

August 15th 2006

Tasmanian Freight Subsidy Inquiry
Productivity Commission
P.O.Box 80
Belconnen ACT 2616

Dear Sir/Madam

Re: Submission to the Tasmanian Freight Subsidy Inquiry

Introduction & Company Background

Tasmanian Lupini Enterprises (TLE) was established in 2001 and is based at Symmons Plains in Northern Tasmania. Our company produces under contract with local Tasmania farmer's human consumption Lupini Beans for the niche domestic and overseas markets. The company is also in the final stages of commercializing several other pulse crops for Tasmanian farmers. Our production of lupini beans began in Tasmania in 1995 from its original trial plot of ¼ ha to over 400 ha during peak production periods. This niche Tasmanian business injects a collective worth of over \$1.5M into the Tasmanian economy.

Previous TFES / Export Enquiries

In June 2003 Tasmanian Lupini Enterprises (TLE) submitted a claim for freight equalisation on goods transshipped to Port Melbourne destined for export markets. Following the submission for claim a letter was received from Mr. Peter Hortle of Centrelink Tasmania stating that our claim could not be processed as export products are not accepted items under the TFES. Mr. Hortle made reference that administration of the TFES is governed by the "Directions by the Minister for Transport and Regional Services for the Operation of the TFES" approved by the Minister for Transport and Regional Services, The Honourable John Anderson (- the Directions). Clause 4 of the Directions details the scope of the TFES. Clause 4.4 states that;

"Goods, which at the time of shipment from a Tasmanian port, or at the time of the first sale of the goods on the Australian mainland are, to the knowledge of the claimant, intended to be shipped out of Australia are ineligible for assistance under the Scheme."

Following the letter from Mr. Hortle I contacted Senator Guy Barnett and the Hon Don Wing to bring to their attention the disparity facing our industry and what process could be undertaken to bring about changes to the current legislation. Senator Guy Barnett contacted the Hon John Anderson on my behalf and explained the disparity situation Tasmanian export businesses face compared with their mainland counterparts/competitors.

A reply was later received from Mr. John Anderson via Senator Barnett stating the following;

"The Tasmanian Freight Equalisation Scheme was established in 1976 to assist in alleviating the sea freight cost disadvantage incurred by shippers of eligible non-bulk goods between Tasmania and the mainland. The northbound component of the Scheme covers eligible goods that are produced or manufactured in Tasmania for use or sale on the mainland of Australia".

"Tasmanian goods shipped to mainland ports for export to overseas markets are currently not eligible for assistance under the Scheme. Broadening assistance to include exports would be likely to compromise Australia under its international obligations to the World Trade Organisation Agreement. This may also endanger the calling frequency of liner shipper calls to Tasmanian ports, resulting in more Tasmanian freight for export diverted with assistance to mainland export ports".

Need for TFES to apply to Exports

A number of the issues raised by Mr. Anderson are no longer valid. The frequency of liner ships calling into Tasmania has reduced significantly (without changes being made to the Scheme) over the last 5 years which has necessitated the need to transship produce to Melbourne ports at considerable extra cost. The simple facts are that if it is not economically viable to produce in Tasmania then the demand for exports ex Tassie will disappear as producers move to the mainland. This is not what our business wants to see happen, we want to continue to support Tasmanian farmers through the opportunities niche commodities provide to the state.

Our business relies heavily on the export market to the Middle East/Europe. Bass Strait is one of the most expensive stretches of water anywhere in the world.

- **Our business continues to loose market share due to freight rate disparities.**
- **Mainland competitors/producers can deliver produce via road to Port Melbourne at far lower freight rates vs. transshipping freight rates from Tasmania.**
- **Export freight rates out of Melbourne are more competitive due to the volume of vessels competing for cargo.**
- **The TFES was introduced to assist in alleviating the sea freight cost disadvantage between Tasmania and the mainland.**

- **By broadening the Scheme to include exports as eligible goods it will ensure these industries/businesses remain in Tasmania.**

Current Business Pressures

Over the last three years our company has been faced with ever increasing freight rates both overseas and domestically and this factor coupled with an upward movement in the Australia dollar has placed significant pressure on exports.

To add to the above pressures container space on vessels visiting Tasmania is always difficult to secure which results in extra transshipment costs to Port Melbourne for alternative vessels to meet overseas market timeframes.

Freighting Issues Mainland vs. Tasmania

- Melbourne has approximately 30 lines servicing it.
- Tasmania has approx 5 lines servicing it, of which only 3 go to the Middle East/Europe and obviously the number of destination ports in these regions is limited to the ones these lines service.
- Greater choices of overseas markets are available out of Melbourne.
- Freight rates ex Melbourne are about US\$900 to Middle East and US\$1200 to Europe.
- Freight rates ex Tassie are about US\$1800 to Middle East and US\$2000 to Europe.
- **Limited destinations out of Tasmania meaning product needs to be centralised in Melbourne to reach targeted markets.**
- Centralisation costs are A\$1650 - A\$1800 to Melbourne prior to export.

Summary

For our business to remain competitive with mainland production the Tasmanian Freight Equalisation Scheme must be broadened to include export goods.

By broadening the Scheme to include exports it will remove the financial disparity Tasmanian farmer's face and the competitive advantage mainland producers have supplying similar export markets.

I would welcome the opportunity to meet with the Commission during scheduled visits to Tasmania.

Yours sincerely

Andrew Youl
Managing Director
Tasmanian Lupini Enterprises