Submission in response to the Productivity Commission Issues Paper April 2006: Tasmanian Freight Subsidy Arrangements

The freight task

The freight task from Tasmania to the mainland typically involves
- Loading at production site onto taut liners (curtain sided trailers) and road freight to the transport depot in Hobart (Macquarie wharf area)
- Containerisation of product at the Hobart transport depot, using slip sheets to replace pallets in order to maximise payload
- Land transport within Tasmania generally via rail or road to the outbound ports of Burnie, Devonport or Bell Bay
- Container handling at outbound port
- Sea freight from Tasmanian to mainland port (usually Melbourne)
- Container handling at mainland port
- Rail transport to destination (Sydney, Brisbane, Adelaide and Perth) if not for delivery within Melbourne
- De-stuffing of container at destination capital, transfer from slip sheet to pallets, and loading onto taut-liner or semi-trailer for delivery
- Road freight to, and unloading from the taut liner, at the final destination

To compare to our mainland equivalent, the freight task would involve the equivalent of the first and last steps of the above process, i.e.

- Loading at production site onto 'B-double' trailers and road freight to the destination site
- Unloading from the vehicle at the final destination

These methods of transport have remained largely unchanged for a number of years, and there is no foreseeable change in the immediate future.

In the absence of Tasmanian freight subsidies, due to the nature of the product involved i.e. high volume and weights, the use of air freight would never be a viable option. The method of transport would not change in the absence of subsidies.

Freight cost disadvantages

A table follows showing comparative costs per km for our northbound finished goods. The percentages express the Tasmanian cost of transport compared to our mainland counterparts' cost for similar distances.

Cost per km	Non-subsidised	Subsidised
< 1000km	215.7%	128.8%
1000 - 2000km	133.3%	93.5%
> 2000km	181.1%	134.6%
	176.7%	118.9%

Without a subsidy, the cost of freight per km for the Tasmanian sourced product is close to double that of the mainland product. With subsidy, the cost is still notably higher but close enough to the mainland costs to allow us to compete more equitably on other factors such as our own production costs and quality of produce.

Similarly the freight cost disadvantage for major raw materials used in our operation is reduced to only 25% above costs of our mainland counterpart.

It is our opinion that the formulas used to calculate amounts of subsidy are appropriate, and subsidy levels are indicative of the actual cost disadvantage that is suffered by the Tasmanian producer.

The freight costs of our produce can represent approximately 10% of the overall production cost of finished goods. The complete removal of freight subsidies would increase our cost of goods by around 0.5%.

The effectiveness of current arrangements

Our company has production facilities and warehousing sites in all states of Australia, and are a major user of freight services. We regularly seek the most competitive market rates by tender processes and award parcels of work to various transport providers as a result of these processes. There does not appear to be any misuse of power by Bass Strait shippers, and freight rates for the Bass Strait route appear to be in line with mainland routes when considering the increased complexity of the combined land & sea freight modes involved in this route.

The administrative cost of the Tasmanian Freight Equalisation Scheme (TFES) totals less than 2% of the total rebates received. In the past 5-10 years administrative and procedural changes made by our firm and the administrators of the scheme (Centrelink) have resulted in improvements to the process and reduced labour hours required to comply with requirements and complete claims.

Alternatives to current arrangements

The freight ‘problem’ confronting Tasmanian businesses is unique in that it affects the whole of the state’s ability to access markets of significant size interstate. The state that most closely presents a similar ‘problem’ would be Western Australia, but that is partly offset by WA’s access to Asian markets. The greater distances to Asian markets from Tasmania, and significantly less availability of international shipping services, does not have the same offset for Tasmania to the disadvantages suffered as a result of the isolation from the Australian market.
The vast majority of regional mainland Australia generally has single transport mode access to the rest of mainland Australia. Tasmania has at least two-mode access to any part of mainland Australia, with sea freight being the common transport mode in all Tasmania-mainland routes, disregarding airfreight. This dual mode requirement adds

to the cost of freight through additional handling that does not apply to regional mainland shippers.

The current arrangements, being directly linked to the sea freight component of transport costs is appropriate and equitable in overcoming this ‘problem’. Our only recommendation would be to link the cap on subsidies to an index (eg. CPI or fuel prices) that would adjust levels in line with increasing transport costs, and hence increasing disadvantage to Tasmanian shippers where transport cost is a larger proportion of the cost of their goods. There will reach a point that the current cap is a small proportion of the total cost, however this is not a critical issue at this point.

The principles of the scheme as detailed in the Issues Paper are consistent with the outcomes and levels of subsidisation. Whilst the administrative aspect of the scheme, where original documentation is required, can be quite cumbersome and time consuming, for a large recipient of subsidies it is not unmanageable or grossly inefficient. Large claimants have been able to automate parts of the administrative process that improves the efficiency of making claims. The TFES is well established and the rules well known within industries that utilise and benefit from the scheme and there is little uncertainty. Whilst there is certainly complexity in some of the formulae used to calculate subsidies, this is easily managed with spreadsheet programs such as Excel.

It is our opinion that there is no justification to extend the assistance to goods transported by air, as there is no disadvantage to Tasmanian shippers over mainland shippers using this mode of transport.

Our company competes internally for production volume. Any cap on the levels of subsidy would limit our ability to increase production, and thereby limit our ability to improve our efficiency as a result of improved economies of scale.

One issue that should be addressed as a result of this review is the uncertainty in the ongoing nature of the scheme, in that it is subject to review on a regular basis. If Tasmanian industry were to operate in an environment of greater certainty by having the scheme enshrined in legislation, this would encourage greater investment and longer term commitment to industry within the state.

In summary, the Tasmanian Freight Equalisation Scheme is vital to the viability of our business, which employs around 140 people and generates further employment within the state by the sourcing of raw materials from both primary industry and other manufacturers. Any dilution of the scheme’s benefits would be detrimental to our business – and the abolition of the scheme would threaten our future.

Cascade Brewery