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Commissioner Mike Woods
Productivity Inquiry into Tasmanian Freight Equalisation
PO Box 80
BELCONNEN ACT 2616

Dear Commissioner

I enclose for you a submission I have written in response to a public meeting hosted on Flinders Island earlier this month.

I organised the meeting to seek feedback on the situation faced by businesses that export goods from the Bass Strait Island to mainland Australia. The forum was very well attended for a small island community with a wide cross-section of interested parties represented.

You will see from the case studies in this submission that businesses on the island face many and varied obstacles to exporting goods around Australia.

Freight equalisation is a very important issue for Flinders Island and I now look forward to your serious consideration of the issues the island community is faced with.

Yours sincerely



Michael Ferguson MP
Federal Member for Bass



Federal Member for Bass

A SUBMISSION TO THE PRODUCTIVITY
COMMISSION REVIEWING
CONTAINERISED AND BULK SHIPPING
BETWEEN THE AUSTRALIAN
MAINLAND AND TASMANIA

June 2006

Submission prepared by
MICHAEL FERGUSON MP
Federal Member for Bass

on behalf of

**Flinders Island exporting businesses
and importers of raw materials for
primary production**

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Introduction

This submission has been prepared in response to concerns raised at a community forum held at the Flinders Council chambers at Whitemark on 8 June 2006.

The meeting was attended by more than 40 people including exporters of produce and goods, fishing industry representatives, shop owners, food retailers, airline representatives, shipping owners, local councillors and other interested parties. The attendance was a significant proportion of the island's population which totals fewer than 900.

At the meeting it was made extremely apparent that difficulties associated with freight is a first-order issue that requires addressing.

The meeting heard that the current operational arrangements of the Tasmanian Freight Equalisation Scheme mean that exporters face great difficulty moving goods to mainland Australia – particularly exporters of fresh and live produce. This is due to the fact that in the absence of a regular northbound sea link to Victoria, exporters often need to first freight goods ***south*** to mainland Tasmania (at commercial rates) via both Bridport and Launceston – substantially reducing competitiveness and productivity of the affected industries. This has the direct result of diminished access to interstate markets.

This submission clearly demonstrates that exporters based on Flinders Island (and presumably other Bass Strait islands) face substantial obstacles and that their businesses are disadvantaged by the current TFES guidelines.

The recommendations were put forward by participants of that forum in a constructive exercise to address identified weaknesses.

Identified weaknesses in the current arrangements

The Tasmanian Freight Equalisation Scheme is designed to boost economic activity in Tasmania by alleviating the freight cost disadvantage which is incurred by shippers of certain non-bulk goods between Tasmania and mainland Australia.

Since its introduction 30 years ago there have been three major reviews, 1985, 1998 and the current review by the Productivity Commission. The Federal Government is undertaking this review to consider the extent of continuing benefits and to bring together views of the industry.

While the TFES has enabled Tasmanian businesses to compete in the national market, there continue to be some exporters who are in some ways, by circumstance, disadvantaged by the current operational arrangements.

Travelling North

Exporters who operate in and out of Flinders Island are particularly affected by the fact that subsidies apply to north-bound freight only.

Businesses that export to mainland Australia are usually required to first ship goods to mainland Tasmania for on-forwarding to northern markets.

As an example, Flinders Island Quality Meats freights goods from the island to Launceston (via Bridport) then from Launceston to Melbourne.

The business would like to see the implementation of a further freight subsidy from Flinders Island to mainland Tasmania to provide equalisation with other Tasmanian businesses. While such an initiative may be outside the gamut of the TFES, it is an issue which should be considered by the commission with a view to making recommendations to either the Tasmanian Government or the Australian Government.

Seafood exports

For some exporters the suggestion of shipping south in order to then go north is impractical because of both timing and cost issues. This is relevant to exporters of live and fresh chilled seafood.

Local island business LJ & CD Cox Fishing isn't able to ship fresh produce to Bridport and then on to Melbourne because of the need to keep produce fresh. For chilled fish products the window of time is a matter of days – too short to rely on southbound then northbound ship voyages to Melbourne.

For the Abalone and Crayfish industry exporting live product the window of time for goods to arrive at destination can be as little as 3 hours.

The two key problems for all the seafood exporters are that it's hard to get fish off the island because there is no regular freight service scheduling and the cost of airfreight.

On some occasions, airlines can't take the freight due to passenger movements so a charter flight can become the only option and *is expensive because of the need to fill the plane to minimise cost per unit. Market demand and weather factors can make this impossible.* A subsidy for air freight to Melbourne is seen as a way to address this cost issue and is particularly relevant to exporters of either live or fresh chilled seafood.

By sea

Sea freight operator Southern Shipping has indicated that it is looking to increase its freight movements and hopes to run a route from Victoria directly to Flinders Island twice a week. This journey is expected to take about 27 hours one way. While Southern Shipping is optimistic about being able to provide this service, it does still depend on the finalisation of commercial negotiations.

The intrastate costs to ship freight are set by the Tasmanian Government and adjusted annually by the Consumer Price Index. Southern Shipping receives an annual subsidy (commercial-in-confidence) from the Tasmanian Government and is in place until at least 2015.

By air

The capacity for air freight services to and from Flinders Island depends on the day-by-day number of unused passenger seats on RPT flights. Because of this fact, increasing numbers of tourists visiting the island benefit the RPT operator but puts further pressure on freight users.

As an example, Airlines of Tasmania carry fish freight on its passenger services at a stand by rate of \$1.08 a kilogram out of Flinders Island. The airline says that if it ran a freight service only, the charges would be around \$3 per kilogram.

Flinders Island Aviation can charge less for freight to and from Bridport as it has the Australia Post mail contract, while TGS Air Charter Services Pty Ltd charges more than \$2 per kilogram. CASA regulations prevent TGS carrying passengers unless the aircraft is chartered.

To freight goods off the island, a reliable option is to charter an aircraft. Therefore, while exporters only require a one-way journey, they need to pay for a round trip because there is limited opportunity for the charter operators to secure a backload for the aircraft.

The Flinders Island community would benefit from more reliable and frequent air and sea freight services to mainland Australia.

Recommendations

- That the commission recommend to the Australian Government that TFES eligibility be widened to include northbound air freight services from Bass Strait islands, in the absence of a regular sea freight service suitable for the export of perishable goods to mainland Australia.
- That the commission consider and make recommendations which would encourage the Tasmanian Government to take more responsibility for the provision of freight equalisation within the state of Tasmania, between Bass Strait islands and the Tasmanian mainland.
- That the commission consider how an intrastate freight assistance might best be instituted or improved for businesses wanting to export goods to mainland Australia but having no direct route north. In effect, two journeys would be considered one trip.
- That the commission consider and make recommendations which would secure more frequent and regular air and sea freight services between Flinders Island and mainland Australia.
- That the commission recommend to the Australian Government that an exemption from the 55% rule be allowed for bakeries operating on the Bass Strait islands.
- That the commission recommend to the Australian Government that either an additional two “wharf-to-wharf scaling factors” be included to assist the King and Flinders Island primary producers importing raw materials such as fertiliser or at least an additional one new scaling factor for the Bass Strait islands generally.

Appendix A – Case studies

The following is a review of verbal submission made by interested parties at the public meeting hosted by Michael Ferguson MP on 7 June 2006.

Island Quality Meats

Meat exporter

John Chapman from Island Quality Meats expressed concern that transporting perishable goods off Flinders Island is not practical by air. (Mr Chapman is charged \$2 per kilogram to freight meat to Melbourne by air)

In the past, the business used to freight by air, but now that it doesn't it has resulted in lost markets. Mr Chapman said that if there was a reliable air service to lift about a tonne of freight a week, then it would be much easier to operate his business.

A further concern is how the business has to "pay twice" for shipping goods to mainland Australia. Island Quality Meats freights goods from the island to Launceston, then from Launceston to Melbourne.

John Chapman would like a freight subsidy from Flinders Island to Launceston to make the business competitive with other Tasmanian businesses.

(See Appendix B)

Ancient Fishing Secrets

Cultural practices and muttonbirding

John Wells is concerned about high costs of business and how there is no relief with fuel prices.

He said that air costs have risen up to 30 per cent since 2004.

Mr Wells said that he has problems with shipping time frames to ship goods to mainland Australia and he is disadvantaged by double costs of freight from Flinders Island to Launceston to Melbourne.

(Refer to Mr Wells' own submission to the inquiry)

LJ & CD Cox Fishing

Commercial fishing

Carol Cox spoke to the meeting about how it is harder to get fish off the island now than it has been in the past because of freight service scheduling.

She said that it isn't an option for LJ & CD Cox Fishing to ship fresh produce to Bridport and then on to Melbourne.

Currently the business's fresh produce is flown out to Victoria for the Melbourne Fish Market. (There is no viable market for chilled fish in Tasmania) On some occasions, however, airlines can't take the freight due to passenger movements so a charter flight is the only other option.

Carol Cox would like to see a subsidy for air freight to Melbourne. A regular shipping departure wouldn't necessarily benefit the business due to the need to get chilled fish to Melbourne quickly.

Flinders Island Bakery

Bakery produce

Baker Mark Fenn told the meeting that the cost of flour is up to 30 per cent greater for his business in Whitemark than it would be if the business was based in centres like Bridport or Welshpool.

A standard industry price for a 25 kilogram bag of flour is approximately \$13.25 for white and \$20 for wholemeal and multigrain. Flinders Island Bakery has to pay about \$4 extra per 25kg bag for freight.

The viability of exporting is not an option as the bakery does not qualify for the TFES. The business used to qualify for the subsidy, but doesn't now because it doesn't sell 55 per cent or more of its sales to wholesalers.

Mr Fenn is concerned that big bakeries get freight subsidy, while smaller business like his miss out.

Roberts Ltd

Agribusiness

If there was a more regular interstate shipping service into and out of Flinders Island, Roberts said that it would certainly use it.

Currently 90 per cent of Roberts' goods are sourced from mainland Tasmania, so the company told the meeting that if there was some sort of subsidy from Flinders Island to mainland Tasmania, it would provide financial benefit for the wider island community.

Airlines of Tasmania*Passenger and freight transport*

The meeting heard that the airline's stand-by freight charges are \$1.08 a kilogram out of Flinders Island and \$0.90 a kilogram into the island from Launceston.

Passengers are this airline's priority. If it ran a dedicated freight service, then the airline would have to charge about \$3 a kilogram.

Flinders Island Aviation*Freight and charter aircraft*

This business is able to charge cheaper rates as it has the mail contract to and from Bridport, Tasmania and Flinders Island.

Airline proprietor Gordon Rorison said that a fundamental problem with aviation is the need for backloading: airlines can't afford to run empty planes. There must be a return load of passengers or freight to share the costs.

Killiecrankie Enterprises*Seafood*

Proprietor Margaret Wheatley addressed the meeting on the importance of a quick turnaround for live crayfish exports. In summer, the produce can not be in transit for more than three hours.

The business has to charter to keep the produce fresh for export.

TGS Air Charter Services Pty Ltd*Aircraft charters*

TGS does not carry passengers on a commercial basis as CASA won't allow it to carry regular passenger transport. It is able to carry passengers if the aircraft is chartered.

The company said that it has to charge more than \$2 a kilogram for freight otherwise it couldn't make money.

Incitector Pivot

Fertiliser agent

The company's Nick Saunders canvassed the idea of a wharf to wharf subsidy arrangement. Mr Saunders suggested that businesses would be more competitive if the scheme was based on the existing highway scheme currently operating from Tasmania to mainland Australia.

(See Appendix B)

Southern Shipping

Shipping transport

New owner Geoff Gabriel told the meeting that his company is looking to increase its freight movements.

Its hope is to run a route from Victoria directly to Flinders Island. Exporters at the meeting heard plans of a twice-weekly service to Geelong, which would take about 27 hours one way.

On the issue of intrastate freight rates, Mr Gabriel said that intrastate rates are set by the Tasmanian Government and adjusted annually by the Consumer Price Index.

Southern Shipping explained that its gets an annual subsidy from the state government which is paid half-yearly. The subsidy arrangement is in place for 10 years, having started in December 2005.

Northern Tasmania Development

Regional economic development group

CEO Andrew Eastick spoke about the need to build the business of regular passenger transport.

NTD wants to explore the idea of a regular forum to discuss the idea of freight costs.

Appendix B – Supporting Documents

Submission by Nick Saunders, Regional Business Manager – Tasmania Incitec Pivot

14/06/2006

Michael,

In reference to last weeks forum I wish to expand on the point of a variable Scaling factor for the calculation of “Scaled WW” for Flinders and King Island.

The scheme was initially set up so as not to disadvantage the Tasmanian Producers. It was deemed that in order for Producers to be economically sustainable.

Bass Strait needed to be regarded as part of the National Highway Scheme. The assistance payable was the difference between the wharf to wharf shipping cost and the actual cost to travel the distance as if it could be transported by road.

To get a basic understanding you must be able to work through the seven steps of the Freight assistance calculation. Step three is the calculation for a Scaled Wharf to Wharf rate.

Basically the scheme uses a scaling factor to calculate the amount of assistance payable to the Producer. The scheme assumes the shortest distance as the base for all shipping costs to be reimbursed.

The real facts are that these costs are not the same no matter which port product is shipped through. Therefore if shipped out of the South Tas the wharf to wharf rate is divided by a scaling factor of 1.3 to be compared to the shortest sea crossing from the North of Tasmania.

Therefore Tasmania only has two scaling factors for the scaling wharf calculation: Northern Tas and Southern Tas.

This calculation covers most applications, as there is good competition for shipping into Tas

- | | |
|-------------|------------------|
| • Burnie | Toll Shipping |
| • Devonport | Patrick Shipping |
| • Devonport | TT Line |
| • Bell Bay | ANL |

Where the assistance fails the Producer is in the case of the two Islands. Clearly the sea leg cost for servicing King and Flinders Island is not the same as the cost to mainland Tasmania.

The scaling factor should include four components for Tasmania and not the current two.

This should be broken down into four new categories

- Northern Tas
- Southern Tas
- King Island
- Flinders Island

It is a known fact that the shipping costs to King Island and Flinders Island are two times that of mainland Tasmania. To blanket the whole of Tasmania with the two scaling factors is assuming that all sea costs are equivalent through all ports.

In most cases there is only one operator to service these Islands with no competition on shipping rates.

Cost example

21 tonne container of grain showing reflective costs wharf to wharf Victoria to Devonport versus wharf to wharf Victoria to King Island.

Use King Island as the base as no regular provider for Flinders

Example 1

Victoria to Devonport = \$1294 per TEU or \$61.62 / Tonne

Assistance for Devonport = Maximum of \$855 per TEU
= \$1294 - \$855 = \$493 per TEU
= \$20.90 / Tonne

Example 2

Victoria to King Island = \$2097 per TEU or \$99.86 / Tonne

Assistance for King Island = Maximum of \$855 per TEU
= \$2097 - \$855 = \$1242 per TEU
= \$59.14 / Tonne

The example shows that a producer on King Island is disadvantaged by \$38.24 per tonne of grain brought in. This is also compounded again when the finished goods are shipped off.

In summary it is recommended that the inclusion of an additional two wharf to wharf scaling factors be included to assist the King and Flinders Island markets.

In particular this will create a level playing field for customers such as the Flinders island community to on-sell produce to Tasmanian mainland or Victoria.

As demand grows this should increase for a regular shipping provider to service Flinders Island directly from Victoria to Lady Barron.

The flow on benefits could also be measured in the timely servicing of market by the reduction in handling the amount moved via Lady Barron to Bridport then Bell bay to Victoria. This will improve the shelf life of the produce allowing new markets to be penetrated.

The other recommendation is for the assistance to be quarterly CPI index so as it maintains in line with the freight increases and diesel fuel surcharges.

Nick Saunders

Regional Business Manager Tas

Submission by Flinders Island Quality Meats

Cost comparison Flinders Island Quality Meats Pty Ltd - Flinders Island/Launceston

Sept 05				
<i>Diesel</i>	F I	L'ton	Difference	
	1.5569	1.4	0.1569	FIQM 6001=\$934.14/month extra \$94.14
				L'ton 6001=\$840
Petrol	14656	1.41	0.0556	FIQM 4001=\$586.24 extra \$22.24
Gas 45kg	\$147	\$89.95 Origin		Extra freight incl. \$47.54
<i>Aurora</i>				FIQM=\$3240.35
Bass Strt tariff	.5944	0.624		97days 15589 units
Meter charge	0.0582			Equivalent L'ton \$2819.78
Energy step1	0.2038	0.177 business		Extra \$420.57/3months extra \$140.19
Southern Ship.				
Product to Vic				
August 05	4027.18 kg			Cost FIQM \$8987.18
				Same kg from L'ton \$2246.75
				<i>Extra \$6740.43</i>
Telephone				

Same costs from Flinders Island (running same business in L'ton) costs extra \$6997 per month

Submission by Carol Cox of LJ & CD Cox Fishing

MAJOR ISSUES FOR MOVING PERISHABLE GOODS OFF FLINDERS ISLAND.

1. OPTIONS/AVAILABILITY OF AIRFREIGHT SPACE TO VICTORIA IS LIMITED AND VERY RESTRICTIVE ON BUSINESS'S ABILITY TO REMAIN VIABLE 2. PRICE - 6.5 - 10.6 TIMES (OR 645% - 1060%) MORE COSTLY TO FREIGHT FRESH FISH ACROSS BASS STRAIT FROM FLINDERS ISLAND THAN FROM LAUNCESTON.

The fishing industry on Flinders Island has long been disadvantaged by having no access to the Bass Strait Freight Subsidy due to there being no usable shipping service between Flinders Island and Victoria. We contend that with no sea freight option available for perishable, time sensitive freight such as fresh fish the Bass Strait Freight Equalization Subsidy should apply to such air freight. We also contend that consideration should be given to applying a subsidy rate that would make some impact on the freight rates being paid.

The economic viability of the fishing industry is being tested due to the extreme difficulty and cost of moving fresh produce to Victoria in a time sensitive fashion.

The writer and participants in this submission wish to make it known that they have no issues with the companies mentioned anywhere herein, the problem is a combined one of lack of space and exponentially rising freight costs due in part to rising fuel costs. We believe

the companies mentioned provide the best service they can whilst protecting their own economic viability.

We also accept that Airlines of Tasmania as the RPT service is first and foremost a passenger service. We would hope though that any changes to the type of aircraft used would take into consideration the need and opportunity to provide more freight space off the island.

At the moment the only way to move such a small amount of fish is per the RPT operator. Room has been tight and impossible to get at peak tourist times and with the tourism industry putting many resources at growing their industry the availability of space is not likely to improve.

The tight restrictions on Air charter operators selling individual seats has impacted on us severely. In previous times charter operators have topped up chartered passenger flights with freight (within the operating conditions of the aircraft) and visa versa giving more flexibility to freight movements.

Now charter operators are requiring freight for the full capacity of the aircraft impacting negatively on both the volume, timeliness and economic movement of fish.

The subsidy should apply only to airfreight of fresh perishable produce being freighted direct by air from Flinders Island to Victoria.

The present rate of \$40.70 per tonne or \$28.50 cubic metre, translates to 4-5 cents per Kg that would make little or no impact on the present situation. The amount of subsidy could be calculated similar to presently using the differential between road costs and airfreight costs. In the overall subsidy scheme the amount paid out to Furneaux group businesses would be minuscule but would mean a great deal to the viability of the fresh food industry here.

Prices paid for fish in Tasmania are low and most garfish sold in Tasmania is then on sold by the factory to the Melbourne fishmarket