

## **Tasmanian Flour Mills Pty Ltd (TFM)**

### **Submission to –**

### **Productivity Commission Tasmanian Freight Subsidy Inquiry**

TFM is not competent to comment on macro and micro economic aspects of the Inquiries' Terms of Reference.

The information contained in this submission addresses TFS specific aspects, the market in which TFS trades and the likely future direction of freight tasks and costs.

Comments have been listed in the same order as the 'Productivity Commission Issues Paper' dated April 2006.

#### **2.1 The freight task**

Tasmanian firms do not have access to direct road and rail links between their mainland Australia suppliers and customers. Their options are restricted to sea and air services supplemented by road and rail transport from source to wharf/airport at either end of the transport chain.

While, from time to time, there have been changes to the quantities and options of sea and air services available, generally there have been no changes to the composition and modal requirements of the freight task facing TFM and its competitors in recent years and no change is expected in the future.

In the absence of subsidies for goods transported by sea, TFM would be unable to substantially increase its use of air freight as –

- The biggest majority of its raw materials is represented by bulk high quality wheat
- Its finished products are heavy to transport and result in freight costs that would make products non-competitive in price on mainland Australia.

## **2.2 Freight cost disadvantages**

### Magnitude

If subsidies were to be discontinued, bulk wheat shipment would become the only competitively priced option for wheat shipment. TFM would suffer due to –

- A reduction in competition in the wheat supplier market from all existing grain traders to the two traders capable of carrying costs associated with full shipment of bulk wheat; namely AWB and ABB.
- Consequent potential increases in tonnage prices and storage costs and thus increased stockholding costs and costs associated with increased cash requirements.

It is difficult to quantify total freight related cost disadvantages as a share of overall production costs. This is due to approximately 17% of production costs being purchased on an FIS basis and therefore no freight subsidy is claimed. However, of the balance of 83% of production costs, the freight related cost disadvantage before subsidies is estimated to be 16.3%. This percentage could be reasonably extrapolated over total production costs.

### Impacts

TFM's competitors can produce equivalent products through mainland Australia sited flour mills and not incur the estimated 16.3% freight cost disadvantage that TFM is faced with on wheat shipments. It takes approximately 1.25 tonnes of wheat to produce 1.00 tonne of flour. Our competitors are therefore faced with incurring only 80% of the freight costs facing TFM to land equivalent finished products into Tasmania. A disadvantage of 3.3% in production costs. Potentially a disadvantage that would have a 'liveable' impact on TFM output and employment. Investment would be expected to be substantially reduced as mainland production sites would be preferred. An estimated 5 job losses are likely to occur.

However, under current subsidy arrangements for Southbound commodities, TFES subsidies on finished product flour are available when products are supplied to Tasmanian manufacturers whose businesses are primarily wholesale based. If Southbound subsidies were to continue to be available on finished product flour they would apply to approximately 75% of TFM's customers. Under these circumstances, the removal of freight subsidies on bulk wheat would likely result in the closure of TFM and the loss of approximately 22 jobs.

There would also be a flow on effect to Tasmanian Stockfeed mills as these purchase the flour mill by-products to reduce the cost of their products. The cost of stockfeed produced in Tasmania could therefore be expected to increase to primary producers.

While TFM currently has limited sales to the mainland Australia market, the potential for increased mainland activity is possible with the support of TFES Northbound subsidies. TFM is currently undertaking market research regarding a specific product range that shows potential. If Northbound subsidies were to cease, TFM would be forced to exit mainland markets completely.

TFM cannot use Tasmanian grown wheat for flour production as the quality available is inappropriate in respect to protein, colour and yield levels for use in producing bread flour. Several Tasmanian grain trials have confirmed this. Therefore all wheat used by TFM must continue to be sourced from mainland Australia.

### **2.3 The effectiveness of current arrangements**

#### The magnitude of the benefits for Tasmania

Administration and procedural compliance costs associated with TFES and TWFS are minimal provided suppliers clearly specify freight components of their charges.

## Broader consequences

As previously stated TFM is forced to use mainland Australia sourced wheat due to the inappropriate quality of Tasmanian grown equivalents.

### **2.4 Alternatives to current arrangements**

#### How could current subsidy arrangements be improved

The relative benefits of subsidies available through TFES and TWFS should be the same.

That is, provided relative costs reflect the most cost efficient transport alternative, the subsidy available through either scheme should be the same and not capped.

The effect of a reduction of competition should also be considered.