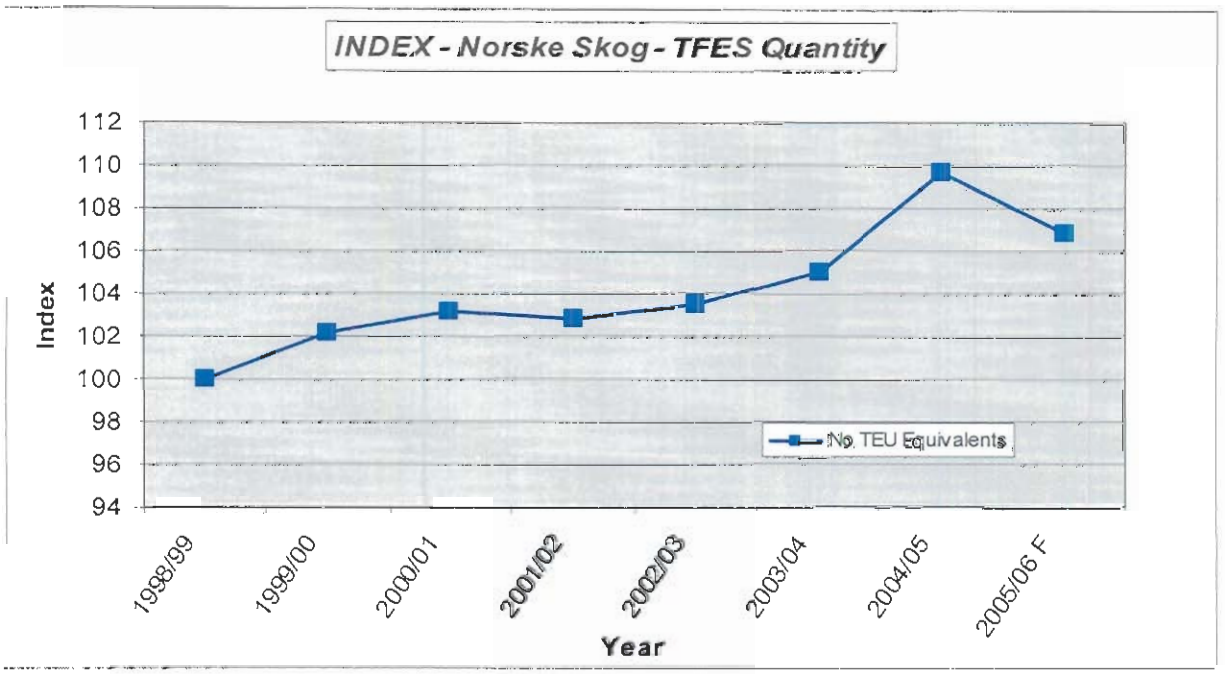
4.1 Total TFES Assistance



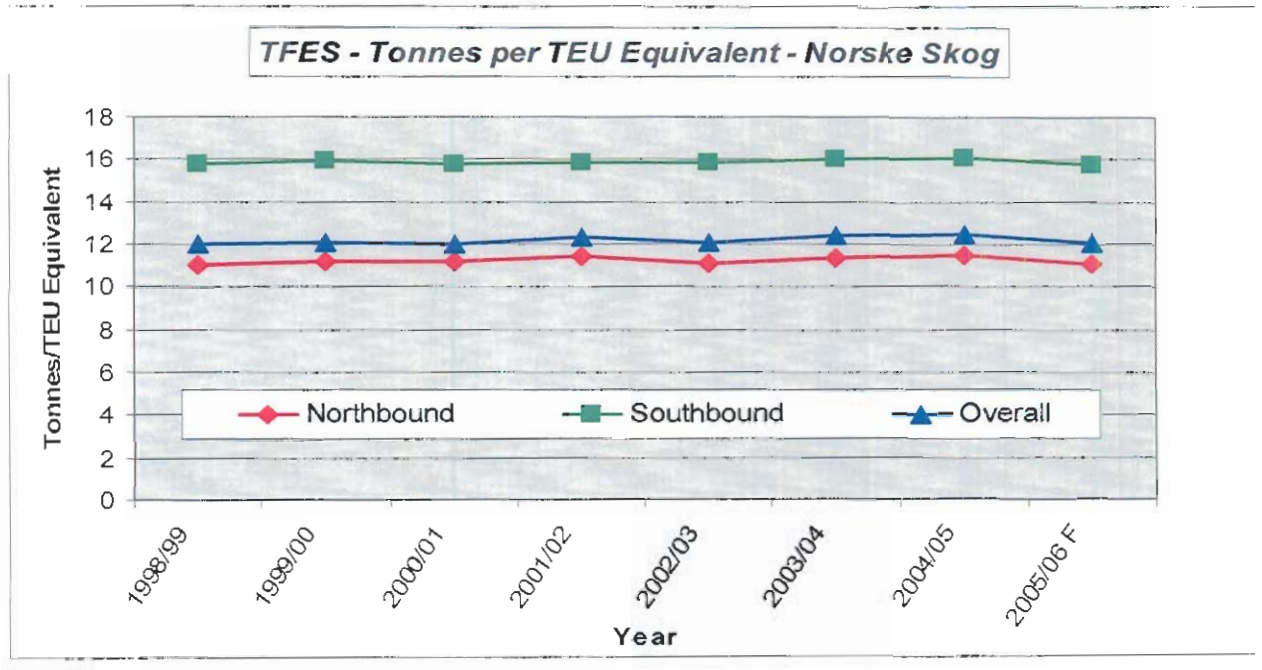
The above graph shows that since 1999/00 assistance received by the Boyer Mill has increased at a much slower rate than total assistance under the scheme and movements in the Consumer Price Index. There was a step increase in TFES assistance in 1999/00 resulting from the removal of the newsprint anomaly. Assistance then fell over the next 3 years due to significant reductions in some components of the Wharf-to-Wharf costs. The subsequent inclusion of part of the cost of stretch wrap resulted in a small step increase in assistance in 2003/04.

4.2 Quantities Shipped



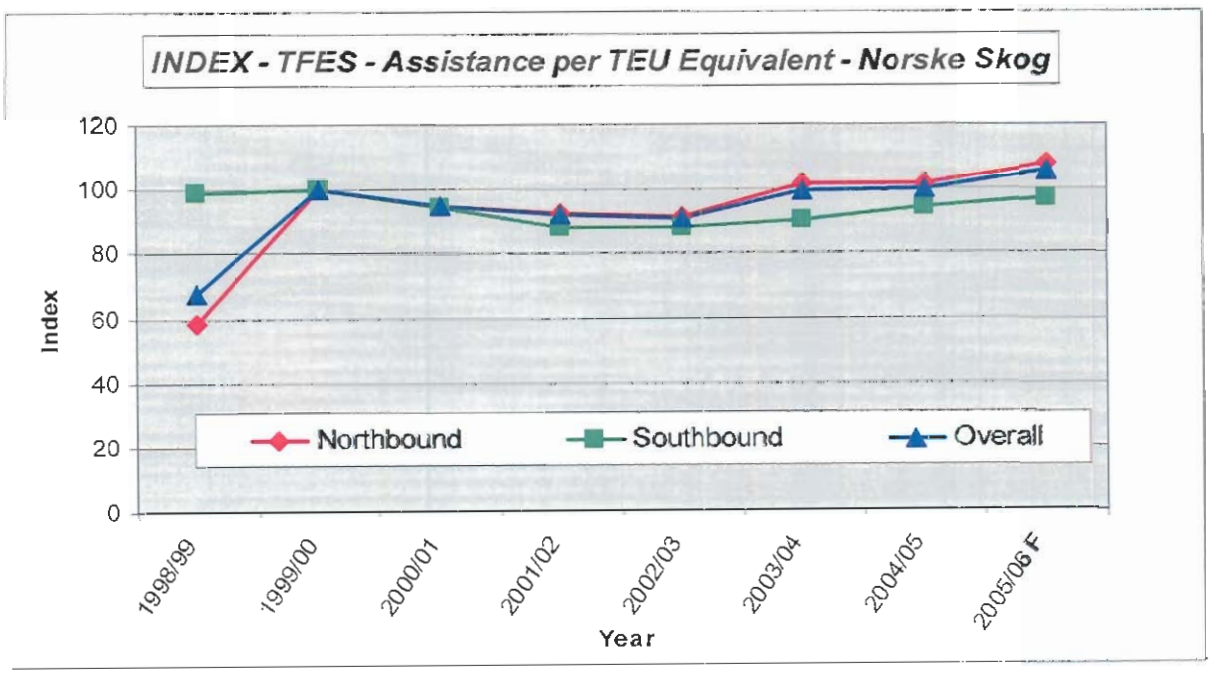


The above graphs show that the number of TEU equivalents shipped across Bass Strait has increased over the period by around 7%. This was due to increased production over the period with a large increase in 2004/05 following significant capital expenditure at the Boyer Mill.



The above graph shows that the number of tonnes per container of southbound freight has remained constant
over the period, as has the number of tonnes per container of northbound freight. This is in contrast with our experience on the mainland where we have been able to achieve significant increases in payload over this period.

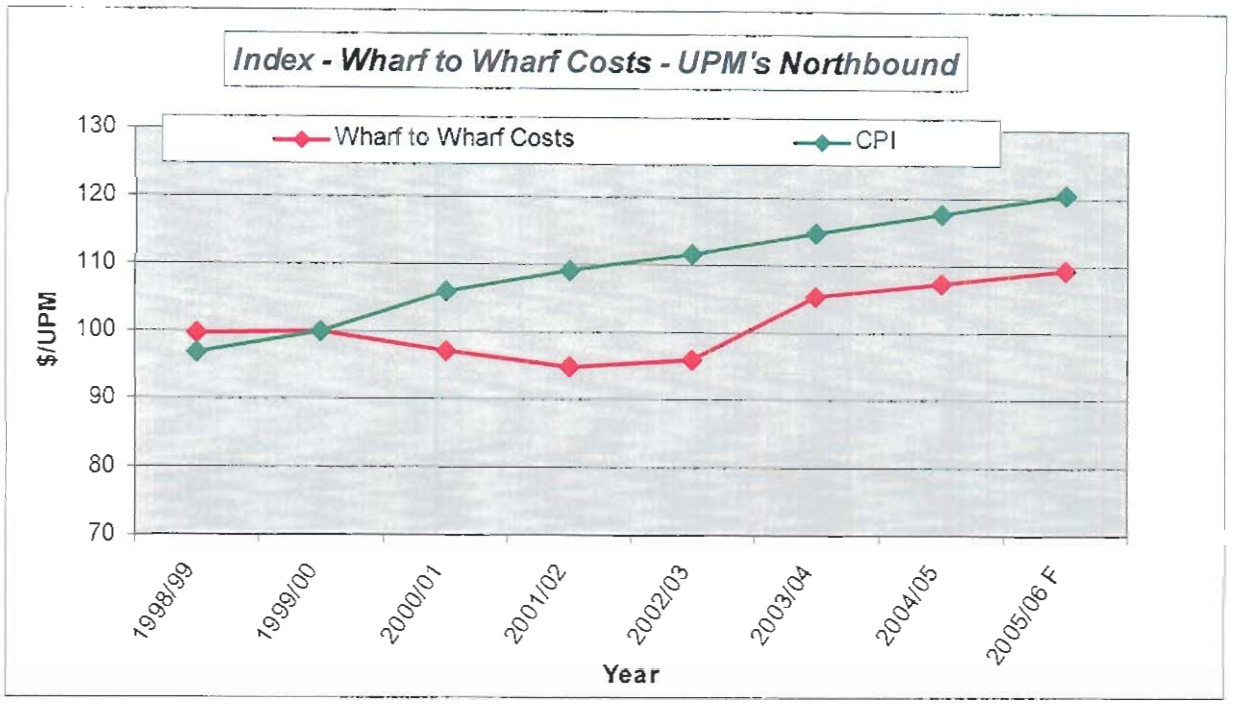
4.3 Assistance per TEU



The above graph shows that over the period there has been little change in the rate of assistance received per TEU equivalent for southbound freight. The rate of assistance received for northbound freight increased following removal of the newsprint anomaly in 1999/00, then fell for the next 3 years, due reduction in Wharf to Wharf costs and then increased slightly in 2002/03 with the inclusion of part of the cost of stretch wrap. Overall, since 1999/00 the rate of assistance on

northbound freight and the overall rate of assistance per tonne have not increased substantially from the 1999/00 level and are well below the rate of increase in the CPI.

4.4 Wharf to Wharf Costs



The above graph shows the change in the Boyer Mill's Wharf-to-Wharf TFES claims between 1998/99 and 2005/06 compared to changes in the Consumer Price Index. While Wharf-to-Wharf costs have increased in actual dollar terms they have fallen in real terms. However, as outlined in Norske Skog's confidential submission to the Productivity Commission, road rates between Albury and Melbourne over the same period have reduced in actual terms due to the introduction of high productivity and purpose built vehicles designed to maximise payloads and back-loading.

5. Freight Cost Disadvantage

Analysis of freight costs paid by Norske Skog Boyer, compared to similar transport tasks on the mainland, clearly show an ongoing freight cost disadvantage, notwithstanding all our efforts to contain costs in conjunction with our logistics suppliers.

If there was a land bridge to the mainland, the Boyer Mill could transport paper to its Melbourne customers for 45% less than at present. While TFES payments meet part of this additional cost, they do not fully compensate for the difference.

Whereas manufacturers in other parts of Australia have the option of at least two competing modes of transport (road, rail and sometimes sea) Tasmanian industry has no alternative but to use sea.

The transport system used by Norske Skog in Tasmania is designed to provide the best/most efficient system for transporting our product across Bass Strait. It is not influenced by the availability of TFES assistance.

Confidential information has been provided to the Productivity Commission to substantiate the above statements. This material includes detailed information concerning road transport rates paid

by Norske Skog's Albury Mill for the delivery of paper to Melbourne customers. It also includes estimates of "scaled up" costs for the delivery of paper over the same distance as Boyer to Melbourne and details of the higher costs due to "internodal" costs.

6. Importance and Effectiveness of Current Scheme

Norske Skog believes the current scheme is delivering on its stated objective of being a "cost equalisation scheme to alleviate the freight cost disadvantage incurred by shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea".

The withdrawal of TFES assistance would significantly impact on the delivered cost of paper to mainland customers. It would also impact on the viability of using recycled fibre from Norske Skog's deinking plant at Albury.

It is a very bold assumption to suggest that capacity and job losses in Tasmania would be matched by new capacity and increased employment on the Australian mainland. The reality is that lost production could be met from under-utilised or new capacity overseas, such as Indonesia, China and Korea.

Norske Skog is not aware of any areas of rorting or non-compliance with existing TFES rules, but believes that if such practices do occur then they can and should be appropriately dealt with, without the need to amend the fundamental principles of the scheme.

From Norske Skog's perspective, we would be happy see claims restricted to a Wharf-to-Wharf basis. This may however unnecessarily impact other shippers who should be given the opportunity to comment if such a move is contemplated.

7. Administrative Arrangements

Notwitbstanding the large tonnages transported each year, Norske Skog's TFES claims are straightforward to prepare. First, because the company has integrated business management systems and processes that supply the required information and secondly due to the consistency of tonnages transported each month to regular destinations. In effect, there is one bulk claim per month for the majority of product.

The time taken by Norske Skog Boyer to prepare the monthly TFES claim is around 6 hours. The ability to submit a bulk claim minimises the administrative cost to all parties.

In accordance with the Ministerial Directions covering the administration of TFES, Norske Skog has a signed Agreement with Centrelink covering self-assessment arrangements that are supported by regular independent professional audits.

Norske Skog's experience is that the claims system works very well and has never presented any problems.

We wish to acknowledge the professional, friendly and efficient manner in which claims are dealt with by Centrelink staff in the Hobart Office.

8. Response to Questions in Issues Paper

- **What are the main differences in the composition and modal requirements of the freight task facing Tasmanian firms compared with their mainland counterparts? Has the extent of these differences changed in recent years, and is it likely to do so in the future? If so, why?**

  Refer body of submission. Norske Skog will continue to explore all options and opportunities to improve efficiency and reduce transport costs.

- **In the absence of subsidies for goods transported by sea, would there be greater use of air freight between Tasmania and the mainland? Where would the main opportunities lie and why?**

  Not relevant for the transport of newsprint.

- **Are there significant differences between wharf costs in Australia and other countries, such as New Zealand?**

  No information available.

- **Are the disadvantages calculated under the TFES broadly indicative of the cost penalties incurred by Tasmanian firms in freighting containerised goods to and from the mainland? For example:**

  - **How closely does the notional 'efficient' cost of freighting goods a similar distance on the mainland reflect actual costs? How much variation is there across 'standard weight' commodities and what is the difference in the cost of transporting 'heavy weight' cargoes?**

  - **Is the fixed allowance of $100 for internodal transfer a reasonably accurate reflection of the additional costs of this nature incurred by Tasmanian firms needing to use sea freight across Bass Strait?**

  - **Do Tasmanian firms face shipping-related freight cost disadvantages which are not encompassed by the TFES — for example, higher stockholding costs due to the lesser frequency of shipping services?**

  Covered in detail in Norske Skog's submissions.

- **How big are the cost disadvantages, if any, of transporting bulk commodities to and from the mainland? How does the subsidy of $20.65 per tonne payable under the TWFS compare to the actual cost disadvantages incurred by those shipping bulk wheat across Bass Strait? How do freight costs net of subsidies for bulk wheat compare to those for containerised wheat subsidised under the TFES?**

  Not relevant to Norske Skog.

- **For what Tasmanian goods do freight-related cost disadvantages comprise a significant share of overall production costs? For such goods, how large is this share? Are there items of this sort that are not eligible for subsidies under current arrangements?**

  Refer body of submission.

- **What are the key contributors to freight cost disadvantages confronting Tasmanian shippers?**

  - **How significant are factors reflecting the intrinsic nature of the freight task relative to the impact of the current degree of competition in the provision of Bass Strait shipping services, and compared to broader government policies affecting the efficiency of coastal shipping and the costs of land-based transport? Have these relativities been changing over time and, if so, why?**

  Covered in detail in Norske Skog's submissions.

- **How important are quality of service advantages or disadvantages relative to cost disadvantages? To what extent are any service quality disadvantages ameliorated through paying a higher price for a premium shipping service?**

  There is no "premium" shipping service across Bass Strait. In any event, the key requirement is for a regular and reliable service at a competitive price.

- **In the absence of subsidies, for what particular goods and services would freight cost disadvantages have a significant negative impact on competitiveness in mainland markets? What would be the ensuing implications for Tasmanian activity, employment and investment?**

  Covered in detail in Norske Skog's submissions. As stated in the Executive summary, "given the capital intensity of manufacturing industry (including papermaking) it is a very bold assumption to suggest that loss of capacity and jobs in Tasmania would be matched by new capacity and increased employment on the Australian mainland. The reality is that lost production could be met from under-utilised or new capacity overseas, such as Indonesia, China and Korea".

- **Are there significant numbers of goods and services sold in Tasmania for which the protective effect of the freight cost disadvantage would outweigh the adverse impacts of (uncompensated) higher costs for any inputs imported from the mainland?**

  No information available.

- **Would freight cost disadvantages otherwise sustain greater Tasmanian production of wheat for feedstock and/or inputs which are currently subsidised under the southbound provisions of the TFES? Would there be greater processing of some primary products within Tasmania?**

  Not relevant to Norske Skog.

- **Do shipping companies have significant market power in setting freight rates and is there evidence that they been using this power to appropriate part of the subsidies intended to assist Bass Strait shippers?**

  While this potential may exist, it has not been our experience.

- **What is the scope for route-specific innovation to reduce the cost of Bass Strait shipping services? Are there examples where high rates of subsidy (relative to freight cost disadvantages) have led to delays in the implementation of cost-effective innovation, or the failure to investigate ways of overcoming identified inefficiencies in these services?**

  The implication of this question is that industry has little incentive to implement innovation or seek to reduce costs. Norske Skog's experience is that this suggestion is not true.

- **How do shipping costs on the Bass Strait route compare with the costs of coastal shipping services over comparable distances between mainland ports (eg. Perth to Geraldton or Brisbane to Rockhampton)? What conclusions can be drawn from any differences?**

  The key point is that whereas manufacturers in other parts of Australia have the option of at least two competing modes of transport such as road, rail and sometimes sea, Tasmanian industry has no alternative but to use sea.

- **What are the costs to firms of complying with the administrative and procedural requirements of the TFES and TWFS? Has the attempt to increase the 'precision' of TFES subsidies resulted in significantly higher compliance costs?**

  Norske Skog's experience is that current administrative arrangements, including independent professional audit requirements, are both appropriate and efficient.

- **To what extent have the TFES and current and previous subsidy arrangements applying to the freight of wheat across Bass Strait encouraged relocation of production to Tasmania from the mainland? What have been the consequences for activity and employment in these mainland areas?**

  Not relevant to Norske Skog.

- **Have freight subsidies also induced movements of resources in the other direction - as reflected, for example, in increased processing of Tasmanian livestock on the mainland?**

  Not relevant to Norske Skog.

- **Is there evidence to support the argument that the 'incremental' Tasmanian production made possible by freight subsidies is inherently more efficient from a national viewpoint than the production it has supplanted?**

  In Norske Skog's case, the "incremental" production over the last 7 years is all import replacement. This represents 30,000 tonnes per annum, worth around $27 million each year.

- **Have the subsidy arrangements had any incidental or unintended impacts on the way particular goods are transported across Bass Strait? For example, has the major shift in the nature of the Bass Strait wheat trade induced by the recent extension of TFES subsidies to containerised wheat, improved or detracted from efficiency? Are there other incidental or unintended impacts that are relevant to the Commission's assessment of the overall efficiency impacts of the current subsidy arrangements?**

  As stated in this submission, "the system that we use in Tasmania is designed to provide the best/ most efficient system for transporting our product across Bass Strait. It is not influenced by the availability of TFES assistance".

- **Is the freight 'problem' confronting Tasmanian businesses any greater than that facing businesses in other parts of regional Australia? Is there freight-related assistance available to regional areas on the mainland that is not available to Tasmania?**

  Absolutely. Manufacturing industry in Tasmania has no transport alternative but to ship product across Bass Strait and to incur higher costs as a result. Other parts of Australia have "enjoyed" transport reform and significant Commonwealth spending on road and rail infrastructure.

- **Has the strength of second best efficiency arguments for Tasmanian freight subsidies diminished over the years as a result of reforms in the coastal shipping sector in particular? Are there any such efficiency arguments for freight subsidies that do not relate to the transport sector?**

  Refer body of submissions, particularly comparative data showing relative improvements in road freight costs on the mainland due to the introduction of high productivity and purpose built vehicles designed to maximise payloads and back-freighting.

- **Do current subsidy arrangements bear any relationship to second best efficiency rationales for such support? Would it be administratively feasible to compensate only for that component of freight cost disadvantage that is directly attributable to transport-related distortions (as previously proposed by the Inter-State Commission (1985)?**

  This argument was considered and rejected during the last TFES Review.

- **How well do the TFES and TWFS perform against the generic criteria spelt out in box 2, or any other relevant evaluation criteria?**

  As stated in the Executive Summary, "Norske Skog believes the current scheme is delivering on its stated objective of being a "cost equalisation scheme to alleviate the freight cost disadvantage incurred by shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea".

- **To improve the efficiency and effectiveness of the current arrangements, what changes, if any, could be made in regard to:**

  - **their coverage;**
  - **levels and broad configuration of assistance;**
  - **the specific parameters used to determine assistance;**
  - **procedures for claiming assistance;**
  - **auditing, fraud prevention and other review requirements; and**
  - **any anomalous outcomes or unintended consequences.**

  Norske Skog believes the current scheme is operating very well. As stated in the Executive Summary, "rather than increase the level of risk and uncertainty to industry, the Commonwealth Government should seek to leverage the benefits of TFES by maintaining its support for the current scheme and providing increased certainty, which industry can use as the basis to help justify ongoing capital investment in the State".

- **More specifically:**

  - **Should any extensions of the coverage of TFES subsidies — for example, to eligible goods freighted between Tasmania and the mainland by air — be offset by reductions in the rates of subsidy payable?**

  - **More broadly, should expenditure under the TFES be capped rather than open-ended? Would the possibility that excessive demands on the scheme could lead to a temporary suspension of support enhance incentives for efficiency improvements in the provision of shipping services and reduce any inflation of freight rates to take account of subsidy payments?**

  - **Would reduced certainty for firms in relation to subsidy entitlements have significant costs?**

  - **What would be the implications for scheme administration?**

  Norske Skog believes the current scheme is operating very well and does not require major changes. For example, handing the TFES over to the Tasmanian Government would place at risk the level of assistance available to industry; first due to the likely reduction in funding from the Commonwealth Government and secondly as a result of pressure from other State funding priorities.

- **To what extent is it possible to overcome unintended effects of the current arrangements through changes to subsidy design? For example, would differentiation in the TFES deduction used to convert freight bills submitted on a door-to-door basis to wharf-to-wharf equivalents and/or changes to the regionally-based subsidy scaling factors, reduce the subsidisation of land-based freight costs? Would a requirement for all bills to be submitted only on a wharf-to-wharf basis improve the scheme's effectiveness? Or would any such changes simply open up new opportunities for manipulation of the arrangements, as well as adding to administrative complexity?**

Norske Skog would be happy see claims restricted to a wharf-to-wharf basis. This may however unnecessarily impact other shippers who should be given the opportunity to comment if such a move is contemplated.

- **Has the basis for reducing assistance to 'heavy weight' cargo under the TFES — a uniform 40 per cent deduction from the assistance that would have been payable for 'standard weight' goods in that particular circumstance — led to any anomalies, or distortions in the way that such goods are shipped across Bass Strait? Are the arguments advanced by the TFESRA (1998) against effecting such adjustments through increasing the road freight equivalent for heavy weight goods still valid?**

  Not relevant to Norske Skog.

- **If the current configuration of the TFES is retained, are annual reviews of scheme parameters necessary or efficient? Given year-to-year volatility in some of the key parameters, would annual indexation increase uncertainty for firms about their likely future entitlements?**

  The most important consideration is the cost disadvantage between sea and road. Key parameters need to be regularly reviewed, but annual reviews would be time consuming and expensive.

- **Would reversion under the TFES to a single dollar rate of subsidy per container, irrespective of a recipient's actual shipping costs, significantly reduce administration and compliance costs and opportunities for scheme manipulation and fraud? Assuming that total subsidy payments were the same, would there be any major costs from such a change for Tasmania or Australia as a whole?**

  Such a scheme would be simpler; however for a number of shippers it may not address the fundamental objective of being a "cost equalisation scheme to alleviate the freight cost disadvantage".

- **Beyond changes to scheme design, are there other ways to reduce the scope for scheme manipulation, or the leakage of subsidy support to those providing shipping services?**

  As stated in the Executive Summary, "Norske Skog is not aware of any areas of rorting or non-compliance with existing TFES rules, but believes that if such practices do occur then they should and can be dealt with under the current scheme, without the need to make fundamental changes or amendments that may risk penalising other shippers".

- **Are there any particular matters that need to be addressed in relation to the subsidisation of freight movements to and from the major offshore islands?**

  Not relevant to Norske Skog.

- **What other approaches could be considered as an alternative to freight subsidies? What objectives would they be addressing?**

  We support the current TFES scheme, which is not about providing freight cost subsidies but is a "cost equalisation scheme to alleviate the freight cost disadvantage incurred by shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea".

- **What transport sector reforms would be most beneficial in alleviating the cost disadvantages facing Tasmanian shippers? For example, are there changes that could be made to the single and continuous voyage permit regime that would make these arrangements more accessible for the State's shippers?**

  Unless there was a daily service provided by international shipping companies, changing the single and continuous voyage permit regime would have little to no effect in the case of products requiring "daily" delivery to the mainland in order to meet customers "just in time" delivery requirements.

9. Confidential Material

As requested by the Productivity Commission, every effort has been made to include as much detail as possible in this public submission. A separate document has also been provided to the Productivity Commission in relation to material that is regarded as "*commercial in confidence*".