



23 June 2006

VIA EMAIL: tasfreight@pc.gov.au

Tasmanian Freight Subsidy Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Sir/Madam

Auspine Tasmania Operates as a fully contained Business Unit within Tasmania and is part of Auspine Limited ('Auspine'), one of Australia's largest fully integrated softwood companies. Auspine's unique position allows us to see first hand the difficulties Tasmanian industry experiences competing with large mainland competitors.

Auspine is Tasmanian's largest sawmilling operation and employs 300 full time employees across two saw mill sites processing 385,000 tonnes of softwood saw logs. From this 385,000 tonnes of log Auspine produces approximately 140,000 cubic metres of timber products, of which approximately 43%(60,000 cubic metres) is sold into the Tasmanian market and 57% (80,000 cubic metres) to mainland states for which the only option is sea freight. Auspine would prefer to sell all its output into Tasmania but that market is not large enough to permit this.

Some of the issues faced with our Tasmanian operations are as follows:

- Weights are compromised due to the special containers required to ship our products.
- Customer service is reduced to customers due to the time required for sea going freight.
- Shipping equipment constraints mean that customers may be required to wait longer for freight as products may have to wait until containers can be filled, or containers have to be sent out without maximizing volume.

With the issues raised above, it is noteworthy of the fact that a number of additional restraints apply to businesses operating out of Tasmania. While I cannot speak on behalf of other businesses, some generic inherent problems exist which, to differing extent, would affect the viability of organizations within Tasmania.

These are as follows:

- A number of products must first be brought into Tasmania before processing can commence, which adds additional cost for Tasmanian businesses.
- Economy to scale compared to larger Mainland companies in many cases is simply not achievable within Tasmania.

While the TFES was established to allow Tasmanian businesses to compete on an equitable basis with mainland companies, today the TFES supplies much more than just this outcome. Any attempt to extend the TFES to southbound freight ignores the intent of the scheme, namely to equalise the freight differential faced by Tasmanian businesses exporting to mainland Australia, and enable them to compete on an equal footing.

Following we outline an example of why TFES should not only be retained but that additional assistance should be offered.

The distance between our Scottsdale sawmills and our Melbourne customers is approximately 385km. The freight cost to Auspine Tasmania to move an average semi trailer load via road/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. This equates to approximately \$557,000 minimum per annum which our Tasmanian business must find before we can compete on an equitable basis within the mainland States.

Removal of the TFES would render our Tasmanian Business unviable to operate within any mainland State and force a down sizing of operations within Tasmania to align operations with Tasmanian requirements only.

We note with interest a submission from King Island which certainly magnifies the issues with the sea freight due to isolation. If the scheme is truly an equalisation scheme, we fail to see why smaller Islands should be paying any more than Tasmania for freight to Melbourne. King Island and Flinders Island both face greater problems with economies of scale, even more so than Tasmania, and should therefore have the TFES opened up to both Tasmanian and Mainland wharfs, as without it these very small communities are restricted with sales outcomes. Tasmanian businesses such as Auspine, which seek to source product from these Islands, are in fact faced with a freight inequity scheme rather than a freight equalisation scheme.



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The current TFES scheme is well understood and easy to administer and goes most of the way towards equalizing the freight differential experienced by exporting to mainland Australia.

We have also applied considerable time and cost to develop our inventory management system (Timber Smart) to allow our system to administer the TFES process in an efficient and accurate manner. If there are deficiencies in the scheme or loop holes being exploited by some, by all means remove these. However, this should not involve removing or substantially scaling down the TFES as this will clearly have a detrimental impact on Tasmanian businesses.

Yours sincerely

Geoff Campbell
Manager – Auspine Tasmania