



**Tasmanian Farmers & Graziers Association
KING ISLAND BRANCH**

Submission to the Australian Government Productivity Commission

Topic:- Tasmanian Freight Subsidy Arrangements 2006

Introduction

King Island is a major off shore island of Tasmania situated in the middle of Bass Strait. The economy is rural based focusing on the pastoral industries of beef and dairy each serviced by processing businesses.

Transport of goods, exports and imports, is by sea and therefore an essential service, a major cost and has served unique logistics issues.

The Tasmanian Freight Equalisation Scheme (TFES) is very important to King Island's economy and we support its retention

TFES Objectives

The Commission would be well aware that the two main objectives :

- (a) a scheme to alleviate the freight cost disadvantage of shipping across Bass Strait;
- (b) DOTARS more fundamental regional development goal provide Tasmanian industries with EQUAL opportunities to compete in mainland markets.

We therefore request that the Commission address the unique issues associated with being an island in the middle of Bass Strait. These unique issues are :

- (a) King Island freight rates being significantly greater than Tasmanian mainland freight rates;
- (b) Empty returns of containers and trailers
- (c) Intra-state sea leg;
- (d) Bulk shipments of fuel and fertilisers.

Background

King Island's rural based economy supports approx 180 commercial beef and dairy operations supported by an export abattoirs and cheese factory and associated services eg hospital, school, airlines etc. These industries provide significant employment opportunities and thus a viable rural economy.

King Island's beef industry is 20% of Tasmanian beef industry and generates 6% of the States beef exports. King Island cheeses are widely recognised throughout Australia and overseas.

The two major costs facing these industries are :

- (1) Fertiliser
- (2) Livestock

Shipping Service

The King Island Shipping Service is an expensive weekly Sunday bus stop service. The route is Melbourne–Devonport–King Island–Melbourne moving approx 80 containers in and out each week.

- (1) Melbourne–King Island via Devonport attracts TFES and is currently treated as one leg;
- (2) King Island–Melbourne (285kms) attracts TFES;
- (3) Devonport–King Island **does not** attract TFES yet it is shipping across Bass Strait. The service may miss 2 to 3 sailings per year due to weather, repairs maintenance etc. Thus causing larger inventories being held by industries than would normally be the case. Back loading in containers is rare, turn around times limit opportunities and adds significantly to freight costs.

Specific Issues

1. Fertilisers

Fertilisers are a significant production cost to the pastoral industry. Fertilisers are the basis of a sustainable profitable pastoral industry allowing increased stocking rates to produce greater kilograms of beef/milk per hectare to driving down the cost of production.

Freight costs are significant due to no back-loading of containers ie; empty returns, tonnage differentials due to handling facilities and the ability to negotiate rates for volume compared to mainland Tasmanian/Victorian shipping. There is no TFES for bulk shipments and “bulk shipments” to King Island is not the accepted tonnage “bulk” to mainland ports due to infra-structure limits; eg

- (a) King Island Wharfage rates per container is \$145 compared to Burnie \$116 per container.

(b)

Journey	Cost per container	Tonne Capacity
Victoria-Tasmania	\$ 1,240	23-28t max
Victoria-King Island	\$ 2,407	24t max

(c) Empty returns are a cost and no TFES is available

(d) Lack of discount rates due to limited volume and lack of competition

2 Livestock

The ability to move livestock at competitive rates is limited because logistics of loading/unloading trailers due to “once a week” service and turn around times, loading density limits for animal welfare issues, holding trailer/containers on the Island for a week standing idle. All add significantly to costs. The intra state leg is expensive compared to mainland Tasmania–Victoria

Journey	Gross cost	Less TFES	Net cost
Tasmania-Victoria	\$4,270	\$1,710	\$2,560
King Island-Victoria	\$5,075	\$1,710	\$3,365
Extra \$805 net cost for livestock from King Island			
Devonport-King Island	\$3,850	N/A	\$3,850

3. A fixed rate subsidy for containerised freight is not acceptable **UNLESS** the unique circumstance of shipping to and from King Island is taken into consideration.

eg Tonnage differentials due to infra-structure
Empty returns
Intra-State Shipping
Inventory Costs
Once a week service etc

CONCLUSION

We welcome the opportunity to present a paper to the review of TFES and urge the commission to :-

- (1) Retain the scheme
- (2) Consider seriously the unique circumstances of the King Island Shipping service and freight costs

We remind the Commission that our document encourages a wider or broader view of TFES as stated by the DOTARS more fundamental regional development goal p7 of the issues paper **AND** the specific reference on p17 to address matters in relation to freight movements to and from the major offshore islands- in this case King Island