

Tasmanian Freight Subsidy Arrangements

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Submission to Productivity Commission Hearing to be held in Melbourne

Level 28/35 Collins Street Melbourne

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Rural Logic (Aust) P/L trades grain and related animal stock feed products sourced from mainland Australia to Tasmania. We also trade and supply domestic grain from Western Australia to all Eastern states. Rural Logic is a member of the Grain Industry Association of Victoria, which represents the post farm gate grain industry in Victoria.

Grain is transported to Tasmania in bulk containers and sold as full container lots (20 to 25 tonnes). The wide geographical spread of customers necessitates that Rural Logic utilize the three shipping companies operating vessels from Melbourne to corresponding discharge facilities at Burnie, Devonport and Bell Bay. The customer base consists of Tasmanian farmers (including dairy, pig and poultry) and end-user processors (stock feeders and flourmills).

Rural Logic is a registered agent for the TFES and processes freight rebate claims on behalf farmer customers. The process of claiming TFES rebates has been simplified by the ability of suppliers to claim the rebate and deduct this amount from the delivered grain price.

The current TFES scheme allows grain suppliers to deliver product to Tasmanian farmers on a competitive basis and at the same time comply with the strict import quarantine requirements. The need for clean grain (free from prohibited weed seeds) restricts grain supply locations to areas where banned seeds are limited or not known to be present.

Rural Logic is able to pass on to its customers an appropriate level of freight rebate using the current TFES scheme, in a method that is transparent and reflects the additional component costs attributable to:

- a. the necessity to use multi modal transport modes and associated transfer costs,
- b. the additional sea freight cost (over and above road transport) of shipping grain in containers via Bass Strait to Tasmania, and

- c. The additional side costs of transporting all grain via Melbourne and also in Tasmania via the existing port infrastructure to the customer location.

To obtain reimbursement for these addition costs the majority of claims submitted by Rural Logic are based on a Door-to-Door basis.

The grain prices (see Table 1 below) are representative of the consumptive / demand areas of South Eastern Australia and demonstrate the freight structure and differentials as they apply to grain transport.

Table 1: Grain Pricing Ranges - Vic (Wheat 2005 / 2006)

Goulburn Valley	A \$ 250 / MT (\$5 per tonne differential to Melb due to dairy demand)
Wimmera	A \$ 220 / MT (reduced price reflects transport cost to market zone)
Melbourne	A \$ 255 / MT (Melb feed delivered price)
* Average Trade Prices July 2006 (Rural Logic)	

This price structure is volatile (see Table 2 below) and reflects the levels of grain production (drought), export and domestic demand and demonstrates the requirement to have several sources of supply.

Table 2:

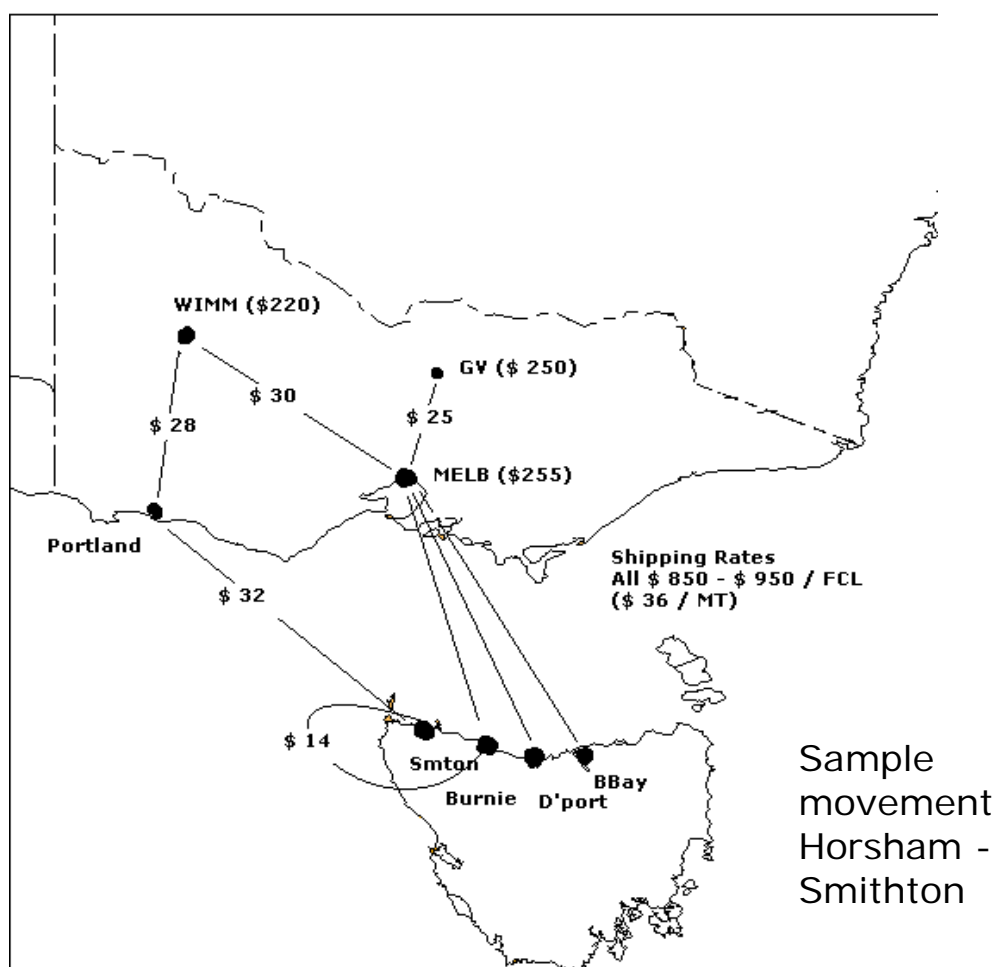
Melbourne Wheat and Barley Prices



Currently 80% of Rural Logic's shipments to Tasmania originate in the Victorian Wimmera or Southern Mallee. Table 3 provides a comparison of the freight options (container loading at source and / or in Melbourne) and the use of a road freight "Land bridge" between Portland and Smithton.

It is our contention this "Land bridge" is the real cost to transport grain to the main dairy area (Smithton) and the TFES subsidy scheme should compare this cost with the actual cost.

Table 3: Grain Supply Channels (Victoria - Tasmania)



In summary (see Table 4 below), there is a \$30 / MT - \$35 / MT differential in the cost between the actual freight cost and a "land bridge" method of calculation to the point of delivery in Tasmania. This is equivalent to freight comparison of approximately \$775.00 per container, which we would submit equates the correct level of rebate available under the TFES.

Table 4: Summary of Freight Costs

Cost** \$ / MT	<i>Load FCL - Wimmera Basis</i>	<i>Load FCL - Melb Basis</i>	<i>Wimmera-Portland Smithton "Land bridge"</i>
Road Freight	\$ 38	\$ 30	\$ 28
FCL Loading	\$ 2	\$ 8	\$ -
FCL to Wharf	\$ -	\$ 10	\$ -
Shipping Freight	\$ 36	\$ 36	\$ -
Road Freight Tas	\$ 14	\$ 14	\$ 32
Total Cost	\$ 90	\$ 98	\$ 60

** Costs via Victoria to Tasmania ex Wimmera

Source: Rural Logic Oct 2006

Rural Logic has considered all freight options including mini-bulk vessels in supplying grain to Tasmania. This option is not preferred due to;

- The lack of available independent bulk silo space in Tasmania,
- The task of assembling a grain cargo (approx 7000 tonne) and guaranteeing that it will be free of prohibited weed seeds is not without a high level of risk, especially for on farm distribution,
- Containers offer the supplier and customer an economic grain parcel without the risk of a large tonnage being stored in Tasmania.
- The consolidation of grain stock at one location in Tasmania, plus double handling and sideways transport costs result in similar cost when compared with container movements. In fact, the all up costs of using a bulk vessel via Portland to Tasmania for grain including port handling charges would total \$96.00 per tonne.

Conclusion

The current TFES model equitably removes the majority of the economic disadvantage of transporting grain and feed products between the mainland and Tasmania. For Rural Logic and its customers (usually Tasmanian farmers) the freight cost is claimed and rebated to the customer and clearly identified for each transaction.

Therefore as recommended by the Australian Prime Minister, we would favour the retention of the current Tasmanian Freight Equalization Scheme.