

Productivity Commission  
Tasmanian Freight Equalisation Review  
King Island General Submission



Prepared by

King Island Council  
29 May 2006

## **Introduction:**

King Island is a remote island in Bass Strait, situated to the Northwest of Tasmania, midway between Victoria and Tasmania. The island is 64kms x 27kms, with a current population of approximately 1700. The majority of freight is imported and exported by sea through the Grassy Harbour. The current shipping service for King Island operates once a week from Melbourne. The route for this service is Melbourne to Devonport, then to King Island, then to Melbourne. Due to its remoteness, it is an understatement that shipping is vital to King Islanders.

The King Island – 2013 Strategic Plan recognised Island Access as a key strategic direction:

*2. King Island faces the challenge of ensuring that it has secure, reliable and affordable transport linkages to Victoria and Tasmania. The King Island Council has a role as advocate in working with other organisations and Governments in ensuring that the linkages exist and are maintained into the future.*

*Major Objectives:*

*2.1.3 Continue to work with the government and service providers to look for opportunities to improve services to the community at a minimal cost.*

This submission has been compiled by a number of representatives from the fertiliser, shipping, freight, livestock and kelp industries on the Island, and coordinated by the King Island Council.

King Island Council and industry support the general principles of the Tasmanian Freight Equalisation Scheme and acknowledges that the Scheme addresses significant freight cost disadvantages incurred by Tasmanian shippers. This submission outlines several key points for the consideration of the Productivity Commission to ensure an awareness of the issues and disadvantages that are unique to King Island, and to ensure King Island is afforded a 'level playing field' with mainland Tasmania despite those added disadvantages.

On page 17 of the Productivity Commission Issues Paper one of the questions raised is: "Are there any particular matters that need to be addressed in relation to the subsidisation of freight movements to and from the major offshore islands?" King Island is one of these islands contributing strongly to the Tasmanian economy, and this submission outlines some of those "particular matters" specifically relating to subsidisation of freight to and from its wharf at Grassy.

## **Issues Associated with the TFES Structure:**

- In respect to the introduction of a fixed rate subsidy for containerized freight, the King Island community would not support a fixed rate per container scheme unless there was a strong consideration made in regard to the variation in cost between Victoria and mainland Tasmania, compared with Victoria and King Island.
- Freight destined for international export is exempt from the TFES. An example of how this significantly disadvantages King Island compared with mainland Tasmania is that KI Kelp Industries exports 80% of its dried product to Scotland, but does not qualify for any subsidy through the TFES in shipping that product to Melbourne, where it is then shipped on to Scotland. Throughout the majority of Tasmania there is immediate road access to international shipping docks, so the cost is significantly greater to export the King Island product. It is more expensive to ship a full container of Kelp from King Island to Melbourne (over \$2000), than from Melbourne to the UK (\$1600). The cost of shipping the product (with or without subsidy) to Victoria is already much higher than road transfer to Bell Bay, Hobart or Devonport. The same disadvantages apply to King Island premium quality Beef, Cheese, Water and Sheep that are exported internationally and do not qualify for any subsidy to get their product to an international wharf. The barriers and costs associated with exporting internationally from King Island are significantly greater than for mainland Tasmanians, so King Island would strongly support some form of subsidy or assistance for the Bass Strait leg of international exports.

- There is currently an exemption of empty containers from the TFES. Empty containers to and from the island do not qualify for subsidisation, although without the flexibility and benefits of road transport to move empty containers around, the only option for King Island is to ship all empty containers. The Tasmanian Farmers and Graziers Association (TFGA) and Incitec Pivot Limited (IPL) have provided specific examples of the disadvantages associated with the cost of moving empty containers from King Island in their own submissions to the Productivity Commission.
- Currently all bulk fuel is excluded from the TFES (as is the case for bulk fertiliser). King Island receives all of its fuel in containerised form, and not in bulk. As the fuel must be imported to the island and there is no alternative to this, King Island is significantly cost disadvantaged without some form of subsidisation. Ultimately, as the fuel is brought in containers, King Island would suggest that it should qualify for the TFES. In other times diesel fuel for the generation of power would have been deemed an essential service to an isolated environment and receive special consideration but this does not apply today.
- At present King Island produces 20% of the Tasmanian beef herd. There is currently no subsidy for intrastate shipping. Any freight to and from King Island and mainland Tasmania is exempt from the Scheme, however the distance between Tasmania and King Island is comparable to the distance between Victoria and King Island. Without an intrastate subsidisation the barriers to trade between King Island and Tasmania are significantly higher. While intrastate freight can be completed by road transport services throughout the majority of Tasmania it is impossible for King Island and therefore significantly more costly to freight within the rest of Tasmania. King Island would support the inclusion of subsidisation for intrastate freight between mainland Tasmania and King Island, to ensure equity with the rest of the state.

### **General Points for Consideration:**

- King Island is approximately half way between Victoria and mainland Tasmania, yet the cost of shipping from Victoria to King Island is almost one and a half times the rate that Tasmania enjoys. (For example, in March 2006, for a heavyweight box from Melbourne to Devonport, the cost was \$825 + 5.1% fuel surcharge + GST. The cost for a heavyweight box from Melbourne to King Island was \$1,265 + 5.1% fuel surcharge + GST). This does not take into account the need to regularly freight back empty containers. The TFES assists in alleviating the higher costs incurred by those eligible non-bulk goods by sea, relative to the transport of these goods over comparable distances on the mainland, although with such high freight costs initially, the cost of the shipping service provided to King Island is not equitable with the rest of Tasmania.
- King Island wharfage rate stands at \$145 per container, compared to \$111 at Hobart, \$117 at Launceston and \$116 at Burnie. At Devonport, contractual arrangements with TT Line & Patrick see volume-based incentives providing a far cheaper rate of approximately \$40 applying.
- Fertiliser is a major production cost of the rural industry. There is a trade inequity between Victoria and Tasmania, compared with Victoria and King Island. An example of this inequity for fertiliser is as follows:

<i>Journey</i>	<i>Cost per Container</i>	<i>Ton Capacity</i>
Victoria → Tasmania	\$1,240	23 – 28 maximum
Victoria → King Island	\$2,407	24 maximum

This table identifies the shipping cost to be almost double for King Island, than for mainland Tasmania.

Similarly, King Island's livestock movement endures trade inequity, outlined in the table below:

<i>Journey</i>	<i>Gross Cost</i>	<i>Less TFES</i>	<i>Net cost</i>
Tasmania → Victoria	\$4,270	\$1,710	\$2,560
King Island → Victoria	\$5,075	\$1,710	\$3,365

Clearly, the net cost for livestock movement from King Island is \$805 more than for mainland Tasmania.

Coupled with the lack of TFES on intrastate fertiliser and livestock, as well as the cost of moving empty containers, this inequity further exacerbates the trade distortion and unique cost disadvantage for the King Island rural industry.

- The cost of shipping to and from King Island (to and from both Victoria and mainland Tasmania) is significant as there are no discount rates provided by the shipping company and there historically has been little competition to the service.
- With one service per week to/from King Island, local industry is heavily reliant upon a guaranteed service in order to freight goods on and off the island. On average, a service does not occur because of scheduled maintenance, machinery breakdown or the vessel cannot enter the wharf on average twice a year due to weather conditions. A number of local industries (such as King Island Dairy) must maintain a risk inventory of 2-3 weeks on hand in case of poor weather. When the vessel does not arrive, it is yet another cost disadvantage with which King Island industry is faced. Businesses also have to make emergency arrangements to export products with short term perishable lives into the market place using expensive air freight

With these general points in mind, King Island already endures a significant cost disadvantage that isn't faced by mainland Tasmanian businesses/producers/industries. Current exemptions from the TFES such as those outlined in this submission further demonstrate the significant cost disadvantages for King Island.

### **Summary:**

While King Island is part of Tasmania, these barriers clearly demonstrate there are issues and disadvantages unique to King Island. These can be addressed through a freight equalisation scheme that ensures equity with the rest of Tasmania, which in turn seeks equity with the rest of Australia.