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16<sup>th</sup> June, 2006

**Productivity Commission  
PO Box 80  
BELCONNEN, ACT 2616**

**ATTENTION: Mr Andrew Irwin**

Dear Sir

**Re: TASMANIAN FREIGHT SUBSIDY ARRANGEMENTS INQUIRY**

We have pleasure in taking the opportunity to provide the view of our company's understanding of the TFES and how it has assisted us, or otherwise, over the past 20 plus years that our company has been manufacturing from its Burnie based facility in Tasmania.

Below is a sample history of our previous recorded concerns. We highlight the communications we have had with both State and Federal Government officials regarding this scheme.

- February 2003 – Contact with Mr Vern Cazaly, Department of Investment, Trade and Development – Tasmania
- July 2003 – Correspondence with Senator Richard Colbeck, Federal Government
- August 2003 – Correspondence with Senator Richard Colbeck, Federal Government
- September 2003 - Correspondence with Senator Richard Colbeck, Federal Government
- October 2003 – Correspondence from The Hon. John Anderson, Deputy Prime Minister & Minister for Transport and Regional Services, Federal Government
- October 2003 – Senator Richard Colbeck, Federal Government

In all of the above we questioned the validation of the inflexibility of the system in not providing scope to include exports out of Australia via mainland ports.

We are not challenging the benefit it has played in allowing our company to expand in markets within Australia which has ultimately led to increased productivity for the Australian mining industry. Our concerns were further validated with the questionable clause 4.5 of the TFES which states the following –

“Goods which undergo a manufacturing process on the mainland prior to export are eligible. For this purpose a manufacturing process is defined as an industrial classification specified in Divisions A, B and C of the Australian and New Zealand standard industrial classification prepared by the Australian Bureau of Statistics.”

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For the purposes of this argument we refer to the first sentence.

During post discussions surrounding the 2003 correspondence it was highlighted to us that should our company embark on the manufacture of any component for our product on the mainland prior to it being shipped internationally, we could claim said rebate. However, as this clause is subject to conjecture we preferred not to pursue claims through 2004, 2005 and to date this year for products which have been exported, even though we have during this time embarked upon a sub-manufacturing process through our sister company, Caterpillar of Australia, based in Tullamarine, Victoria. The instructions we received from various Government departments were that we should pursue this rebate. We would suggest a review of this point alone as a basis of improvement in the scheme.

The review committee may also be interested to know that during 2005, 56% of our total production from our Burnie facilities were exported. This equates to 127 units, all of which went either RO/RO or multiple container shipments.

We were also advised in correspondence from the Deputy Prime Minister in October 2003 that a TFES review authority concluded in 1998 was that "such assistance would violate Australia's world trade obligations and would undoubtedly have a significant impact on shipping options from Tasmanian ports." We further questioned this in later correspondence, commenting on the fact there are limited export shipping options from Tasmanian ports, specifically for our increasing export program which forces us to ship from Burnie to Melbourne then on to overseas locations.

In regards to the exemption of imports covered under the TFES, many components required for the manufacturing of our machines are imported as they are unable to be sourced from mainland manufacturers. As these imports are not covered under the scheme, we are disadvantaged due to the additional freight haulage which would otherwise be included under the TFES if parts were of Australian origin. The scheme should be reviewed to include imports of this nature.

In summary, we welcome a review of the TFES on the basis that it provides sustainability and allows improved productivity and efficiency in competing with other Australian manufacturers on an equal basis. However, we do not agree that the program should penalise companies who are providing major export income to Australia. We are faced with absorbing the cost of said freight to mainland ports whereas if we were based on the mainland this cost along with a significant amount of other costs would be eliminated.

We would applaud the inclusion of the subsidy to include the freight component for exports and furthermore express our desire that any erosion to the remaining portion of the scheme not be considered.

Yours faithfully

**Caterpillar Underground Mining Pty Ltd**



Bob Calvert

**MARKETING MANAGER**

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