



## **Elders Limited Submission**

### **Tasmanian Freight Subsidy Arrangements**

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# **PUBLIC SUBMISSION**

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## Executive summary

The Tasmanian Freight Equalisation Scheme (TFES) is important to Elders Limited (Elders) and its clients as it assists Elders clients to meet the sea freight disadvantage associated with trading across Bass Strait and specifically allows operation of their Agricultural systems on a more equal input and marketing structure to mainland primary producers.

The current scheme reduces the disadvantage Tasmanian primary produces have due to the sea freight component applicable for transporting into and outside of the state of Tasmania. If the TFES is removed or scaled back in any form the impact will reduce the primary producers gross margins in wool, livestock and cropping. Any down turn in an already low profits system for the farmer in turn will impact Elders Limited profitability as a agribusiness service provider operating in the Tasmanian agricultural landscape.

The TFES has and will continue to have a significant bearing and importance on Elders Limited investment in the agricultural sector in Tasmania. Elders has attempted to profile in this submission the impact of the TFES as it applies to the Wool, Livestock, Grain and Merchandise divisions of our business and our clients in these Tasmanian markets.

Bass Strait shipping is almost exclusively provided by ships operating under Australian flag and as a result they are subject to the requirements, work restrictions and associated cost structures common with vessels operated by Australian crews under the cabotage provisions of the Navigation Act. For the purposes of this submission, Elders has assumed that the Productivity Commission will have sufficient information already available to it, to assess the international competitiveness of the Bass Strait shipping services provided by the limited number of freight providers.

In addition to the issues associated with cabotage, the industry structure of Bass Strait shipping is also of concern to users of these shipping services. Patrick Shipping and Toll Tasmania dominate the available shipping options both in frequency, convenience of service and available shipping capacity. Following the Australian Competition and Consumer Commission (ACCC) approval of the acquisition of the Patrick business by Toll, undertakings were given by Toll to divest the Bass Strait shipping operations. The impact of these structural changes has already been made obvious to users of the service.

As a result, Elders recommends that:

- The operation of the TFES be enhanced by annual reviews of the assistance provided to make sure that it remains in step with the operating environment that shipping users are presented with. This would be consistent with the current Ministerial Directions for the operation of the TFES which have not been implemented.
- The parameter recognising the negotiating power of industry in relation to shipping should be revised upwards to 85% to reflect the diminished negotiating position of industry following the recent developments with Toll and Patrick.
- That the annual adjustment mechanism is clearly communicated and structured so that the process provides sufficient safeguards to ensure industry consultation.
- That the Productivity Commission make a recommendation to the Australian Competition and Consumer Commission (ACCC) that it maintain a monitoring position on costs of Bass Strait freight and associated intermodal freight costs to ensure that there is no abuse of market power.

## Elders Limited Business Overview

Elders Limited operates in Tasmania as a full service agribusiness offering Merchandise, Grain, Livestock, Wool, Real Estate, Insurance and Finance to primary producers. The company services the Tasmanian market through 18 retail branches located in rural Tasmania, King Island and Flinders Island. Elders Limited employs over 160 staff at these locations to service our rural client base.

The significance of the Tasmanian agricultural sector to the success of the Tasmanian economy can be demonstrated through its;

- Direct farm-gate contribution of agriculture is 5% of gross state product and 6% of state employment (1)
- Agriculture and its related sectors (beyond the farm-gate) contribute 16% of gross state products and 20% of state employment (1)
- The value chain for food production (including seafood) which demonstrates the downstream benefits of agriculture in Tasmania includes:
  - Farm-gate and beach-point value \$944million
  - Packed or processed value \$2,100million
  - Total food revenue (net of imports) \$2,980million (2)

1 Source: ABS Australian National Accounts 2003-2004 & ABS Employment by industry 2004-05

2 Source: DPIWE, Tasmanian Regions, March 2005

Elders support primary producers in this operating landscape. Elders is currently one of the largest agribusiness service provider in the Tasmanian market with a 18% share of Livestock, 19% Wool, 32% Merchandise, 5% Real Estate, < 2% Finance and < 1 % Insurance. Elders is therefore a significant representative for primary producers in Tasmania.

This report focuses on Elders activities in the Merchandise, Wool and Livestock areas of the business where the TFES scheme is used by the business to support the efficient operations and market competitiveness of our clients. The operation of the TFES scheme, underpins the market access options available for our clients in particular allowing them to access to the larger and more efficient mainland markets for grain, wool and livestock.

## Elders approach to preparing this submission to the Productivity Commission

Elders engaged the services of Manfred Ruzsicska as an adviser in this specialist area of the business involving the operation of the TFES scheme.

We undertook a business workshop in late May, chaired by Manfred, in which we reviewed the TFES scheme including the strategic and operational objectives of the scheme and its current operations. We then reviewed all of the areas of our business that are involved in the use of the TFES scheme as a means of freight equalisation for our clients.

Given the resource constraints within our business, we decided the most achievable approach available to us was to prepare a submission to the Productivity Commission that provided information on:

- An overview of our operations and the freight tasks involved
- The effectiveness of the current TFES allowances in meeting the operational costs of transport that are incurred by primary producers in both sourcing inputs into their on farm production and selling their production into mainland markets.
- Highlight some of the deficiencies of the current scheme that should be considered by the Productivity Commission in its review.

## **Merchandise**

### **Grain and Bulk Stockfeed**

The majority of bulk grain and bulk stockfeed brought across Bass Strait into Tasmania is transported in 20 foot containers (TEU's).

The current TFES allowance of \$100 for fixed intermodal costs does not adequately address the increased costs associated with movement of freight across Bass Strait.

In the case of a typical shipment of 24 metric tonnes of Grain in a 20 foot shipping container, the actual fixed intermodal costs associated with having to transfer grain from a B double truck (bulk style truck capable of carrying 40 metric tonnes) to containers is greater than what is allowed for under the scheme

When Comparing the sea leg only (420 km) to the land based transport of a similar distance of 420 km the cost per MT of grain there is a shortfall in the intermodal allocation of the scheme, although the total overall TFES assistance (including intermodal allocations) for Bulk Grain and Stockfeed does address the overall freight disadvantage of the Bass Strait sea component on a Wharf to Wharf basis.

On a Door to Door basis over 500 km and the land based comparison over 500 km as the distance travelled increases the assistance equalises the same distance travel on a land based comparison.

As a result the difference in the overall cost of transport between the sea leg and the land based comparison is reduced as the distance travelled on any road component is increased.

## **Merchandise**

### **Agricultural inputs and farm merchandise**

For Elders, the majority of the merchandise products sold through our retail branches are sourced from the mainland and transported by Bass Strait shipping to Tasmania. The purchase quantities are typically less than full truck load lots (FTL) and less than a full container (LCL).

As a result, products are delivered to the Melbourne consolidation points by local deliveries from suppliers. The Bass Strait shipping operator consolidates the product deliveries into containers of mixed products for shipment across Bass Strait. At the Tasmanian end of the journey, containers are collected from the shipping operators Burnie or Devonport consolidation point and transported by road to our distribution centre in Launceston. Here the products are unloaded from the container and distributed to their final destination, our Tasmanian retail network. The empty container is returned to the shipping operator in Burnie or Devonport using road freight and we pay for this service

Compared to our mainland operations, the additional steps include the delivery to the departure consolidation point, containerisation, Bass Strait transport, delivery from Burnie or Devonport to our Launceston distribution centre and the return of the empty container.

Products are purchased by Elders to restock the merchandise inventory at the respective stores we operate in Tasmania. At the time of shipping the products to Tasmania, the identity of the final buyer (the primary producer) is generally not known to Elders, therefore this makes it difficult to make a claim on behalf of those clients. Many of the shipments we receive also contain multiple products in the consignment and it is very difficult for us as a business to allocate the freight to the appropriate products and then provide the client with the appropriately detailed invoicing to assist them in making a claim for the TFES assistance on their farm inputs.

Our suggestion for the scheme would be the development of an optional flat-rate assistance on a volume basis for items that are shipped into Tasmania in containers but on arrival split up and distributed to a number of different parties or entities. This would need to be determined in a manner that would ensure an equitable level of assistance for these shippers.

Most of Merchandise' farm inputs are brought into Tasmania in containers, but in nearly every case the whole contents of the container shipment is not sold to just one individual client. Elders as an agent for the scheme; is required to demonstrate and state on each individual sales invoice the amount of TFES allocated to each individual item of a shipment.

## **Wool**

### **Wool Overview**

The Tasmanian Freight Equalisation Scheme allows Elders wool clients to have the cost of freight across Bass Strait assisted. This allows Tasmanian wool growers to have similar access to the major Melbourne wool storage and selling centres as mainland primary producers.

This in turn allows Elders Limited to offer competition in the Tasmanian wool broking market with the option to store and sell Tasmanian grower's wool in the major wool selling centre in Melbourne, Australia. The TFES offers Tasmanian growers the opportunity to market their wool in the same fashion as mainland wool growers therefore operating on a level playing field in this larger market.

To support this development, Elders has focussed on the delivery of wool by truck (Tautliner) into the major wool warehousing and sales locations in Melbourne. To do this we utilise Tautliner trailers transporting direct from farm or wool aggregation points in Tasmania to the Melbourne wool stores. Typically each truck is able to carry 130 bales of wool. We use the roll on roll off shipping available on Bass Strait and the truck is driven straight on and off at either side of Bass Strait. The impact of this is to drive logistics efficiency and reduce where practical the associated intermodal costs of containerisation. As a business, we consider this the most efficient supply chain model available to the Tasmanian woolgrower.

In addition to providing competition to the Tasmanian wool broking market, the TFES allows for Tasmanian wool producers to pay a comparable freight rate for their transportation costs of wool grown in the mainland of Australia delivering wool into buying centres. Clearly this also provides the woolgrower with the additional benefit of access to the larger and more competitive mainland wool market.

### **The operation of the TFES for Tasmanian wool producers**

As an agent for the TFES scheme, Elders Limited claims the TFES component of the freight costs on behalf of our clients and then passes the assistance back to the client

The method of calculating the TFES has an effect on the amount of assistance that can be claimed on behalf of the primary producer. There is a difference between the Door to Door methods compared to the Wharf to wharf calculation method.

Comparing the sea leg only (420 km) to the land based transport of 420 km the cost per bale. The total TFES assistance for Wool does address the overall freight disadvantage of the Bass Strait sea component.

Comparing a Door to Door basis over 500 km and the land based comparison (over 500 km) as the distance travelled increases, the assistance equalises the same distance travel on a land based comparison.

As a result the difference in the overall cost of transport between the sea leg and the land based comparison is reduced as the distance travelled on any road component is increased.

## Livestock

### Livestock Overview

The freight equalization scheme is important to Elders Livestock division and our clients because it rebates \$1710 per trailer or \$855 for a container on the sea leg portion back to the party paying the freight for the transport of livestock between Tasmania and mainland Australia. By providing this assistance, the scheme places Tasmanian livestock producers on a comparative footing with their mainland counterparts by reducing their disadvantages in terms of marketing options and freight costs over Bass Strait.

Furthermore, the operation of the TFES has facilitated more economical movement of stud stock to Tasmania thus broadening the genetic pool of the State's livestock and providing long term productivity gains for the livestock industry in Tasmania.

The free movement of livestock between the mainland and Tasmania has clearly increased since the inception of TFES this is demonstrated in Figure 3.1.

**Figure 3.1 Livestock Movements – North and South Bound**

| Financial Year | Destination - Mainland Australia |        |
|----------------|----------------------------------|--------|
|                | Sheep                            | Cattle |
| 86/87          | 145,440                          | 14,196 |
| 87/88          | 102,629                          | 26,977 |
| 88/89          | 21,859                           | 21,303 |
| 89/90          | 43,532                           | 19,212 |
| 90/91          | 32,366                           | 22,341 |
| 91/92          | 45,142                           | 24,068 |
| 92/93          | 96,911                           | 22,977 |
| 93/94          | 131,449                          | 16,002 |
| 94/95          | 229,114                          | 13,899 |
| 95/96          | 211,476                          | 14,121 |
| 96/97          | 159,741                          | 17,613 |
| 97/98          | 139,133                          | 19,251 |
| 98/99          | 91,427                           | 43,102 |
| 99/00          | 157,188                          | 70,448 |
| 00/01          | 84,881                           | 29,863 |
| 2001/2002      | 113,499                          | 23,934 |
| 2002/2003      | 166,284                          | 29,882 |
| 2003/2004      | 339,155                          | 74,387 |
| 2004/2005      | 331,325                          | 72,317 |
| 2005/2006      | N/A                              | N/A    |

Figures are compiled from actual claims made through TFES (as at 13/12/05)



## The operation of the TFES for Livestock movements

The current TFES provides more economical movement of livestock allowing Elders and its livestock clients to take advantage of seasonal opportunities to maximize livestock production within the state. This approach is vital for the ongoing viability of the state's livestock sector.

Operationally, it does not address all the increased intermodal costs associated with the movement of livestock across Bass Strait. Some of the intermodal costs incurred by Bass Strait shippers that are not incurred by shippers engaged in land based interstate trade are listed below;

- Dwell Time- Two hours for loading and four hours for unloading. If the shipping Company enforces a marine audit and asks the driver to stay with the vehicle during the dwell time, the full cost is \$65 per hour.
- Livestock Agistment Costs after shipping- \$1 per head per day for cattle and 15c per sheep per day (a recovery period for the additional stress of sea transportation experienced by the livestock).
- Additional equipment costs- \$60 per trip per trailer. (As supplied by Pages Transport)
- Damage Costs- \$10 per trailer over and above land only transfer.
- Insurance- Marine Insurance for one transport company of \$8,000 p.a. plus transit insurance of \$110 per trailer per trip.
- Livestock containers and trailers (which are specialised transport trailers) generally return empty to Tasmania. As a result, the costs charged to clients are generally based on one way trade and include the costs associated with the second freight movement to return the empty trailer to Tasmania. Producers using Bass Strait shipping face an additional seafreight cost disadvantage that their mainland counterparts do not. Accordingly, it is appropriate the TFES assistance be paid against the sea freight component of the voyage.
- Other costs incurred by the Livestock carrier- Approx \$5,000 per annum for each carrier in salaries and accommodation expenses to provide relief drivers on both sides of Bass Strait. These costs are translated into the charges levied by livestock carriers servicing the Tasmanian market.

As can be seen from Figure 3.2 below the total TFES assistance for Livestock does not address the overall freight disadvantage of the Bass Strait sea component, after the TFES assistance is provided the cost of freight Wharf to Wharf equates to \$49 per head compared to a land based comparison of only \$38 per head. The current TFES assistance allocated to Livestock movements across Brass Strait leaves primary producers in Tasmanian with an access trading disadvantage to mainland producers of a similar distance to selling markets. The unique intermodal costs associated with the sea component demonstrated in Figure 3.2 and explained in detail above greatly increase the cost of moving Livestock in and out of Tasmanian.

From the Door to Door over 500 km (\$59 per cow) and the land based comparison over 500 km (\$48 per cow) example in Figure 3.2 (Difference \$11) it can be clearly seen that because the amount of the TFES is the same for Door to Door as to Wharf to Wharf rate in the example, the cost of internal road travel in Tasmania is more costly than that of same travel in Victoria, because of the higher cost of internal road travel in Tasmanian (this can be due to the specialised transport vehicles used as a result of sea leg). As the distance travelled increases the assistance equalises the same distance travel on a land based comparison, compared to the difference (difference \$8) to that to the Wharf to Wharf of 420km comparison to land base travel of 420km.

As a result the difference in the overall cost of transport between the sea leg and the land based comparison is increased if the internal Tasmania road distance is increased (making the trip more costly in comparison to the land only in Victoria). But if the road transport distance component in Victoria is increased the difference between Sea leg Tasmanian example and the land based comparison remains the same.

As in the example provided for wool, Elders is working with its clients and transport providers to drive for the most efficient supply chain operations possible. The example we have provided is for a trailer

of livestock transported across Bass Strait. The aim of this transport mode is to reduce as much as possible the intermodal costs associated with changing between transport modes (ie from trucks to containers). However, in the case of livestock, the additional waiting times for shipment, the costs associated with the return of empty trailers and the costs of agistment related to resting livestock after the stress of the sea voyage contribute additional costs not born by mainland producers. It is our view, that the intermodal components of livestock movement may need to be treated differently by the Commission from the intermodal components of other freight movements. This is necessary to accurately reflect the varying nature of the intermodal costs associated with livestock movement

**Figure 3.2 Livestock Comparison – One Trailer (42 Cows)**

| <b>One Trailer (42 cows)</b>  | <b>Wharf to Wharf<br/>Devonport, TAS to<br/>Melbourne 420km</b> | <b>Road Only<br/>Hay, NSW to<br/>Melbourne 420km</b> | <b>Door to Door*<br/>Carrick, TAS to<br/>Melbourne<br/>500km</b> | <b>Road Only Hay,<br/>NSW to Geelong<br/>500km</b> |
|---|---|--|--|--|
| Sea Freight Charge  | \$2,900   | N/A  | \$2,900  | N/A  |
| Road Charge   | \$0   | \$1,620  | \$450  | \$1,929  |
| Trailer Wash  | \$100   | \$100  | \$100  | \$100  |
| Intermodal cost   | \$750   | \$0  | \$750  | \$0  |
| <b>Total Cost<sup>^</sup></b>   | <b>\$3,750</b>  | <b>\$1,720</b>                                       | <b>\$4,200</b>   | <b>\$2,029</b>                                     |
| Less TFES*  | \$1,710   | N/A  | \$1,710  | N/A  |
| <b>Total Cost after TFES</b>  | <b>\$2,040</b>  | <b>\$1,720</b>                                       | <b>\$2,490</b>   | <b>\$2,029</b>                                     |
| <b>Av. Freight Cost per head</b>  | <b>\$49</b>   | <b>\$41</b>  | <b>\$59</b>  | <b>\$48</b>  |
| <b>Difference between Tasmanian<br/>interstate travel and land based<br/>equivalent.</b>            | <b>+\$8</b>   |  | <b>+\$11</b>   |  |
| * TFES includes \$200 per trailer intermodal subsidy  |   |  |  |  |
| <sup>^</sup> As supplied by an interstate livestock carrier. Costs broken down and qualified above. |   |  |  |  |

\*This example clearly illustrates that the current TFES does not fully compensate shippers for the disadvantage of transporting livestock across Bass Strait compared with mainland counterparts dealing with land only over the same distance.

## Other issues with the TFES and the Tasmanian Livestock Industry

One disadvantage of current TFES is where cattle that are bred and raised in Tasmania and are suitable for the live export trade. This trade typically departs from Victorian ports and livestock shipped from Tasmania are not currently eligible for the TFES freight assistance. This disadvantages Tasmanian based producers and goes against the “spirit” of TFES which was established to, in effect, transfer Bass Strait from a stretch of ocean to a federal highway and place Tasmanian producers on a more equal footing to their mainland counterparts.

As an example, the following fairly represents the current situation.

### Mainland producer

- 60 Friesian Heifers transported by road from Bairnsdale to Portland (Quarantine and departure port) a distance of approx 645km would cost \$2300 or \$38.70 per head.

### Tasmanian producer

- 60 Friesian Heifers (a trailer) transported from Devonport to Portland a total distance of a 420km sea leg and a further 365 km road leg, costs the Tasmanian producer \$70 per head.

If he/she were eligible for the TFES on this transport movement, this amount would be reduced to \$41.70, which still equates to more freight per head than his mainland counterparts traveling a

similar distance via land but does begin to address the current inequalities in this important area of trade.

An overview of the administration for claiming the TFES rebate on behalf of Elders livestock producers is detailed below;

- As a Freight Equalisation Agent, Elders can claim freight equalisation on behalf of their clients provided the goods being claimed were produced in Tasmania and are consigned to a person/s and/or business whose main business and source of income is derived from agriculture, forestry and fishing industries. (ie registered for GST)
- Freight Equalisation cannot be claimed for animals direct for export. (Refer to our point above on the impact of this on the live export trade)
- Freight Equalisation is claimable on the sea-freight section only (The TFES prefer, but it is not mandatory that road freight is included in the freight invoice as this helps to prove the origin and destination.)
- For freight equalisation audit purposes the freight equalisation claim must be shown in full (ie Elders cannot deduct part of the freight equalisation as a collection fee for processing documents). ie \$1710 per trailer or \$855 per container.

The current procedures work well for the livestock area of the Elders business because the trade is generally conducted in full truckload lots and the administration of the scheme is facilitated by these larger volume lots. Elders operates as an agent for the scheme, administering claims on behalf of our clients. To do this we have one full time equivalent (FTE) staff member dedicated to the task.

The TFES scheme makes the rebate payable to the Elders client and as such we are not able to make a deduction from the rebate for the service of submitting the claim on their behalf. In the future, we may have to review the cost recovery of the provision of this service to clients. However, in the immediate future, we would prefer that the Productivity Commission investigate the efficiency of the current paperwork procedures associated with the operation of the scheme and look for possible improvements with streamlining and on-line lodgements of claims.

It is our experience the current operation of the TFES rebate through Centrelink works very well. Elders have found the staff at Centrelink to be efficient and always very helpful. A representative from Centrelink meets with our TFES administrator and conducts random audits on the rebates claimed during the year

## **Bass Strait shipping operations and industry structure**

Bass Strait shipping has two structural issues associated with the trade that we feel we should bring to the attention of the Productivity Commission in this review.

- The Bass Strait trade is serviced by a limited number of shipping providers and the level of competition between these operators is also limited. This is likely to continue to be an issue for companies and individuals using Bass Strait shipping in the light of the recent acquisition of Patrick Shipping by Toll.
- The Navigation Act requires ships engaged in the coasting trade, such as across Bass Strait, to be Australian flagged or to be granted specific exemptions from the licensing requirements in the form of single or continuous voyage permits (SVPs or CVPs). The vessels operating the Bass Strait trade operate under an Australian flag and are subject to the cabotage provisions as set out in Part VI of the Act.

Bass Strait shipping is provided by ships operating under Australian flag and as a result they are subject to the requirements, work restrictions and associated cost structures common with vessels operated by Australian crews under the cabotage requirements of Australian Law. For the purposes of this submission, Elders has assumed that the Productivity Commission will have sufficient information already available to it, to assess the international competitiveness of the Bass Strait shipping services provided by the limited number of freight providers.

In addition to the issues associated with cabotage, the industry structure of Bass Strait shipping is also of concern to users of these shipping services. Patrick Shipping and Toll Tasmania dominate the available shipping options both in frequency, convenience of service and available shipping capacity. Following the Australian Competition and Consumer Commission (ACCC) approval of the acquisition of the Patrick business by Toll, undertakings were given by Toll to divest the Bass Strait shipping operations. This process is underway at present and as such the outcome is not yet clear. Given the age of the two vessels previously operated by Patrick Shipping, it is not unreasonable to expect that these vessels will be sold to an overseas operator and the level of service and competition (which is already limited) will contract further.

As a result, Elders recommends that:

- The operation of the TFES be enhanced by annual reviews of the assistance provided to make sure that it remains in step with the operating environment that shipping users are presented with. This would be consistent with the current Ministerial Directions for the operation of the TFES which have not been implemented.
- The parameter recognising the negotiating power of industry in relation to shipping should be revised upwards to 85% to reflect the diminished negotiating position of industry following the recent developments with Toll and Patrick.
- That the annual adjustment mechanism is clearly communicated and structured so that the process provides sufficient safeguards to ensure industry consultation.
- That the Productivity Commission make a recommendation that the ACCC maintain a monitoring position on Bass Strait freight and associated costs to ensure that there is no abuse of market power.