25/10/06

SUBMISSION TO PRODUCTIVITY COMMISSION BY CIRCULAR HEAD DOLOMITE

Tasmanian Freight Equalisation Scheme
Comments on the Draft Report

Circular Head Dolomite would like to reiterate the following points:

1. Under the current rules of the TFES dolomite powder is classed as a High-Density product and receives only 60% of the subsidy of Low-Density products. The justifications given for the reduction in subsidy level, while theoretically logical, do not exist to the same extent in reality.

2. Dolomite is a low price, low margin bulk commodity. There is little if any ability to pass the additional freight costs associated with the product being classed as High Density, on to the consumer. Similar products exist on the mainland and the lack of a quality assurance system means that inferior products are more competitive. It is the intention of CHD to export to Victoria where the natural pH is very low on large areas (see figure 1).

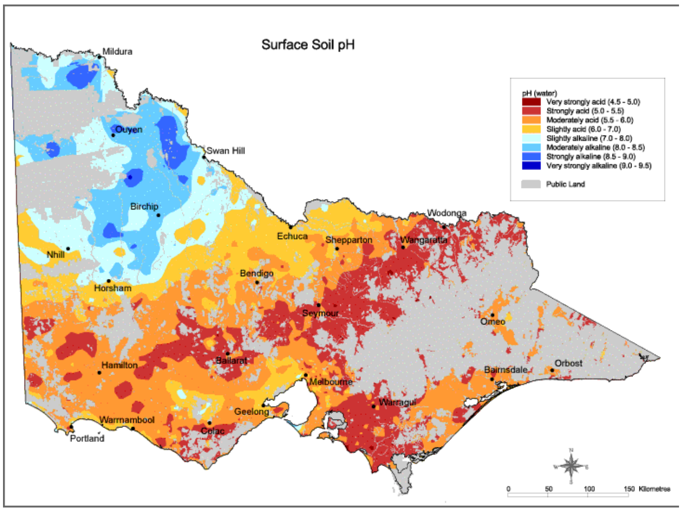

Figure 1: pH of Victorian soils.

Other high-density products (eg custards) are higher value, have a higher margin and as a result the impact of the High-Density rating has a reduced impact. In addition to this, some high-density products can still fill containers and reduce marginal or unit costs.

Low-density products are often high value, like for example breakfast cereals. An example of two such products revealed that the average value of the product in the container was $37,500. In order to make up the transport cost only a few cents per packet

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need to be added to the price or taken from the margin. The average subsidy was $96.25/tonne

3. There are limited deposits of dolomite in the state and Australia for that matter. CHD has the most significant, both in terms of quality and quantity. The deposit is at least 1km deep and covers an area of 210 km^2 (7.5km x 30km), a massive resource which is the largest in the southern hemisphere and one that could last many hundreds of years.

4. CHD has invested considerable time and effort in trying to develop options for shipping the product in bulk. It has been unable to find a suitable ship after 3 years research and as a result containers must be used.

5. The rail system in Tasmania does not extend as far as Smithton and as a result there is no ability to lower the average cost of transportation using this option. In addition to this the cost of transporting the product using B-Doubles proves to be more expensive than using a singe reefer effort. In such cases the company will be forced to use less efficient means of road transport to capitalise on the TFES as it currently stands.

   The TFES should be aimed at maximising the efficiency of moving trade by using B-Double transportation. It is possible if axle loads are maximised to move 2 x 20 tonne containers on a B-Double and only 1 x 25 tonne container on a single reefer. A quote obtained by CHD put the cost per tonne 10% higher using B-Double transportation.

6. CHD could ship unrefined dolomite rock in containers and receive the full Low-Density rate. The rock could then be crushed offshore. This goes against the fundamental philosophy of the TFES to encourage value adding of products in Tasmania.

7. The cost of transport in Victoria for a similar (420 km) road trip is higher than the subsidy proposed under the scheme if the product only receives the High-Density rate. Because the product can be broadly described as a commodity (low per unit value) the difference in subsidy between Low and High-density, amounts to $10/tonne. The impact on landed product sale price is however in the order of 20%, and is the difference between a viable and non-viable export operation.

Circular Head Dolomite agrees in principle with the following suggestions from the Draft Report but would add the following comments:

1. That a flat rate per container be applied to each TEU and that this apply from wharf to wharf.

2. That there is no longer differentiation between high and low density freight due to such a low proportion (3-5%) of freight being high density.

3. That the flat rate subsidy better reflect the cost of transporting product on land over the Bass Straight distance. In the case of 25 tonnes of Dolomite powder this would be $900 per container.

Circular Head Dolomite would like to add its support to some of the points made in other submissions:

1. **Submission 1 from G.J. Sales**: *"I have never understood the argument that dense cargo, ie that product that has a cubic equivalent to 1.1 m^3 or less to a tonne, should suffer by 40% of a full claim. The costs associated to the actual transport for an FCL of weight rather than cubic cargo is the same."*

2. **Submission 5 from the Tasmanian Transport Association:** *"The TFES should only be payable on the presentation of and itemized **wharf to wharf** copy of the actual shipping invoice."*

3. **Submission 8 from the Agricultural Contractors of Tasmania:** *"Our third concern is that occasionally users are able to get discounted or cheaper transport across the Bass Strait, yet they will receive the full TFES rebate. We feel the Commonwealth should share in any savings, and that the rebate should be a **fixed amount** (currently about $855 for a shipping container of wheat), or the actual cost of the carriage, whichever is lower."*

4. **Submission 44 from Auspine Australia:** *"The freight cost to Austpine Australia to move an average semi-trailer load via land/sea/road, less the TFES component, when compared to a standard road freight cost over the same distance, is an additional cost of approximately $170 per load."*

5. **Submission 51 from Senator Paul Calvert**: *"I will briefly refer to three anomalies in the current TFES, which I would suggest the Commission should address. The first is that so-called high density cargo is only subsidised at a rate of 60 per cent. Mr Nixon's 1998 review noted that there appears to be a discrimination against high density goods, and I have been unable to ascertain the reason for the difference, especially given my understanding that shipping costs are generally based on volume, rather than weight."*

6. **Submission 23 from Cement Australia:** provides a very good "in a nutshell" summary of the issues.

"While CA, as a bulk exporter, does not directly benefit from the northbound TFES, it recommends it be maintained given its key role in directly meeting the decentralisation aims of the scheme. TFES requires that Tasmanian companies are able to operate on an efficiency level (at the factory gate) similar to that of its mainland competitors. TFES provides a subsidy which meets a sole competitive disadvantage for Tasmanian firms– that of trans Bass Strait sea freight. "

"The market distorting effects of the northbound FES is therefore limited. Moreover the subsidy will assist in raising manufacturing volumes where mainland transhipment is facilitated and/or overseas exports are stimulated. The economies of scale from higher production will in turn improve the inherent viability of the Tasmanian firm and reduce dependence on TFES. Where higher volumes produce lower sales prices, consumers in both the Tasmanian and mainland markets will benefit."

"A continued uncapped northbound operation of TFES is therefore a preferable outcome to allow the economies of scale to be gained from higher transshipments to the mainland."

Circular Head Dolomite would like to add the following general comments:

1. That there is fundamentally no reason why a differentiation should be made between high and low density goods. In the last 12-month period less than 2% of the total freight shipped was high density. The differentiation between high and low-density products currently saves about $63,000 pa or less than 1% of the total cost of the scheme.

2. That some process exists where a higher rate of subsidy could be obtained, on an individual company basis, during the market development, or start-up export phase in particular products for agricultural purposes. This may be specific to high-density products that in the longer term will be bulk shipped. However when markets are being established, large bulk shipments can not be justified, and worse still are nonviable under the existing high-density TFES provisions, and would also be nonviable at the proposed flat rate of $400 per TEU

3. That the scheme remains uncapped in order to encourage Tasmania to look at exporting it produce and raw materials into the future.