

Mike Woods
Presiding Commissioner
Tasmanian Freight Subsidy Arrangements
Productivity Commission
PO Box 80
Belconnen ACT 2616

24 November 2006

Dear Mr Woods,

Draft Report concerning Tasmanian Freight Subsidy Arrangements

Norske Skog has previously provided detailed public and confidential submissions to the Productivity Commission's review of Tasmanian Freight Subsidy Arrangements. We wish to resubmit these documents as evidence and also comment on the findings and recommendations in the draft report.

In relation to the material previously provided, we wish to draw the Commission's attention to the following items which we believe have not been given appropriate recognition in the draft report -

- The special requirements for transporting product across Bass Strait and the additional costs involved. We note that internodal costs in relation to the transport of newsprint by Norske Skog are \$122.20 per TEU compared to the current allowance of \$100 per TEU.
- Our confidential submission provided a direct comparison of costs for transporting newsprint from Boyer to Melbourne and from Albury to Melbourne. We note that if there was a land bridge to the mainland, the Boyer Mill could transport paper by road to its Melbourne customers for 45% less than at present and
- The confidential information provided on movements in Bass Strait shipping costs between 1998/99 and 2005/06 compared to movements in road transport cost movements over the same period. This material showed that while Bass Strait shipping costs have reduced in real terms over the period, road rates between Albury and Melbourne have reduced in actual dollars over the same period due to the introduction of high productivity and purpose built vehicles designed to maximise payloads and back-loading. **The relative freight cost disadvantage due to Bass Strait has therefore increased, not decreased between 1998/99 and 2005/06.**

Norske Skog is very concerned that the Commission's draft findings and recommendations are based on the false premise that there is "no sound underlying economic rationale for freight assistance". Hopefully the Prime Minister's statement of 7 September 2006 plus statements by the Tasmanian Government and other parties during the Public Hearings have clarified this matter and provided the economic justification sought by the Commission.

Norske Skog is also concerned that the Commission's "fall-back" recommendation of a single flat rate of payment per TEU, fixed for 5 years, is without justification and that the nominated figure of \$400 per TEU is based on old data. Comments made during the Public Hearings suggest that no Tasmanian manufacturers would be better off under this arrangement, as distinct to the "30% better off" suggested by the Commission.

While a flat rate of assistance may be administratively simpler and may help address the perception of rorting or gaming, the lack of a coherent rationale for such an approach is a major weakness. It is also noted that the draft report is silent on the issue of whether southbound freight would attract a flat rate of assistance of \$400 per TEU or whether this assistance would be withdrawn completely.

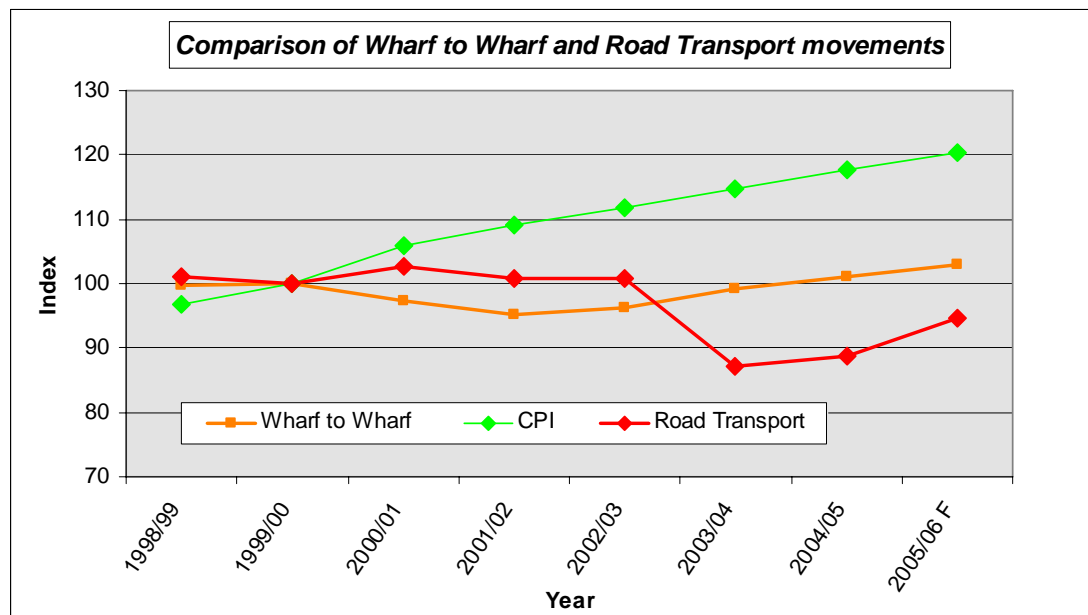
During the Public Hearings a number of companies and industry groups put forward suggestions to improve current arrangements and address the perception of rorting or gaming. We believe there is virtually unanimous support for a system based on –

- Wharf to Wharf claims only
- 2-3 year transition period for current Door to Door claimants
- The option for claimants (perhaps small companies or one-off shippers) to accept a flat rate
- Improved auditing and investigation of claims that appear to be excessive when compared to claims made by similar sized claimants for similar products
- Greater transparency, including the publication of more comprehensive annual data and reporting of annual payments to recipient companies
- Agreed annual adjustment mechanism

Norske Skog's comments on the specific findings and recommendations in the Draft Report are as follows -

Draft Finding 3.1

We agree with the first part of this finding, but not the second. As referred to above, our experience (as shown in the graph below) is that while Bass Strait shipping costs have reduced in real terms between 1998/99 and 2005/06, road rates have reduced in actual dollars over the same period due to the introduction of high productivity and purpose built vehicles designed to maximise payloads and back-loading. **The relative freight cost disadvantage due to Bass Strait has therefore increased, not decreased between 1998/99 and 2005/06.**



Draft Finding 3.2

We agree with this finding.

Draft Finding 4.1

We disagree that “the modeled benefits are likely to be an upper estimate”. Industry data suggests that the benefits of TFES are much greater than suggested by the model. Likewise we would dispute that “there is little improvement in Tasmanian welfare” or that “the benefits to Tasmania come largely at the expense of economic activity elsewhere in Australia”.

While Economic models may assist in predicting the direction of change, they are far less accurate in predicting the quantum, especially when based on the assumption that the economy as a whole will stay in equilibrium. The fact is that if TFES was removed then many jobs would be lost in Tasmania and not replaced on the mainland.

Draft Finding 5.1

We believe that more analysis would be needed to support the Commission's claim. Indeed, our observation is that a low volume shipper could be less disadvantaged in regards to land freight rates, as the capital required for a road transport "units" (ie truck and trailer) is considerably less than that required for sea freight. A relatively low volume shipper could fully utilize the capital or fixed component required for road transport and therefore not be as disadvantaged when compared to a large shipper.

Draft Finding 5.2

Our claims are all based on Wharf to Wharf costs and we support this approach.

Draft Finding 5.3

It is also our observation that on the non "Northern Tasmanian to Victoria" routes (that we operate on) that the route scaling factors are lower than those estimated in 1996-97.

The fact these have changed reinforces the need for regular reviews of the key assistance parameters, including the route scale factors. A material change of these parameters need to be taken into account when assessing the assistance by the scheme to ensure it maintains its relevance.

Draft Finding 5.4

We do not agree with this finding. As stated previously, internodal costs in relation to the transport of newsprint are \$122.20 per TEU compared to the current allowance of \$100 per TEU.

Draft Finding 5.5

Our experience is that all cost savings are important and we negotiate with shipping companies accordingly. The low overall movement (well below CPI) in Wharf to Wharf costs (see previous graph) clearly demonstrates that there continues to be an absolute focus in minimising costs by Norske Skog.

We note that the summary of the grouping of the claimants by TFES shipment class (table 5.2) is based on 2004/05 data. We believe that the % of freight within Class 1 has changed considerably since and there would be very few claimants/freight now in this class. Norske Skog no longer has any claims that fall within Class 1.

Draft Finding 5.6

As stated above, our experience is that all cost savings are important and we negotiate with shipping companies accordingly. Further, we are not aware of any shipping companies making high profits on Bass Strait and also cite the recent demise of the Tasmanian Government's Spirit 111.

Draft Finding 5.7

We agree that there are a number of anomalies, such as recyclable containers and believe that these should be considered on merit. The existence of anomalies should not be used as an argument against the scheme itself.

Draft Finding 5.8

This finding appears to be correct. Again, such issues should be considered on merit and not used as an argument against the scheme.

Draft Finding 5.9

We support this finding plus other initiatives to enhance the transparency and public credibility of the current scheme.

Draft Finding 5.10

We have no comment to make in relation to the Wheat Freight Scheme.

Draft Finding 6.1

We strongly disagree with this finding. Hopefully the Prime Minister's statement of 7 September 2006 plus statements by the Tasmanian Government and other parties during the Public Hearings have clarified this matter.

Draft Proposal 1

This proposal is based on the false premise that there is "no sound underlying economic rationale for freight assistance". We note that the Prime Minister has already ruled out this proposal.

Draft Proposal 2

We note that the Prime Minister has already ruled out this proposal.

Draft Proposal 3

The rationale for this recommendation is unclear. There is also no mention of southbound freight.

We would urge the Commission to support improvements to current arrangements based around Wharf to Wharf, rather than advocate an arbitrary flat rate.

In conclusion, we believe the current TFES arrangements are operating well and providing significant benefits to the Tasmanian and Australian economies. Tasmanian industry is not asking Government to make our businesses profitable. All we are asking is that Government help address the freight cost disadvantage due to Bass Strait.

Yours sincerely,

Rod Bender
General Manager
Norske Skog Boyer