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PRODUCTIVITY COMMISSION

**DRAFT REPORT ON TASMANIAN FREIGHT SUBSIDY
ARRANGEMENTS**

PROF M. WOODS, Presiding Commissioner

TRANSCRIPT OF PROCEEDINGS

AT LAUNCESTON ON WEDNESDAY, 18 OCTOBER 2006, AT 10.03 AM

Continued from 17/10/06 in Hobart

PROF WOODS: Tasmanian public hearings for the Productivity Commission inquiry into the Tasmanian freight subsidy arrangements. I'm Mike Woods, I'm the presiding commissioner for this inquiry. As most of you will be aware, the commission released an issues paper in April this year, setting out the terms of reference and some initial issues. Our draft report was released on August September 2006. The commission has met with a wide cross section of people and organisations interested in this issue. We've talked to groups from a diversity of backgrounds, listening to their experiences. We have also received a large number of submissions from interested parties.

I would like to express the commission's thanks and those of the staff for the courtesy extended to us in our travels and deliberations so far and for the thoughtful contributions that so many have already made to this inquiry. These hearings represent the next stage of the inquiry with an opportunity to submit any final submissions by 27 October 2006. The final report is to be signed by 21 December this year. I would like these hearings to be conducted in a reasonably informal manner but remind participants that a full transcript will be taken and made available to all interested parties. At the end of the scheduled hearings for the day, I will provide an opportunity for any persons present to make an unscheduled oral presentation, should they wish to do so.

I would like to welcome to the hearings our first participant, and I'm very pleased that you're able to make the time, the treasurer of Tasmania. For the record, treasurer, could you please give your name and title?

MR AIRD: Michael Aird and I'm treasurer of Tasmania.

PROF WOODS: Thank you very much. The commission appreciates you coming and giving your time. Could I also put on record the appreciation of the commission for the effort that the staff of the various departments of Tasmania have made in contributing to this inquiry. We've had extensive discussions and we've had very detailed and thoughtful submissions, so we're very grateful for that cooperation. You have an opening statement you wish to make.

MR AIRD: Yes, Mr Commissioner. I'm pleased to be here this morning to address the Productivity Commission on Tasmanian freight subsidy arrangements. Specifically I want to highlight the critical importance of the freight equalisation scheme on the ongoing strength of Tasmania's economy. Bass Strait is a significant barrier to business investment in our state. It is estimated that around half of Tasmania's total output is exported interstate or overseas.

Without the freight equalisation scheme, Tasmania would not have seen the record investment, record employment and record economic growth of recent years. The scheme is essential to the viability of many Tasmanian export businesses and to

the thousands of Tasmanians that work in these companies. Today I will address three issues. The rationale for freight assistance, its contribution to investment, productivity and development in Tasmania and the design and administration of the scheme. The government will submit a more detailed response to the commission's draft report by the end of October.

I will now turn to the first of these issues: the rationale for freight assistance. The principles of federation are critical to any assessment of the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Subsidy. In its draft report, the productivity commission states, "There is no clear statement of the underlying objectives for the scheme." Tasmania's entitlement to freight assistance is based upon the principles of federation and the practices of the Australian parliament. This was recognised in the 1976 report of the Commission of Inquiry into Transport to and from Tasmania which first recommended the implementation of the freight equalisation scheme. In that report, Commissioner Nimmo stated:

In agreeing to federate, the Australian states implicitly agreed to accept some sharing of their resources. This principle has long been accepted by the Australian parliament.

Importantly, the Nimmo report also stated that the sharing of resources between the states has gone further than merely providing approximately similar standards of government services. The provision of funds by the Commonwealth to construct the Ord River Dam and the recurrent provision of funds to construct beef cattle roads in Queensland and Western Australia were two significant examples used in the Nimmo report. These examples demonstrate the principle of assisting economic development of disadvantaged regions of Australia.

There are many more recent examples, such as the Australian government's contribution of over \$190 million to the construction of the Adelaide to Darwin railway. The Nimmo report subsequently concluded, in federating, if a relatively poor state is making reasonable efforts to encourage investment and if these efforts are being frustrated by, for example, its physical separation, it should expect to be entitled to receive financial assistance from the Commonwealth government.

This principle of sharing of resources amongst states continues today. It underpins the notion of horizontal fiscal equalisation where the Australian government through the Commonwealth Grants Commission distributes revenue in a manner that ensures all Australian citizens have access to equal standards of government services.

Without horizontal fiscal equalisation, Tasmania would be a significantly disadvantaged to unavoidable demographic, geographic and economic causes. For example, Tasmania receives higher GST revenue than it would if GST revenue was

distributed on an equal per capita basis. The principal of resource sharing, based on the principles and practices of federation, justifies the need for the Tasmanian Freight Equalisation Scheme to overcome the absence of land transport across Bass Strait. The Prime Minister clearly recognised these principles in his response to the commission's draft report on the TFES. The Prime Minister stated:

The scheme remains an important element of Australian government programs that equalise cost disadvantages between the states and territory.

Tasmania asks that the commission consider these principles prior to finalising its report. I believe these principles clearly demonstrate that the scheme should continue. I will now address the second issue which highlights the importance of freight assistance in encouraging investment and increasing productivity and competitors in Tasmania. Tasmanian industries have made significant investments since 1976 on the expectation that the freight scheme assistance would continue. Changes in the rules increases the risk that investments will not earn expected returns. The investment by TFES recipients has enabled them to remain globally competitive.

Four of the largest recipients of freight assistance are Norske Skog, Cadbury Schweppes, Simplot Australia and J. Boag and Son. In relation to Norske Skog, in the last 80s, early 90s Norske Skog's Boyer mill underwent a major \$350 million capital upgrade. One newsprint machine was closed in 1990 and the remaining two machines were substantially rebuilt. There were also significant upgrades in relation to effluent treatment. Productivity and efficiency gains from these investments were impressive. In 1989, the Boyer mill produced 233,000 tonnes of paper with three paper machines. In 1982 following the rebuilds it produced a record 235,000 tonnes from only two paper machines. Since that time with further capital spending and operating efficiencies annual paper production from these two machines has lifted to around 295,000 tonnes per year.

The availability of the Tasmania Freight Equalisation Scheme supported the revitalisation of this business by providing the mill's then owners with the confidence to invest. This in turn has provided a foundation for ongoing investment including the current \$5.9 million bleach plant upgrade. Without TFES this investment would not have occurred and the Boyer mill would not be delivering its strong contribution to the Tasmanian and the Australian economies.

Norske Skog received \$11.4 million in the TFES assistance in 2004-2005. Cadbury Schweppes undertook a \$25 million expansion in 2001 to secure the future of the plant in Tasmania and substantially increase production. The company is currently investing a further \$25 million in additional chocolate-making capacity and new moulding, wrapping and packing equipment to position the Tasmanian

operations as a major supplier for the Asian-Pacific region. Owen Davies, operations manager for Tasmania, noted that:

Many of our major investments would not have come our way had our directors been uncertain about the continuation of the freight scheme.

Cadbury Schweppes received \$5.1 million in TFES assistance in 2004-2005. Simplot Australia processes over 50 per cent of the frozen and dehydrated potatoes produced in Australia. In 2003 Simplot invested \$35 million to upgrade its Ulverstone potato processing plant bringing total investment at Ulverstone to \$80 million during the Simplot's eight year ownership. By investing in the Ulverstone plant, Simplot decided to close its Scottsdale plant despite the loss of 110 direct jobs. Simplot made this decision to improve its long-term efficiency and move to world's best practice. This investment has boosted production by 35 per cent from 240,000 tonnes to 325,000 tonnes per year.

This shows that the Tasmania Freight Equalisation Scheme does not prevent beneficiaries from making hard financial decisions if the need arises; rather, it facilitates the investment needed to make these firms competitive. The managing director of Simplot Australia, Terry O'Brien, stated that:

This drive to increase productivity and efficiency is essential for the success in keeping the Australian industry competitive with low-cost exports such as New Zealand.

Simplot received \$10.3 million in TFES assistance in 2004-2005. J. Boag and Son has invested \$34 million in Tasmania since the year 2000. It also plans to invest a further \$33 million in its Launceston operations over the next five years. A new \$17 million bottling line was completed in late 2004 and work is expected to commence on a new \$20 million brew house in 2007. In 2006 other capital projects totalling more than \$7 million will be completed. The Tasmania Freight Equalisation Scheme has been an important factor in the expansion of J. Boag and Son. Production has risen from 25 million litres of beer in 1995 to 41.3 million litres in 2005, a 65 per cent increase.

Boag's freight costs across Bass Strait are 65 per cent higher than its mainland competitors over the same distance, even after the assistance received from the TFES. Certainty over the future of the scheme is important to current operations and future investment plans. The reduction in the level of the TFES assistance will also warrant a rethink by the company of its Tasmanian operations and place \$30 million of the planned \$33 million in future investment at risk. J. Boag and Son received \$3.3 million in TFES assistance in 2004-2005.

In 2004-2005 around 1300 companies benefited from the TFES payments that

totalled \$92 million, however, of this total around half goes to just seven companies: Norske Skog, Simplot Australia, Australian Paper, McCain Foods, Cadbury Schweppes, J. Boag and Son and Cascade. I understand these companies made a joint submission to the commission yesterday to highlight the importance of the freight scheme to the continued viability of their businesses.

The TFES has contributed significantly to the capacity of these seven businesses to invest and increase their productivity and competitiveness. This has brought significant economic benefits to Tasmania including 3100 direct jobs, 9600 indirect jobs, \$195 million in annual wages and \$530 million in annual expenditure in the Tasmanian economy. Australia clearly benefits too from both the economic activity and taxation revenue this taxation generates and also from their contribution to the balance of trade. Confidence that the freight scheme will continue is necessary for these and other firms to fully develop the comparative advantages of being located in Tasmania given the freight cost disadvantage they face.

I would now like to make some brief comments on productivity. Improving productivity is a key objective to Tasmania. There has been a long-term and pronounced decline in Tasmania's productivity performance relative to Australia. This has led to Tasmania's real income and living standards being lower than the national average. Furthermore, low productivity is a constraint on the state's capacity to attract investment and future productivity levels are influenced by the quantity and quality of capital. The Tasmanian economy would enjoy significant gains if it can move towards a cycle of high productivity growth and high investment.

To compound matters, Tasmania's population is ageing more rapidly than other states. In the 2006-2007 budget I announced the establishment of the Demographic Change Advisory Council to address Tasmania's productivity and demographic challenges. The importance of productivity improvements to Tasmania's economic future is highlighted by the Australian Treasury paper released in April this year entitled *Does This Matter: The Effect of Geographical Isolation on Productivity Levels*. The study found that Australia's isolation from world economic activity accounts for around 45 per cent of the gap in labour productivity between Australia and the United States. The research uses a proximity indicator for the states and territories of Australia and the United States. The indicator is indicated to capture the proximity of each state and territory to world output. Closeness to output is found to present scale opportunities and positive spill overs for firms. This in turn stimulates higher productivity.

Out of a total of 59 jurisdictions in Australia and the United States the research showed that Tasmania was ranked last with the lowest proximity indicator of all jurisdictions. The Australian Treasury research shows that distance from markets or the high cost of gaining access to markets is an impediment to labour productivity. It follows that removing of the Tasmania Freight Equalisation Scheme would have the

effect of increasing Tasmanian's isolation from mainland markets. This will constrain Tasmania's capacity to improve labour productivity. Given the importance of lifting productivity to drive Tasmania's future growth, removal of the scheme would be a devastating blow to our economy.

I now wish to turn briefly to the design administration of the freight equalisation scheme arrangements. The objective of the Tasmania Freight Equalisation Scheme is to remove the sea freight cost disadvantage for eligible non-bulk goods relative to the cost of land transport over the same distance as Bass Strait. Modelling by the Centre of Policy Studies at Monash University shows that the freight scheme is an efficient method of removing freight costs' disadvantage. The centre showed that the effect of the scheme is increased real growth state product in Tasmania by around 2 per cent or \$300 million and increase employment by 4300 jobs. The rest of Australia experiences decreased output of \$317 million and decreased employment of 4600 people.

These results illustrate a near one-for-one transfer of activity from the mainland to Tasmania. This shows that the net cost of the TFES is very low given the very significant advantages provided to Tasmania. Assistance should be based on the sea freight cost disadvantage of the wharf-to-wharf component of a freight journey. Flat rates of assistance will not reflect the actual cost disadvantage to producers with different wharf-to-wharf costs reflecting the scale, frequency and density of shipments. Flat rates will impact most severely on those manufacturers who are the largest beneficiaries of the freight assistance.

Whilst flat rates of assistance may reduce compliance and administration costs, these costs do not impede large companies such as those I referred to earlier. The integrity of the current scheme in any perceived rorting can be addressed to measures such as the application of stringent risk management by the administrator and better auditing by an independent body. The Australian government has a responsibility to ensure confidence in the administration of the scheme. The Tasmanian government and industry supports measures which will increase transparency of the scheme's arrangements. The Tasmanian government also supports regular reviews of the operation and administration of the Tasmanian Freight Equalisation Scheme.

It is vital that industry actively participates in any review to ensure parameters reflect actual practice and compensate fully for the Bass Strait sea freight cost disadvantage. Consideration of eligibility criteria should also be reviewed to address issues such as the movement of recyclable empty containers which currently do not attract assistance. However, Tasmania's support of regular reviews of the scheme is premised on avoiding radical changes to long-held arrangements. In conclusion, Tasmania's physical separation from the rest of Australia has long been considered an important constraint to the state's development and progress. In the 1926 Lockyer inquiry into the financial position of Tasmania noted:

The maintenance of an adequate and economical means for her products to the mainland is a matter of vital importance to Tasmania.

In his 1997 inquiry into the structure of industry and employment situation in Tasmania Sir Bede Callaghan put it this way:

Stated simply, Tasmania's major problem is Bass Strait.

Finally, the 1997 Nixon Commonwealth State Inquiry into Tasmania Economy stated:

Bass Strait has long been recognised as imposing a cost disadvantage on business in Tasmania.

Today Tasmania producers still remain at a significant freight cost disadvantage relative to producers in other states with access to land transport. The Tasmanian Freight Equalisation Scheme is vital to Tasmanian export business and to continued economic growth. The scheme has had strong bipartisan support for over 30 years in recognition of its importance. The Tasmania government strongly supports its continued operation. I thank the commission for providing me with the opportunity to make this address today.

PROF WOODS: Thank you, Treasurer. Are you happy to discuss several of the items arising from that?

MR AIRD: Yes, of course.

PROF WOODS: Thank you very much. A significant point made in your presentation was the importance of economic development in Tasmania, distance to world markets. From the government's point of view does this scheme best address those issues, or if there was a parcel of \$90 million that was made available would the government identify any other way that might better address these issues?

MR AIRD: Quite frankly we haven't done any modelling on how the \$92 million could be put to assist industry but I would offer an observation that I would see that the withdrawal of \$92 million or its equivalent would cause such disruption to existing business that it would create a climate of investment uncertainty and that without directly addressing your question I would be very reluctant to see any disruption to the present arrangements on the basis that, as I have pointed out in my presentation, that we would be, I think, not affording those businesses who have invested in this state and their capacity.

You see, some of the businesses that we are talking about, if they weren't

operating in Tasmania, might not be operating in Australia at all, and that they have, as a broad generalisation, the companies that - the major ones - have, I think, acted responsibly within the Tasmanian investment climate. They have been good employers and have made decisions to reinvest in their businesses on the basis, as I indicated, that the scheme was there, and I think that any thought that there could be a withdrawal of that money or assistance would create a climate of uncertainty, not only to those existing businesses, but to other businesses as well.

PROF WOODS: Thank you very much. Yes, certainly we appreciate that businesses do look to some certainty when they are making investments that are of multi-year duration and the commission does understand that point. Also in your submission you drew attention to the opportunity that some participants have described as rorting and focused on trying to narrow the design of the scheme to focus on wharf-to-wharf subsidisation, that being the essential issue, the Bass Strait, and you drew attention to the alternative which the commission has put forward of a possible flat rate. I think it would be reasonable to characterise your position as saying that the flat rate, your concerns are that some of the higher cost transporters might be disadvantaged from such an arrangement. Is that the essential - - -

MR AIRD: Yes, that's exactly right. I mean, I think, in essence, one size doesn't fit all and a flat rate would, I think, disadvantage others on the basis of that.

PROF WOODS: There is a trade-off which the commission is working through and receiving evidence between complexity of scheme administration and opportunity for distortion by way of how the subsidy is claimed versus the simplicity of flat rate, but we are having many presentations on those issues so we will explore that in some detail.

MR AIRD: In terms of having - \$92 million is a large investment and you would expect there to be an equivalent investment to ensure that the administration and the compliance was there to ensure that the \$92 million was being delivered fairly and equitably.

PROF WOODS: I understand from your presentation that the government will be providing a more detailed written rejoinder to the commission's draft report.

MR AIRD: Yes, we'll have a more detailed response to you by the end of October.

PROF WOODS: We've also had good liaison with your departments who are assisting in collecting more data from firms, so we're grateful for that contribution. Do you have any closing comments you wish to make?

MR AIRD: No, I thank you for the opportunity. I think while this inquiry might cause some heartache to those who are presently benefiting from the scheme, I think

that an inquiry like this can highlight the actual benefits, and so while it might be your draft report may - is causing concern here, it does allow us to put our argument across and I'm sure nothing I've said today has been a surprise and that we certainly, given the Prime Minister's comments in support of the scheme, understand that at that level that there is bipartisan support and hopefully the commission can find its way through to ensure that the scheme can continue, and continue in a way that those who wish to invest in Tasmania do have some certainty of knowing that the scheme can continue. So I thank you for the opportunity.

PROF WOODS: Thank you, Treasurer. A brief adjournment before I then call the next participants.

PROF WOODS: I hereby resume our hearings and call forward our next participants, the Agricultural Contractors of Tasmania. Thank you for coming. Could you please for the record state your name and position.

MR FRENCH: Doug French, and I'm state chairman of the Agricultural Contractors Association of Tasmania.

PROF WOODS: Thank you very much for coming to this hearing and we're very grateful for the submission that you provided to us earlier in our proceedings. Do you have an opening statement you wish to make?

MR FRENCH: Yes, I would. I'd first of all like to thank you for the opportunity to come to this hearing and I want to make it very clear right from the start I think this freight equalisation is vital and very, very important to the state and I think it would be a sad day if we lost it. Our main concern is the way it's administered and the lack of transparency involved.

PROF WOODS: Please proceed.

MR FRENCH: With regard to the - we have four concerns. Our first concern is the manner in which the freight equalisation is invoiced. We believe it needs to be much more transparent. We know of, or we've heard of mainland suppliers invoicing and receiving a rebate from more than the sea component. The supplier will invoice from door to door and doesn't itemise the sea component of that container. This of course gives the mainland suppliers an unfair advantage over Tasmanian suppliers and certainly goes against the spirit of the scheme. As the distance across Bass Strait will not change, we believe a flat transparent fee would be much more appropriate.

Our second issue concerns wheat imported being agents for the freight equalisation scheme. We believe there to be a serious integrity issue and we would like to at least know that there is a level of security in place to ensure that the importer and the agent are not robbing the system. The third concern is that occasionally users are unable to get discounts on cheaper transport across Bass Strait, yet they still receive the full rebate for freight. We feel the Commonwealth should share in any saving and that the rebate should be fixed amounts. Currently it's about \$855, I believe, for shipping a container.

We think it should either be a flat rate or the actual cost of the carriage, whichever is the lower. We believe because there's an over supply of shipping space on Bass Strait at the moment that some containers are being brought in at very heavily discounted rates, but they're still claiming the full rate. Our fourth and final concern is that the freight equalisation is not applied to goods being transported from Tasmania to overseas exports. This is an obvious area where Tasmanian farmers are at a competitive disadvantage compared with the mainland farmers and it was the

sort of disadvantage that the freight equalisation was designed to remove.

The past eight years have seen a dramatic increase in the number of cargo ships visiting Tasmanian port. This trends needs to be reversed for the good of the state. There is significant potential beef exports to improve on their recent growth to the Asian market, particularly Japan. The rise in demand coming out of China is also an area Tasmanian producers would like to explore. In concluding, our recommendation is that the invoicing system for the freight equalisation scheme be made much more transparent so as to prevent abuse; that the integrity issues surrounding importer agents being an agent be addressed; that the freight rebate should be a flat amount, or the price paid for the sea carriage, whichever is the lower, and that the freight be made applicable to Tasmanian exports destined for overseas markets.

We believe these concerns are legitimate and would better enable the freight equalisation to fulfil the spirit of the scheme by removing the competitive disadvantage that Tasmania's farmers experience. That's basically what we're interested in.

PROF WOODS: Thank you very much, Mr French. To assist the commission in understanding the position of the Agricultural Contractors of Tasmania, could you elaborate a little on the role of the Agricultural Contractors to the Tasmanian economy, where you fit in and the role you play.

MR FRENCH: We're a statewide organisation. We've got three areas, the southern, the Mersey Valley and the northern area. It's basically built based on the phone areas, phone districts. We've been in organisations - been statewide now for about six years. Previously it was only in the north and Mersey Valley. We've been in operation for some 30-odd years. We've got about 120 to 130 active members and we're concerned in all aspects of contracting agriculture, right from cultivation works through to harvesting, cereal harvesting, grain harvesting, bailing and that type of work; silage making. We cover most facets of contracting.

We're probably a self-funded organisation. We put out a pocket book annually which is distributed through the major firms and merchants in the state. We believe we have a very important role. There's a lot of contractors being used now because of the cost of equipment and we think, you know, we do play a very important part in the economy of the state.

PROF WOODS: Do you have a sense of whether the agricultural contractor's role in Tasmania is more or less or fairly similar to that on the mainland states?

MR FRENCH: It's very similar. I guess the big difference with our organisation is that we do cover a wider range of services. The mainland, particularly in Victoria,

New South Wales, basically only cover hay making or cereal harvesting. But we cover - because of our small size, I guess, we cover a wider range of agricultural contracting.

PROF WOODS: So that gives you a fairly good insight into the operation of farm businesses and import of wheat and cereals and export of product. You mentioned transparency. What sort of evidence do you have that you based your conclusions that some participants who are claiming from the scheme may in fact be claiming more than is appropriate?

MR FRENCH: Well, because of the volume of containers coming into the state - I think annually there's about 6000 containers come into the state, which equates to about 14 a day. With this sort of volume I believe that shippers are quite willing to negotiate a fairly substantial discounting of the rate. That happens because of the over supply, the ships coming in. When there's a regular requirement for these containers to come in I guess there is a reason to keep the boats as full as possible and there is some severe discounting going on. The price quoted for grain delivered to some areas is based on a door-to-door, and this is where we have the problem with not knowing what the freight component is and whether there's any of the land component lumped in with the sea component.

PROF WOODS: So have you seen documentary evidence of invoices where they don't reveal the wharf to wharf component of the total freight cost?

MR FRENCH: Yes, I have. Yes, I've got one here now that gives a delivered price. This is back a fair while ago, but it's \$230 a metric tonne, delivered door to door, and they take - in this case the agent is telling us that they handle - they're an agent and they handle all the freight rebate and we haven't got a clue what the freight component is or what they're getting back.

PROF WOODS: So in any redesign of this scheme you'd encourage revealing of the wharf-to-wharf component so that there's greater transparency?

MR FRENCH: Yes, we certainly would, yes.

PROF WOODS: And do you think there would be any difficulty - I mean, a lot of producers or their agents have contracts with freight companies that are for the total door-to-door task, but do you envisage that there would be any difficulty in identifying the wharf-to-wharf component of that total task?

MR FRENCH: I shouldn't think there would be, no. I think it could be done. It certainly - I guess it simplifies it for the importers, but we really should know what - like it's taxpayers' money and I think there should be a set figure there or it should be made very transparent what the cost is and what the rebate is.

PROF WOODS: That's very helpful. Is there any further comments or any response to other participants that you wish to make or is that - - -

MR FRENCH: No, I think that's basically it. As I said earlier on, we certainly think that the scheme is important to the state and we wouldn't like to see it abolished, but we're very concerned about, we think, the roting that's going on and that gives these mainlanders - we've got to import grain into the state. There's no question about that. We can't produce sufficient for Tasmanian needs. We can't produce the quality that's required for our milling wheat and that sort of thing, but our feed grain we've probably got the opportunity to increase more than that, more than we're producing now and we'd like to do that, of course. No, that's about the extent of it.

PROF WOODS: Thank you very much and we do appreciate the submission that you put in and the time that you've taken today to come forward and present to the commission. So thank you very much.

MR FRENCH: Thank you very much.

PROF WOODS: Our next scheduled participants are from Roberts Ltd, Monds and Affleck, Tasmanian Grain Elevators. I understand they're not available at this stage. Are there any others before the commission at the moment who would like to come forward and make a statement? Thank you very much. For the record could you please give your name, title and any organisation you may be representing.

MR EAST: Thank you, Mr Chairman. I'm Brian East. I'm representing Net Sea Freight Tasmania and I have a couple of observations that I want to put to the commission for their response.

PROF WOODS: Thank you. Please proceed.

MR EAST: Thank you. I'll read as I have it here, sir. Net Sea Freight is grateful that the Productivity Commission has made representatives available to hear from Tasmanian respondents to its draft report into Tasmanian freight subsidy arrangements. We've not taken - that's Net Sea Freight - hasn't taken advantage of the offer to make verbal representations to the commission during its Tasmanian visits believing that our brief written response would suffice. As a result of proceedings in the Hobart visit yesterday there are a couple of matters that are of concern to us and we would, with respect, appreciate your response.

The first one: we note that there have been several submissions both to the initial issues paper and to the draft report which have been labelled by their authors as commercial in confidence. We understand that such a practice is acceptable, indeed common, in inquiries such as the present, however we feel that there may have been some information suppressed which might have been of some value for other players in the inquiry and which could have been made public in a sanitised way so as to not endanger the confidentiality desired by its originator. Transparency and process should be an overriding principle guiding the inquiry's conduct informing public policy. There's no ability on the part of other parties to test propositions incorporated in such confidential submissions.

It was disappointing to note that it's possible that the commission might be available to have one-on-one discussions with representatives of firms whose submissions have had no element of public airing. We would be interested to know how much weight is to be attached to these submissions in relation to those submissions which have been made publicly in the commission's determination of its final report.

The second issue, sir: there appears to be a widespread - and I've said if not unanimous, the previous presenter rather (indistinct) that one - but widespread disagreement with the commission's proposal for a uniform \$400 per TEU rebate in spite of sound reasons, proffered by the commission. In view of this outcome but without wishing to pre-empt a decision, if the commission is to decide that the

retention of the present Nixon scheme appropriately tweaked is a saleable option will participants be offered the chance to suggest possible variations to parameters and other aspects of the means by which assistance is to be determined?

We note that at least one participant has requested that some further time be made available to present options. Allowing such a process to occur, while perhaps prolonging uncertainty on the part of beneficiaries of the TFES would almost certainly result in a more robust scheme. Thank you.

PROF WOODS: Thank you - appreciate you making those points. It gives me an opportunity to clarify the operations of the commission. The first issue you raised is that of transparency of commission processes. The commission holds very great importance on transparency because we consider not only is that an appropriate way of ensuring the findings are well understood and based on known information, but it improves the accountability of the commission to the taxpayer for whom we are undertaking these tasks.

So on the then particular issues relating to transparency, it's not indeed common for the commission to accept a large number of submissions on a commercial-in-confidence basis and as you'll recall from our hearings in Hobart yesterday we expressed disappointment to some participants for the fact that they had sought commercial in confidence across a number of matters which we felt could more appropriately be put into the public domain and I used the opportunity of the hearings in fact to raise a number of those issues so that that was an alternate way of putting forward that material for all to examine.

So we actively discourage use of commercial in confidence unless it is actual information of a very sensitive commercial nature but not as a general blanket to protect the views of the individual participants. Please be rest assured we actively discourage that sort of activity and we do what best we can then to get around that by other means of engaging participants in the public debate. Indeed I asked several participants again yesterday if they would go back to their organisations and consider putting more information on the public record.

In relation to one-on-one discussions these hearings are the basis for our decision-making; these are on the public record together with submissions that are made to the commission, together with its own analysis. So they're the basis of the draft report and they'll be the basis of the final report - the information presented at hearings, the submissions made to the commission and the commission's own analysis. It is true that sometimes we undertake site visits to acquaint ourselves with the actual operation of particular industries that we may be examining, but we don't use those as an opportunity for any form of one-on-one negotiation behind the public veil. So that is not a practice that the commission undertakes and we are very clear on that. I think you can be confident that transparency is foremost in our mind.

In relation to the proposal for a flat-rate rebate compared to a wharf-to-wharf subsidy, the commission in its draft report discussed and explored both options and in its final report will discuss and explore both options. At this stage I'm not in a position to advise you of what the final outcome of the deliberation will be, but please given that we have aired a wharf-to-wharf proposal in our draft report if there are views that you have relating to particular parameters and variations to those parameters, the commission would be very grateful for you to present that evidence by way of written submission to us. So it has been put forward in the draft report as a variation that will continue to be explored and we would be grateful for any opportunity that you might have to put forward your views on how such an option would work, and that will assist us in our final deliberation as to the nature of our recommendation.

On the question of timing, the commission has not sought an extension of time from the government. We are aware that others, for their own reasons, may have approached, or be approaching government, for an extension of time on our deliberation, but that is not an approach that we have made. I am not currently planning on there being any extension. I am still well envisaging that I can sign this off before Christmas, for a number of reasons. So unless instructed otherwise by government, we are seeking final submissions by the end of October and I will sign the report on or before 21 December.

If there is any change to that, if government chooses to extend our time for their own reasons, we will notify all participants to that effect, plus put notices on web sites and issue circulars and the rest of it. But certainly I'm thinking that I'm going to sign this one by 21 December. Does that respond to your questions?

MR EAST: Yes, thank you.

PROF WOODS: Are there any other further matters or do you - - -

MR EAST: Well, could I have a rejoinder on a couple of the points?

PROF WOODS: Yes, please.

MR EAST: You say that you don't welcome confidentiality, or too many confidential submissions.

PROF WOODS: Certainly not where we consider that the information or views that are being put forward should be available in the public arena, no. I mean, if it's actual commercial data of a particular nature - companies wish to protect it - then, you know, we will debate but understand, but if it is a general or some less sensitive information we strongly prefer that it be in the public arena.

MR EAST: Yes, we certainly understand that certainly, there are obviously figures that some participants would be most loathe to have made public. But what we're more concerned about I think is that there may be some propositions that some participants would put forward that are not being contested that we don't know about that perhaps we would have a view on, and we haven't had the opportunity to do that, and we would like that to happen. If it would make it better, what these confidential submissions ought to have perhaps is some confidential section to them, but the body of what they're offering ought to be publicly available.

PROF WOODS: We strongly agree with you and encourage that practice.

MR EAST: Thank you.

PROF WOODS: Can I also say that we use the draft report as a vehicle for making sure that we put forward all of the various views that had been put to us, whether they were confidential or not, but any propositions, we've used the draft report to fully lay out all of the various proposals that had been put forward, and I'm not aware of any variations on those at this stage that differ from the draft report. So it's a complete expose of the matters that are under consideration by the commission. To the extent that there are any further variations on that then we would make sure that they are put forward in publicly-available submissions.

MR EAST: The other observation I'd make is that - again not wishing to pre-empt which way you'll go between now and 21 December, but if you do feel that the retention of a Nixon system is a goer, and that seems to be the view of most of the submissions, will there be perhaps some preliminary advice to people who have put submissions in to say, "What do you reckon about this? Have you got any views on what the RFE ought to be on or on some of these other parameters that are perhaps overdue for updating?"

PROF WOODS: Well, there are two issues in relation to that. One is the calculation of what a value should be and there is an ongoing BTRE review, and in fact we used our draft report to reveal to all other participants the number of reviews that had been had in the last number of years. So there's a value side of it and that's not something that will have a view on. BTRE are perfectly competent to undertake such a process. In terms of what should be encompassed by that parameter, I would encourage yourselves and all other participants to put forward your views now anyway.

As I said, we have identified that wharf-to-wharf is a view put forward by a number of participants. We intend to give it serious consideration. If you have a view on how such parameters should be constructed, I would strongly encourage that you put that forward to us in a public submission which would enable us to give

consideration to your views but would also enable other participants who may have a view on it to enter into some rejoinder submissions as well.

MR EAST: And they would all be web sited?

PROF WOODS: Absolutely. We put them on the web site as soon as we've read them to make sure there's no defamation sitting in there and then we put them immediately on the web site. That is our practice.

MR EAST: Thank you, Mr Chairman.

PROF WOODS: Thank you very much, and I appreciate you bringing those matters out into the public arena. Are there any other persons who wish to give evidence or make a presentation while we're waiting for our next scheduled participant? That being the case, we might have a short adjournment, and then we'll proceed.

PROF WOODS: Thank you. I'll resume hearings. Our next participant at the hearings is Mr Frank De Bruyn. Could you please for the record give your name, title and organisations you are representing.

MR DE BRUYN: My name is Frank De Bruyn. I'm the general manager of Tasmanian Grain Elevators and Monds and Affleck Stockfeed.

PROF WOODS: Thank you very much. Do you have a presentation opening comment that you wish to make?

MR DE BRUYN: Apologies for the delay. I heavily booked my day and apologise for keeping everyone waiting.

PROF WOODS: Do you wish to proceed through your submission?

MR DE BRUYN: Yes.

PROF WOODS: Thank you very much.

MR DE BRUYN: I was expecting to have an overhead projector, sorry. My submission outline is - I want to talk just briefly through Rural Co, Monds and Affleck, Tasmanian Grain Elevators, who we are. I will touch on the value of agriculture to Tasmania. I'll make reference to the proposal 1, phase out the TFES; in proposal 2, abolish the Tasmanian wheat freight scheme, and again touch briefly on alternatives to TFES such as a flat rate and some other issues.

PROF WOODS: Thank you very much.

MR DE BRUYN: Since we last spoke in April we've had some changes within our organisation, and as I did then, I'll outline where my interests actually lie. Roberts Ltd has been subject to an off-market reverse takeover by Rural Co, which was successful, which I think was actually in May this year. Monds and Affleck and Tasmanian Grain Elevators both remain subsidiaries of Roberts Ltd, and in April I declared that I was the general manager of Monds and Affleck Pty Ltd and we have an interest in sourcing and using grain, produce stockfeed in Tasmania. Since then, as of around four weeks ago, I've been appointed as general manager of Tasmanian Grain Elevators as well. So it's keeping me slightly busy.

My focus in April was as an end user, so someone who procures grain, and I spoke to the fact that we prefer to bring bulk shipments in through the Tasmanian Grain Elevators. Since then I also have the interest in using the facility. As I did then I'll do it again now and I'll say that at the outset.

PROF WOODS: Thank you.

MR DE BRUYN: Tasmanian Grain Elevators and Monds and Affleck are two separate companies. They run side by side as wholly-owned subsidiaries and I'm continuing to run them as two separate companies. They have different services that they offer and probably over the next 12 months will delineate those a little bit further than what they are because there has been some overlap. Monds and Affleck, we're a producer of bulk and bag stockfeed. We're manufacturer and distributor of the product. We have 13 direct employees and around eight indirect full-time equivalents.

We supply around 75 per cent of the layer feed in Tasmania and over 50 per cent of the domestic bagged stockfeed and again, around 25 per cent of pig feeds and dairy feeds here through Tasmania. We also supply critical ingredients for Tasmanian feed lot, and they're used to balance up their total mixed rations, and we're also part of the risk management plan for the meat bird industry, so there's another integrated feed mill here in Tasmania and Monds and Affleck are actually part of the risk management plan. We're also a control mechanism for imported wheat seeds for grain that is rejected by quarantine when it comes into the state, because of our processing capacity.

Tasmanian Grain Elevators, we're predominantly a bulk handling and storage and grains sales company. It's a former government business enterprise. It was sold early this year for \$9 million piecemeal - sorry, it was the whole entity including stocks, debtors et cetera. The Grain Elevators employ seven people with around two indirect full-time equivalents. We have around 35,000 tonnes of grain storage capacity in Tasmania and we also form part of the emergency feed grain reserve, that's for situations such as fires, droughts, floods, et cetera, and we have locations in Parena, Devonport and Launceston.

Talking on the value of agriculture to Tasmania, we're around 6 per cent of the gross state product. When I say "we", there's agriculture as a whole, and we also provide around 6 per cent of total state employment as an industry. We're more farm dependent than any other state, and that was actually sourced from the TAPG/TFGA annual report last year. Value of agriculture inputs and outputs is around 16 per cent of gross state product and it's around 944 million farm gate value. The process and packages are worth around 2.1 billion.

In the proposal 1 to phase out the TFES, the comment I'd like to make on that is as our business directly, we don't see it actually having an effect on our businesses. The reason I say that is that we're actually a fixed-cost business, and we did talk about this in April, that the reality is that the markets that we deal in, the costs actually are passed through, so we're a fixed-gross-margin business. So freight and grain purchases et cetera, have no direct impact on our business. A reduction in assistance would actually have an effective increase in the cost of freight which

would result in an increase in the cost of grain or stockfeed at farm gate, and hence farmer gross margins are negatively affected, and we talked about that before.

Proposal 2 talks about abolishing the Tasmania Wheat Freight Subsidy. There was - I actually can't remember the name of the report - in a previous report that was submitted it was stated there was no logical basis for determining the level of the Tasmania wheat freight scheme and it's a fixed sum assistance, so it actually has the lowest level - - -

PROF WOODS: It has a ceiling.

MR DE BRUYN: It has a ceiling.

PROF WOODS: So the more imported the lower the rate per container brought in.

MR DE BRUYN: Correct, yes. So in a year such as this one where we have a drought, it has potential to have the greatest effect, and the TFES actually supports the less efficient method of transporting grain and by that, again I would refer back to comments I made in April, where you bring containers of grain around the state in 24 to 26-tonne parcels, 26 is probably on the upper end, and while with bulk grain because of the lighter nature of the vehicles, they can actually carry around the 28 to 30 depending on the route.

One of the challenges with the Tasmania Wheat Freight Subsidy is that there was a government decision in 2004 which had a negative impact on the Tasmanian Wheat Freight Subsidy, and that was such that there was a distortion of around \$15 a tonne disadvantage to the TFES. So it actually moved the product that was going through the bulk facilities across in the containers, and it was purely economic barely - that's what happened, but the difference in the final cost of the grain is actually \$15. So it nets out to be the same level as what the distortion is between the two schemes.

There are significant infrastructure ramifications. There's potential to lose the access to bulk shipping and future investment and facilities and also the impact that would have on the grain reserves, you know, such as a drought year as we have this year. Where my challenge comes from there is that seven or eight years out of 10, you will have no issues with sourcing grain out of Victoria. The challenge with sourcing grain in a year like we are actually experiencing now is we have to go a lot further afield and it's not entirely practical to bring containers across from the locations where we are now sourcing the grain from.

We have the first bulk shipment of grain coming to Tasmania due the first or second week of November and that's purely on the basis of location. It's economic to actually do it from a further location where you can't practically pack and ship containers from and my fear is that if the wheat freight scheme is lost and there isn't

really the use of those facilities, and again I am responsible for those facilities so I can speak candidly about it - - -

PROF WOODS: I thought you had a vested interest.

MR DE BRUYN: Yes, and I say that from the outset, that the reality you are not going to maintain facilities such as those to use them once in every six or seven years. It is a real challenge, and the same with the bulk ships. I know Jepsens run a specific self-unloading ship and really it's that business is actually the one that has the most use for it and there's potential for that ship to disappear and be replaced with a grab bulk instead and there are ramifications for that in trying to get the ships (a) into the port and (b) the nature of how they unload. I know Tasmanian Flour Mills is quite adamant that they wouldn't like to use grain that has been handled through a grab unloader. So I do want to highlight those couple of issues.

As far as alternatives to the TFES, I think the preference would be to actually have TFES running as a flat rate rather than having a door-to-wharf, wharf-to-door or the various combinations of the same and actually run it as a wharf-to-wharf shipping subsidy as opposed to having the - - -

PROF WOODS: Yes, the door-to-door - - -

MR DE BRUYN: The door-to-door components et cetera. I would also like to see equity between the two schemes. I appreciate you propose to scrap the other one because no-one was using it. That was actually economic pressures outside of the industry that caused that not to be used.

PROF WOODS: Yes. I mean, we understand why people do their sums and if the taxpayer is willing to provide more subsidy to one than the other, I'm not sure it's an economic decision, but certainly a personal financial decision that is being made, and the behaviour of the market demonstrates that point quite markedly. I am interested that you actually do have a bulk shipment. When were you saying that was scheduled before?

MR DE BRUYN: The first or second week of November. These ships aren't notoriously reliable on dates but it's around that time.

PROF WOODS: Yes, putting that aside. So is this the mini-bulk vessel that has been used previously?

MR DE BRUYN: Yes.

PROF WOODS: You were saying that it could be lost to the market. Presumably if it was relying only on this activity then it's not very viable. Presumably it does

other things.

MR DE BRUYN: Yes, it absolutely does.

PROF WOODS: So it's just a matter of finding a scheduling date that fits and to employ it for those purposes.

MR DE BRUYN: It's more the nature of the vessel that will change so there will still be a ship available to do the other purposes of the vessel but it simply be that it won't be a self-unloader.

PROF WOODS: Yes. The Elevators Board clearly has a strong interest in this business and you have declared that and we understand it. Is it of concern to you that schemes can be designed such that taxpayer subsidies distort what would be an underlying alternative economic behaviour? I mean, from our perspective if there is a most efficient way of transporting grain then you would hope that subsidy design wouldn't distort that, and from your point of view is mini-bulk shipment overall a more efficient way of delivering grain to Tasmania?

MR DE BRUYN: I think overall it would be, yes, and that's on a per unit of distribution and collecting the product. At the moment there's a lot of movement of containers through further regions of Victoria, up into New South Wales and South Australia, and again a lot of those containers are moved directly around on the roads here in Tassie. I would suggest that doing them in a semi-tipper as opposed to a container is a far more effective way of moving it. When you consider that you are actually carrying two and a half tonnes of container around and three tonnes with the domestic boxes we are using everywhere - they also have a very high centre of gravity which I have an issue with and the method of unloading the skel tippers on the farm. You know, you're talking about taking the whole container up, as opposed with the blower trucks; they're a completely different process. I use the word "distortion" intentionally because I think it is distorting what the market is doing.

PROF WOODS: There's an issue that's been raised with us about the application of the subsidy and it relates to Victorian stockfeed manufacturers who process overseas imported product and then apply the TFES to its delivery to Tasmania compared to others who may directly import and therefore TFES is not available. Is that something that you're able to elaborate on?

MR DE BRUYN: Yes, and I will add that the Victorian manufacturers are doing everything fully within the intention of the scheme.

PROF WOODS: Absolutely.

MR DE BRUYN: It's legitimate what they do. Because, when you bring in

component in from overseas and if you process that before you ship it across to Tasmania in whatever form that product then becomes eligible for claiming and manufacturers such as ourselves - and this is talking as Monds and Affleck - are disadvantaged in the sense that we will source the same ingredients from the same suppliers and again a lot of it is trans-shipped from Melbourne but because we don't actually process it on mainland Australia before we ship it over we're not entitled to the same level of subsidy. We don't attract any subsidy to that.

PROF WOODS: You're able to compete in the marketplace, however, with the final product that comes from the - - -

MR DE BRUYN: The way we compete in the marketplace is we tend to differentiate ourselves by putting out a premium product, as opposed to being purely price driven and we do that in several levels: one is through service; one is through the nature of the product that we actually make and how it's formulated, et cetera. So we compete at that level.

PROF WOODS: How would you overcome that distortion in scheme arrangements?

MR DE BRUYN: Coming back to my comment earlier, I think the only way that could be overcome is to have the subsidy purely applied to sea freight between Victoria and across Bass Strait and Tasmania. So if that was as simple as the sea freight is what was being subsidised instead of being linked to the product then that would overcome that issue.

PROF WOODS: How do you then differentiate between normal consumer goods that the major supermarket chains, et cetera, bring across or hardware stores, but I guess you're partly in that sort of stock and station game yourselves. But would that lead to all containers coming across Bass Strait being subsidised, because at the moment I think, what, about 40 per cent of containers are subsidised.

MR DE BRUYN: Again, if the intent of the scheme was to subsidise the freight for primary production or for manufacturing it would cover that.

PROF WOODS: Okay. So you would differentiate it by - in one sense it's induced, but not its current characteristics. There's another boundary issue and of course any scheme wants designed or have boundaries and it's the boundaries where a lot of the debate of distortion occurs and between wheat and other grain, wheat attracts the Tasmanian wheat freight scheme - other grains don't. Do you have any views on the efficiency of that boundary and what else you would do?

MR DE BRUYN: Again, I believe all of the imports in regards to whether they're wheat or a coarse grain or a protein meal or a legume pulse, et cetera, should be

treated exactly the same way.

PROF WOODS: Would you envisage there's any market for providing many bulk shipments for those grains or are there volumes and sourcing such that they'd be containerised as a matter of course anyway?

MR DE BRUYN: No, there would be markets available for that. Yes. There has actually been a bulk shipment of barley brought into Tasmania probably about seven years ago and that was done without any form of subsidy and again that was purely a market movement, that someone had an opportunity to purchase grain and they priced it at a location and so the economics stacked up, but that's the only one I know of.

PROF WOODS: So you'd apply it to grains generally rather than to wheat only. The complexity of the scheme, we find very different views amongst participants on that; some will say, "Well, it's scheduled into a series of spreadsheets and data is entered," and apart from moving then to just fully electronic lodgment they have no complaints. Others will talk about needing a pay clerk half-time for several weeks, et cetera. Where do you fit into that and what are your views?

MR DE BRUYN: As a casual observation, I've found that most people that are dealing with northbound freight are very comfortable with the administration of the scheme and generally speaking it's people that are dealing with southbound freight are the people who have more issues with it. Again my observation would be that generally if it's going northbound - the location where it is - its destination is probably a little bit more defined and particularly with grain you're actually sourcing from a myriad of different locations which is I think where a lot of the complexity of that comes from.

I'd suggest that probably half of our accounts payable clerk's role would be in administering the TFES and that goes back to sourcing the document, the control documents et cetera, declarations and collating all of that, lodging the claims and then processing them when they come back. So that being said, the rest of our accounts payable system is quite efficient, so I don't want to try and distort it by saying it's a massive task.

PROF WOODS: No. The use of agency arrangements has come under some debate and we understand that perhaps you could clarify that Tasmanian Grain Elevators were applying for agency status. Has that progressed or - - -

MR DE BRUYN: Still having discussions, yes.

PROF WOODS: Is that because it's a complex matter to resolve?

MR DE BRUYN: Yes.

PROF WOODS: Give me a brief insight into why this should be a complex issue.

MR DE BRUYN: The reason it's a complex issue is because of co-mingling in a silo. If you had a container movement, be it from up country Victoria or any other state or from the wharf then you run that through and then take it directly on the farm, it's simple; there's not an issue with that. You still have the administrative side but it's not complex. If you decant the containers at some point and then distribute it from bulk and it's delivered in a bulk truck, you've then actually lost your trail - - -

PROF WOODS: Yes.

MR DE BRUYN: - - - and it becomes quite difficult to administer and that's where our discussions revolve and how that can be overcome.

PROF WOODS: You can see a way through resolving that?

MR DE BRUYN: The discussions are very positive and, yes, I think both parties are willing to try and make it work, but it is a complex issue and with complex issues sometimes they take time to resolve.

PROF WOODS: In terms of livestock freight tasks, do you have any views as to how well the scheme operates in relation to that?

MR DE BRUYN: I don't, sorry.

PROF WOODS: Okay. It's not your area. I think that probably picks up most of the issues that I was interested in pursuing with you. Again, if you could just encapsulate your views on the proposals by the commission for the flat rate as a way of simplifying the form of assistance and comparing that with moving to a wharf-to-wharf rather than current door-to-door. How would you summarise your position on those?

MR DE BRUYN: My preference would be to go to a wharf-to-wharf arrangement and it's probably twofold: one from an administrative point of view. It would be a lot less complex from someone bringing goods southbound, just because of the myriad of variables. The other thing that happens with our door-to-door and variance scheme is that - you know, I hear talked about quite a bit - about rorting with the scheme, that's the term that's been used quite a bit and at this point I've only been with the Tasmanian Grain Elevators for a short time so I won't comment on the Tasmanian Grain Elevators, but I know from Monds and Affleck's perspective a lot of our freight is door-to-door and we buy a lot of our grain delivered directly into the mill and we actually make the seller of the grain responsible for that. One of the

reasons for that is because of the scale of our business isn't such, that we wouldn't put a person into the business to do all the logistics and administration and consolidating the grain.

One of the things we've always been very, very clear of with our suppliers is that we expect them to have a full auditable paper trail on how their cost basis for the door-to-door freight component is put together. My understanding of the scheme - and we've never been audited, Monds and Affleck - but my understanding of the scheme is that it is fully auditable and I've always maintained with our suppliers - I've been in the business for 10 years and I suppose I've been responsible for that for about seven years. I've always strongly maintained that whatever they're actually declaring to us as being the door-to-door freight component needs to be - they need to be able to verify that and I remind them that they are potentially subject to audit.

Where I see there's been a lot of movement in the last five years is the door-to-door used to be metro Melbourne and into northern Tasmania and what's happened is through the nature of the scheme, and it is legitimate within the intent of the scheme, people are actually buying grain up country, packing the container up country and then actually claiming the freight cost from up country Victoria through to the final destination. What it has done is it's actually transferred some of the cost of the grain from grain into the freight.

That being said, it is legitimate; it is actually freight cost. Now, if people are making a suggestion that people are actually distorting that, then I suppose my view is that is always transparent through the audit process and if people are doing the wrong thing with that, then I would suggest that should be dealt with on a case by case basis. But as far as transparency goes, it should be there if the audit process is being used to verify that people's claims are legitimate. The other side of that is that all of those issues would disappear if it was purely a wharf to wharf anyway. So I hope I've - - -

PROF WOODS: Yes. No, I think I could take it from that that you would see that a wharf-to-wharf would not only simplify arrangements but would clarify exactly where the subsidy is impacting.

MR DE BRUYN: Yes.

PROF WOODS: I think that's abundantly clear. I don't have any further questions but do you have any matters that you feel haven't been adequately addressed or that you just wish to re-enforce.

MR DE BRUYN: No, I've covered it well.

PROF WOODS: That being the case, thank you very much for your presentation.

We much appreciate the involvement of your companies during this process.

PROF WOODS: Are our next scheduled participants, Tasmanian Farmers and Graziers, present? That being the case, if they could move forward please. Our next scheduled participants, the Tasmanian Farmers and Graziers Association. Could you please, gentlemen, for the record give your name and title and organisation you are representing?

MR STEEL: Nick Steel, Tasmanian Farmers and Graziers Association. I'm the executive officer at the TFGA.

MR RUZSICKA: Manfred Ruzsicka, strategic advisor with M-Strad and I'm appearing here on behalf of the Tasmanian Farmers and Graziers.

PROF WOODS: Thank you very much for coming forward and can I say at the outset that we're very grateful for the detailed submissions that TFGA has made to this inquiry and that they are all in the public arena, which is very appreciated. So we've had the benefit of your views both in preparing our draft and then we have a very clear response to our draft from your next submission and we find that very useful as well. Do you have an opening comment that you wish to make?

MR STEEL: Certainly. The TFGA have engaged Manfred to assist us with the initial submission and now today's rejoinder and presentation. Basically I would like to pass over to Manfred to present our rejoinder.

PROF WOODS: Thank you very much. Please.

MR RUZSICKA: Thank you. Just one item that I would like to, sort of, clarify, if you like. I did appear before the Productivity Commission yesterday in relation to a submission and today I'm appearing on behalf of the TFGA.

PROF WOODS: Yes.

MR RUZSICKA: In some elements I'd like to expand. Yesterday I indicated that I have a past experience with the Tasmanian Freight Equalisation Scheme which goes back to 96/7. I'd like to add to that by introducing the fact that I was also involved with a review of the Tasmanian, as it was then called, in 2001. So I also do have an element of familiarity with the wheat freight scheme in addition.

PROF WOODS: We were detecting as such, yes.

MR RUZSICKA: Sorry?

PROF WOODS: We were detecting as such. Please continue.

MR RUZSICKA: What I would like to do is run through the rejoinder

submission in terms of its content but also expand on that in a couple of areas and drawing in particular from the initial submission of the Tasmanian Farmers and Graziers. The points that I would really like to cover off are the notion of the rationale, the benefit assessment, the current structure, indeed the proposed flat rate and a couple of parameter considerations within that, the question of the future role of the Tasmanian Wheat Freight Scheme and how it might be improved upon and then some brief discussion about the eligibility criteria that applies not only to the containerised scheme, but also the bulk scheme.

So just, I suppose, to kick it off in terms of the rationale and to draw on yesterday's discussion, the Tasmanian Freight Equalisation Scheme, there's a fairly clear outline for that in terms of the Department of Transport and Regional Services web site which indicates that the scheme assists in alleviating the comparative interstate freight cost disadvantage. I won't read the whole detail - it's there - but what I would like to add to that is - - -

PROF WOODS: And on the public record because this is an open public submission.

MR RUZSICKA: Sorry?

PROF WOODS: And on the public record because this is an open public submission.

MR RUZSICKA: What I would like to add to that though is that the wheat freight scheme, there actually is a direction in relation to that and that also says:

To assist in alleviating sea freight costs of shipping eligible bulk wheat on Bass Strait so that businesses in Tasmania relying on bulk wheat shipments are not unduly disadvantaged.

It were much reflects the same, if you like, criteria, the same intent as the Tasmanian Freight Equalisation Scheme and underpinning that is this notion of equity and I guess the point that is really worth emphasising here is that there is a rationale for the scheme. It might not be clearly announced but there is a clear rationale from a Tasmanian Farmers and Graziers' perspective for both the freight equalisation scheme and the wheat freight scheme. As such, and the fact that it addresses that specific sea freight cost disadvantage that both schemes refer to, it's difficult to actually conceptualise a better application of the 93-odd million dollars that's being applied to the scheme and the targeted nature in which they're currently being applied.

In particular, the concept that they might be applied on some broad regional development basis and allocated across a range of different industries, that would be

cause for concern. Both these schemes deal with a very specific anomaly and the targeted nature of assistance is one of its great strengths and has been recognised as such by successive review authorities, successive governments, et cetera. So that's, I guess, a key point in the equity consideration.

The second, I guess, extension of that then is, well, what's the actual benefit of it? There has been benefit assessments undertaken and indeed, as we discussed yesterday, the Tasmanian government, as the treasurer referred to earlier on, put forward the Monash Multi-Regional Forecasting Model. It's accepted that that is a good model for its purpose and that purpose is that it's a general equilibrium model and we still have severe question marks in terms of its sensitivity and its application in the Tasmanian context in relation to the specific industries that Tasmanian freight assistance affects.

In particular, from the Tasmanian Farmers and Graziers' perspective, our initial submission actually had a significant attachment in relation to the performance of the - I'll just get the right title here to make sure that we've actually covered it off accurately. It was called the Potential Impact of TFES Removal on the Tasmanian Vegetable Industry.

PROF WOODS: Yes. We were very grateful for that.

MR RUZSICKA: That particular study highlighted the significant ramifications of any change in containerised freight assistance levels or indeed container equivalent rate assistance and the potential ramifications as to how that might slide back or be passed on into actual producers. That impact, we feel, has not been fully recognised in the Productivity Commission's submission at this stage and we forward to some additional elaboration in that regard. What I would like to add to this discussion about this particular model is that earlier in the piece the concerns of the Tasmanian Farmers and Graziers were such that we actually pursued additional clarification in terms of how the Monash model actually worked and applied in this particular context.

A couple of comments that did come back from the architects of the model were that:

Provided information were collected from sufficient enterprises on quantity, reactions to movements in interstate and international price relativities, it may be possible to generate improved estimates for interstate price elasticities.

Implicit in that is that there is actually recognition from the architects that there is some scope for error in their elasticities. To some extent the Productivity Commission has in fact picked up on that and we are, I guess, of the view that the

elasticities probably should move in a direction that reflects there is greater disadvantage rather than the reverse.

PROF WOODS: I think as we discussed yesterday different elasticities will change the quantum but may not necessarily change the sign at the bottom.

MR RUZSICKA: Yes, depending on where we are looking into the whole of the economy, I would say.

PROF WOODS: Yes.

MR RUZSICKA: I guess we have a potential difference of opinion there. I would actually go to the next comment that was received from the architects of the model was in relation to the actual impact, and what we did was we submitted the study that has been provided. I will just make sure that I read the name correctly again. You would think I would know this title by now. The Potential Impact of TFES Removal on the Tasmanian Vegetable Industry. This was submitted to the Tasmanian government and particular elements out of this were actually raised as an issue that we wanted to have considered in the model. Indeed we said:

Well, at the disaggregated level it appears that products such as potatoes cannot be effectively produced in states outside Tasmania. And to capture this idea would require some level of disaggregation of the agricultural industry. Indeed, much of the agricultural industry and its specific nature of the Tasmanian context is unlikely we believe to be captured accurately in the multi-regional forecasting model.

In response to that the architects of the model have actually come back and said:

While it would be expensive for the Tasmanian government to revise its own modelling in this regard it might be reasonable to request the Productivity Commission to take it into account.

I guess in that regard we would make an overture to the Productivity Commission that they might wish to consider that.

PROF WOODS: We can certainly take it into account.

MR RUZSICKA: So that is, I guess, in relation to the benefit. We feel that, in summarising that element, is that the benefit assessment understates the benefit and particularly in relation to some of these import substitution issues such as a prevalent in the vegetable manufacturing and production sector which will have an impact into the growing sector. What I would like to move on now to is the proposed flat rate of assistance approach. At the outset let me say that Tasmanian Farmers and Graziers is

not in support of a flat-rate scheme. That is, I think, fairly evident from our particular submission. The statement is:

A flat-rate approach, while administratively attractive, does not meet the fundamental test of being linked to the relative sea freight cost disadvantage and is not supported as the basic platform for calculating and delivering freight assistance.

The fundamental premise on which that is based is that the assistance is in recognition of a sea freight cost disadvantage and the concern is that a flat-rate scheme places some arbitrary measure and decision on that level of assistance which is unrelated to the actual disadvantage being experienced. During yesterday's discussion about this, one of the items that was raised was this notion of the - and please correct me if I quote you out of context - the duality of the two different parameters having a fixed flat, if you like, RFE, and a variable sea freight cost disadvantage as a product of the variable sea freight, and the fact that that difference actually creates some anomalies.

Whilst recognising that there is some considerable variability in the road freight, the Tasmanian Farmers and Graziers would like to draw attention to its initial submission. On page 18 there is actually a figure there of industry freight rates that were collected in research for its particular analysis.

PROF WOODS: Yes.

MR RUZSICKA: Those freight rates, yes, they are from a selected group. Given the resources and the time available there were data limitations but the general indication is that most road freight rates fall within a parameter band of probably something like 20 per cent plus or minus of what you might consider to be the average or, indeed, a median value depending on your perspective.

PROF WOODS: Yes.

MR RUZSICKA: As far as the sea freight rates go, the variability is much more significant and, indeed, the Productivity Commission's research and some of its tables suggest that that variability would actually be more than 50 per cent. As such there's a question here of the relative merits of actually having a flat rate road freight equivalent and the position that would be taken is that a fixed RFE is a more practical implementation than potentially a variable one which would need to be assessed on a case-by-case basis. Certainly if the resources were available and if the methodology could be employed, a variable RFE may well be entertained on a case-by-case basis.

To some extent there is recognition of the variability in the road freight

equivalents through the fact that we have a road freight equivalent at the moment and there is variability recognised for the refrigerated sector with a 10 per cent premium. In our initial submission the Tasmanian Farmers and Graziers recognise that in fact for the nature of the people operating across Bass Strait from Tasmania there isn't that degree of variability between refrigerated and non-refrigerated vehicle movements. I refer here to about page 19 of our initial submission. The key thing here is that the experience that is, if you like, encountered on the mainland regarding the difference between refrigerated and non-refrigerated vehicles does not translate into the Bass Strait trade.

However, having said that, there is a substantial area of difference between containerised and non-containerised, ie, freight that's moving in tautliners and the like. As such the Tasmanian Farmers and Graziers have put forward the position that there actually should be a differential to recognise that difference. For people moving containerised freight, and I create a quick scenario here, we have 18 tonnes of freight in a box, we have the two-tonne box around it, and a truck movement to the wharf and, indeed, across the sea, is talking about a total movement of 20 tonnes at a time with the limitations that are imposed on it.

On a land-based leg we would be using a tautliner and we would be getting our 26, 28 tonnes plus, depending on the productivity benefits that we have managed to achieved. So the road freight equivalent, if you like, disadvantage for containerised freight is much more significant because as the need to cart the dead weight of the two-tonne box around, never mind the actual additional disadvantage that's incurred in a loss of transport efficiency, getting the product to and from the wharf. So that is, I guess, the two points in relation to that.

I would also like to add to one point just by way of clarification just in case there is any misconception that the original structure of the Tasmanian Freight Equalisation Scheme and the door-to-wharf adjustment factor was never actually intended just purely to relate to the metropolitan area. It actually was a regional aspect and, indeed, the interstate disadvantages were recognised through things like the scaling factor and that scaling factor element is again a different issue that probably needs to be attacked by people other than myself.

PROF WOODS: Were you then intending to move on to wheat or - - -

MR RUZSICKA: I would like to, yes.

PROF WOODS: Before we do shall we compartmentalise the discussion if that's fine?

MR RUZSICKA: I'm comfortable with that

PROF WOODS: Just exploring the idea of the RFE and different ways of differentiating the task. You did reasonably characterise my concerns, thank you, that you have a flat rate RFE from which you deduct a variable rate, actual or at least invoiced cost, which means that the apparent disadvantage for those who are at the top end of the freight cost task is higher than what their actual disadvantage might be if their road freight equivalent was somewhat higher. We did find the graph and data that was supplied in the earlier submission very helpful in that respect, and again I think it's a reasonable characterisation to say that the range, at least for the data that was provided there, is in a more narrow 20, 25 per cent band, compared to what we're finding on the sea leg of a much wider potential 50 per cent either side band.

Nonetheless the concern remains - and it would be particularly applicable to vegetables who are at one of the higher ends, that by deducting a low single RFE from a high sea leg invoice may be over-emphasising the disadvantage. You've put forward an alternate proposal which we would like to explore further of differentiating between containerised and non-containerised. So we thank you for that. Do you have any sense of magnitudes or any further elaboration of that concept as to what impact that would have on the level of subsidy for the different freight tasks?

MR RUZSICKA: No. I don't have access to specific data or specific case examples and indeed I recognise the difficulty that the Productivity Commission has in actually collecting data that will support its deliberations in that regard. But probably the only thing that I can say is our expectation at this stage, based on the data that we've collected, is that the differential between containerised and non-containerised freight - or containerised and if you like freight moving in a Tautliner on a per tonne basis, the difference would probably be something like 25 per cent. So it's substantial.

PROF WOODS: Yes.

MR RUZSICKA: And as such it probably represents a bigger anomaly than the previous 10 per cent anomaly that was recognised in - - -

PROF WOODS: Of the reefers.

MR RUZSICKA: - - - reefers. Having said that, I'd suggest that probably at the moment it would be an observation that the current road freight equivalent is probably representative of the disadvantage that the refrigerated - sorry, representative of the disadvantage that the actual vehicle movements are facing at the moment and serves to, if you like, understate the disadvantage that the containerised sector is experiencing. So that the guys that are actually moving the reefer trucks, the pantechs, the Tautliners, et cetera, across Bass Strait, and indeed even going down to the livestock movers, they would - the current RFE probably is closer to

reflecting their disadvantage than those guys that are moving it in containers.

PROF WOODS: You have some data plots on that chart on page 18 of your original submission. Since date of publication, have you received more data than is evident there?

MR RUZSICKA: No.

PROF WOODS: That's it?

MR RUZSICKA: That's it. That set of data was collected with the express intention of supporting this particular submission. Supplementary data collection wasn't undertaken. I would just like to emphasise one thing because it was pointed out to me yesterday, only because somebody looked at it and just in case somebody else looks at it incorrectly. Next to the road freight rates, the little red dot there, that's actually part of the key as opposed to one of the actual dot points.

PROF WOODS: Yes. No, I assumed nobody was paying that sort of rate.

MR RUZSICKA: No. It would be a pleasure indeed, but no.

PROF WOODS: I'm not sure the shipping companies would think the same.

MR RUZSICKA: I would say that in this collection of data there is an assembly in there of the containerised components, the pantech components, the grain moving in boxes, et cetera - a number of those. There are a couple of discrete shipments that haven't been included in that and the intention of that particular chart was to actually ascertain what the marginal rate was for freight movements, and indeed whether or not the current parameter estimate for the road freight equivalent did in fact reflect the marginal cost of transport movement of road freight over a set distance.

PROF WOODS: Without having identifiers on it, is there some way that we could consult with TFGA to understand some of the characteristics of the various data points? You don't have to answer that now, but if you could give consideration to whether it's possible without identifiers to further understand that data, that would be helpful to us.

MR RUZSICKA: Would that be put in before the 27th?

PROF WOODS: No, we'll consult with you. To the extent you then do provide any data that would then go on the public record so that all people have transparent access to it, but - - -

MR RUZSICKA: I'd suggest that data set probably could do from substantial

elaboration in order to refine that estimate, and as such I guess I would encourage, if the opportunity presents itself, for the Productivity Commission to actually put in place a framework for the collection of this sort of data to inform its deliberation.

PROF WOODS: Yes, and we have been having discussions with various parties to get further data, including yourselves. So thank you for that. I think that clarifies our views on that side of it. Do you want to then move to the wheat? Sorry, just before I do, the view of the TFGA, just to be very clear, on a proposal to move to wharf to wharf only, is there a view?

MR RUZSICKA: The Tasmanian Farmers and Graziers support the notion of having wharf-to-wharf as the basis for claiming. However, it recognises that there are people at the moment who claim on a door-to-door basis and there needs to be some degree of transition provision, if you like. To move on a "one year it is, and one year it's not" would obviously disadvantage a lot of people and indeed I guess the emphasis there would be on the fact that the existing mechanism in terms of door-to-wharf adjustment that's being employed - and I draw attention to yesterday's discussion in that sense - that the annual review process and the annual shifting of that door-to-wharf median adjustment factor would very quickly actually encourage all shippers to move to wharf-to-wharf. Without actual access to the data set, it's difficult to say how long that would take, but if I was speculating I would say that it wouldn't be more than a few years and that certainly within that scope industry would be able to adjust, and indeed it would be appropriate for it to adjust.

As an extension to that notion, to take that a step further, the TFGA perceives that the allegations, if you like, and the possibility that rorting might exist, is something that very much concerns it; that this hasn't been, if you like, quantified or assessed, et cetera, but having said that, the door-to-wharf adjustment factor and the move to wharf-to-wharf claims is one potential mechanism through which if greater clarity was requested of the invoicing mechanism, you could actually achieve greater transparency and potentially alleviate some risk of rorting by requiring people to either put in place a stat dec mechanism or explicitly state on their invoices what is and isn't included, or specifying what is only allowed to be included. Certainly there are a number of different mechanism that might be employed to discourage the possibility to the extent that it does exist of any potential for rorting.

PROF WOODS: Yes, because even on a wharf-to-wharf basis if the ultimate task of the freight company is perform a day-to-day service, and entirely legitimately so, you would need to ensure some transparency and integrity of the data that the wharf-to-wharf component was in fact related to the wharf-to-wharf costs and not somewhat more arbitrary allocation of which costs went into which category.

MR RUZSICKA: I think that if shippers were actually encouraged to pursue wharf-to-wharf claiming through the progressive move through, if you like, the - or if

the door-to-wharf adjustment mechanism were employed and shippers moved to a wharf-to-wharf basis for actually claiming assistance they would become more pointed and focused on what they were actually paying and their invoices for that particular component, and dare I say it, you would probably end up having an additional competitive incentive for people to actually pursue lower freight rates because there would be more clarity to the individual shipper about what they are paying for a particular segment.

PROF WOODS: It would also allow the administrators to identify where there were outliers for claims for that wharf-to-wharf component if all invoices were wharf-to-wharf.

MR STEEL: It would facilitate improved auditing and improved monitoring for that sort of potential for rorting.

PROF WOODS: You make an entirely valid point about transitioning. Nobody wants to create uncertainty or disruption to normal business process. There seem to me two, at least, ways of transitioning to a wharf-to-wharf. One would be, as you say, to progressively increase the door-to-wharf and wharf-to-door components so that there was greater incentive to claim on wharf-to-wharf. Another would be more administratively to just identify a point in time with sufficient intervening time at which only wharf-to-wharf claims would be accepted.

My concern with the proposal of progressively ramping up the value of the wharf-to-door and door-to-wharf components is that to some extent it may not be based on assessments of actual costs. I mean, coincidentally the data does show that those costs are rising so it does have that effect but may be somewhat more artificial but nonetheless there are several ways of creating that transition and we would be happy to explore.

MR RUZSICKA: I think the big thing about actually having, if you like, and I think that in an ideal world we would actually combine both. Obviously the door-to-wharf adjustment factor is currently based on a value which is determined by looking at the current day-to-day claims compared with current wharf-to-wharf claims and taking a median value from within that so year by year, whatever the median value is, anybody that is actually below that has the incentive to move to wharf-to-wharf and so we would have this progressive move and that move would actually accelerate the further that we go out. Normal distribution would imply that you have a fairly thin tail and it would start jumping up fairly rapidly.

I think the incentive mechanism in that regard would be fairly quick, and I'm guessing about time frames, but certainly acknowledging what you are saying, I think that, if you like, the mechanism would be to say, "Look, we'll have this but be aware that arbitrarily in four years, five years, whatever, that at that stage it will be

discontinued full stop."

PROF WOODS: Yes. You could do transition of one and then an ultimate cut-off. Thank you for that. That was helpful. Now, turning to wheat.

MR RUZSICKA: Turning to wheat: the Tasmanian Wheat Freight Scheme, and I draw on the earlier presentation by Monds and Affleck et cetera, that in fact we have a situation where there will be a wheat shipment arriving in the next month or so. The TFGA is concerned about the potential that the Tasmanian Wheat Freight Scheme was to be abolished. It was a source of deep concern because the wheat freight scheme actually provides a vital role; not necessarily as evident in its, if you like, current impact because it hadn't been used for a 12-month period.

In the report it was suggested that there were four reasons for this: one is that the scheme was unused; the second was that the predecessor scheme was intended to be transitory; the third one was that there was a common wheat price as a mechanism had been discounted years ago as being inefficient; the fourth one was that if you actually abolished wheat assistance it would mean wheat and other grains would actually be treated on a par and I will come back to that last one in a discussion about eligibility but the first one I guess is that the scheme is unused and there's no reason to retain it. I think that Monds and Affleck have probably provided the best evidence and we needn't go into that, the fact that it is being used.

The predecessor scheme was intended to be transitory in nature. I guess that's one area where the farmers and graziers feel fairly strongly about in that the intent of predecessor schemes was never the same as the current scheme. They had different intense underpinning them and as such drawing that actual linkage across different schemes to say that they are effectively the same was felt that it was possibly a little bit - it created the wrong view of what the current scheme might actually be employed to do.

PROF WOODS: I thought that was the point of your opening comments about what the rationale for the scheme was.

MR RUZSICKA: The rationale of the current scheme is equity. The rationale of previous schemes wasn't. I believe one of them, the rationale was to have a flat price for what across Australia. Now, arguably you could consider that to be equity but that had nothing to do with interstate equity and more to do with uniformity of price across the nation. You might take a perspective on that. One of them was based on the fact that we would have a common price for human consumption. I think the actual - rather than getting bogged down in the detail of these previous ones probably - - -

PROF WOODS: We understand your point.

MR RUZSICKA: The critical thing is that the current scheme when it was put in place had a specific purpose put in place for it. That purpose is equity based on some sort of comparative freight cost disadvantage and on that basis that's the way it needs to be assessed. Indeed, the argument regarding a common price for wheat for human consumption throughout Australia was long ago recognised as an inefficient and scrapped and, look, I think that was admirable. It was probably the right decision. However, the objective of this particular policy is not uniform price for human consumption. It's to address a specific freight cost disadvantage and the drivers, if you like, for that are something different.

So on that basis, if you like, the importance of the scheme, and the fact that it assists in alleviating the sea freight cost of shipping bulk and mini-bulk wheat movements across Bass Strait is of more pertinent importance and that's the basis on which we need to assess it. Indeed, I would join with the Tasmanian Freight Equalisation Scheme on the two schemes together to actually say that in order to actually assess the performance of either the freight equalisation scheme or the wheat freight scheme, both these schemes need to be assessed against their purpose and their objective which means defining the freight cost disadvantage for both.

In that sense there is no compelling, if you like, case for the abolition of the wheat freight scheme. Just in terms of taking that a step further, and we touched on that briefly in our initial submission, the actual, if you like, the framework on which the wheat freight scheme is based, interstate wheat movements in Australia on the mainland largely take place by virtue of the rail system and the rail system has different, if you like, scales of economy than road transport, and is probably far more closely aligned with the existing scale of activity that occurs for bulk grain movements across Bass Strait. So arguably if you're actually looking at what an appropriate disadvantage would be for wheat, that would form a better basis.

If we actually went as far as looking at that, why do people at the moment elect to move grain in boxes? It's because the level of assistance on the bulk scheme is currently inappropriate and what that is actually doing is shifting the relativities to the point where people are electing to move grain in containers. That's not saying that they're receiving an inappropriate level of assistance. What it's saying is that the level of assistance payable to people moving in mini bulk form is such that it's shifting the relativities and that means that assistance is too low.

PROF WOODS: Or that the other is too high.

MR RUZSICKA: That's a matter of opinion and for that we actually need to go to determining what the actual disadvantage is.

PROF WOODS: Yes.

MR RUZSICKA: I would argue actually that at the moment it's probably that the wheat scheme - the assistance is too low. As an extension of that idea, I would actually - and I believe the Tasmanian Farmers and Graziers would be able to make it available, is to actually provide a copy of the 2001 submission and the material that was collected in relation to that particular grain inquiry and there have actually been some shifts in that data since then but it would provide a sense of the feel and the theme of what was actually discussed at that particular time.

PROF WOODS: Thank you. That would be appreciated. Can I draw your attention to a statement on page 7 of the second submission, which says, for the benefit of others present:

It is also observed that such an approach would deliver considerable savings to the government in the form of reductions to payments made for the shipment of wheat under the TFES without compromising the integrity of that scheme.

Do you mean net savings to government overall?

MR RUZSICKA: The net figure is an unknown. Preliminary investigation that was done back in 2001 when this issue of relativities was first raised actually suggested that it would probably deliver something similar; that there might not actually be a net impact, but that in terms of economic efficiency there would be a dividend there that wouldn't be captured by the Commonwealth but there would certainly be a dividend there. The extent to which that has changed now with almost all wheat moving in containerised form seems to suggest that in all likelihood there would be a net saving. However, we don't have evidence to support that, and that would be the subject of an alternative investigation and would depend on what the actual - if you like the rail freight equivalent would be for the wheat freight scheme.

I would just like to add one more thing on the current scheme, and this is actually made in the 2001 submission - well, the 2001 information that was prepared, is that the current way and structure of the wheat scheme where you have a flat pool of money that is allocated is incredibly perverse in its effects on their economic activity.

PROF WOODS: We totally understand that. It's the higher the activity, the lower the rate.

MR RUZSICKA: And indeed it sends the wrong market signals to the Tasmanian producers, and just for the clarification of the people here, if we actually have a pool of a million tonnes and a million dollars, each tonne gets a dollar. If we have a pool of 10,000 tonnes, each tonne would actually get a hundred dollars. So it creates a

situation where during a drought situation where Tasmanian producers are actually hungry to bring grain in, the assistance level is decidedly low and in a year where we actually have Tasmanian producers producing effectively and the assistance that's brought in, it goes up to its maximum.

At this stage that maximum is set at \$20.65, but it goes up to the maximum which effectively, if you like, undermines the relative position of the Tasmanian growers in terms of the price they might command. The ideal would be a situation where - and even if that figure is \$20.85 or \$30, or whatever that figure is, it doesn't really matter. It would provide stability in terms of the relativity of the production of the Tasmanian wheat growers.

PROF WOODS: If my memory serves me correct - and my colleagues can probably assist me if I'm wrong - but the rate in 03-04 was about \$16.33 a tonne because the cap was reached and so the value was redistributed back down across the total tonnage.

MR RUZSICKA: I think the current mechanism actually has a degree of - it's set on the basis of some estimated impact, and so you can't even really plan around it because if it turns out that the demand is greater than the funding available, you suddenly have to make almost like a retrospective adjustment.

PROF WOODS: Yes.

MR RUZSICKA: And that whole notion I guess flies in the face of any predicability for consumers of grain.

PROF WOODS: I don't know if you've also done your sums, but coincidentally - and it is strictly coincidentally - but if you had a flat rate of \$400 per container then the effective rate also comes out at - I think it's a cent more - no, 16 - yes, 34 a tonne, but it's purely a coincidental relationship; an oddity of figures. Now, the boundary issues such that wheat is included in a bulk freight scheme but not other grains, does TFGA have any view on that?

MR RUZSICKA: The TFGA does. Indeed it would be argued that the lack of inclusion of other grains in the scheme actually creates a situation where people will use wheat for purposes for which it is less than optimal. There's particular - and I'm getting a little bit outside of my area of expertise here, but my understanding is there are particular wheat product and grains that are actually suited to purposes and it's to do with things like the heat generation and nutritional value, et cetera, and that there are other alternatives which are better suited to that, and barleys and the like. Hence farmers actually blend their product.

Certainly at the moment the incentive is - it's pushing in one direction and

encouraging the use of imported wheat against other products. When I say "imported", imported into the state, and certainly in that regard a more equitable arrangement would be encouraged that would remove the discrimination between grains. After all the disadvantage is not related to whether it's a wheat or a barley product. It's related to whether or not you can move it in effective mini bulk form.

PROF WOODS: True. Okay. Are there any other matters in relation to wheat that you wish to raise?

MR RUZSICKA: Not in relation to wheat at this stage.

PROF WOODS: Do you want to talk about recyclable containers?

MR RUZSICKA: I'd like to touch on that. The issue of recyclable containers is one that has been raised periodically and it's noted that the Productivity Commission has recognised that there is an anomaly.

PROF WOODS: Yes.

MR RUZSICKA: There were a number of anomalies recognised in the Productivity Commission's report and I suggest that some of them have real merit and this is one of them. The issue of recyclable containers, it has ramifications at a whole number of different levels. By way of example and by way of background, when the scheme was set up in 98, the prevalence of recyclable containers was negligible. We've had the significant move in terms of Coles and Woolworths to actually requiring this "farm gate to shop" movement in a single container and we've got a situation as a consequence where the producers are by default required to actually support this. It is a cost of their doing business.

If they were actually bringing their product in in cardboard boxes, single use one-directional cardboard boxes, they would get assistance on those boxes coming south. They don't get the assistance because the box is part of the recycling chain. Unfortunately it also means that there are environmental impacts and a host of other impacts which are difficult to measure but nonetheless there. It's discouraging, if you like, the efficient use of resources and it's actually diminishing by default Tasmanian producers of fresh produceability to actually compete on mainland markets because they have to carry this additional cost of doing business that their mainland counterparts don't have to, and in that sense the TFGA would implore the Productivity Commission to actually make a strong recommendation about that in terms of freight equalisation that recyclable containers should be included.

We understand that at the moment part of the reason that they are not included is the fact that Centrelink or DOTARs is actually having difficulty in coming to some sort of agreement about where the boundaries are. We don't see the boundaries as

being quite so grey and we think that on that basis - I actually bring a plastic box in and I'm going to send it back and never use it again, I get assistance. If I bring it in but I make it part of the recycling chain I don't get assistance. It doesn't make sense and that anomaly needs to be cleared up.

PROF WOODS: That is always the feature of government interventions that there are boundaries but we do understand that anomaly and as you said we did point it out in our report.

MR RUZSICKA: I mean, I think the Productivity Commission has encapsulated that particular anomaly exceedingly well. It's just a matter of - - -

PROF WOODS: You are just looking for the next sentence.

MR RUZSICKA: Just looking for the recommendation to sit on the back end of it that says, "Hey, here's what needs to happen."

PROF WOODS: I understand your view. I think that probably takes us through. Are there any other matters that you felt we haven't adequately discussed that you would like to just put forward? Can I raise one while you are reflecting and that is mechanisms for deliberation on, not only parameter values which require starter collection, but minor amendments to parameter design. If government chose, and it's entirely up to them, to move to a wharf-to-wharf basis there are still then various parameters that need to be addressed, RFE being one. Do you have any views that you would like to put on record as to what sort of mechanisms, processes, arrangements, should be put in place that would allow (a) for data to be properly collected and (b) for debate and deliberation with industry on fine tuning those parameters to most accurately capture the operational objective of the schemes?

MR RUZSICKA: Yes. Thank you for the opportunity to actually comment on that. That's much appreciated. The Tasmanian Farmers and Graziers Association in its initial submission and, indeed, that particular proposal that it put forward has been picked up subsequently by other industry groups, has suggested that there would be real benefit from having a distinct industry framework and involvement in actually setting the parameters. We recognise that, if you like, there is an issue of confidentiality. Industry deals with a whole lot of sensitive information and there are real issues there in terms of actually revealing that information.

Freight rates provide industry with incredible competitive advantage and the release of that information is of extreme concern to them. As such, if you like, an independent framework needs to be set up which industry can have confidence in that it can submit information to it. It will be kept, if you like, in the insulated manner but that input can come out of that process. Now, as far as the review of these particular parameters go industry is also best positioned to provide the

supporting information that will enable the accurate calculation of those parameters, and drawing back to, say, the road freight equivalent example, the interstate road freight equivalent on the mainland at a uniform level might not be appropriate in the Bass Strait context and specific enterprises are able to provide information on what the effective road freight equivalent would be for their product moving across Bass Strait which means that anybody that is actually putting together some parameter estimates is going to be provided with the most pertinent information and as a consequence make the most accurate assessment of what the real sea freight cost disadvantage is.

In terms of how this framework might actually work, the extent to which industry might be involved, the extent to which government might be involved, there a host more issues involved or underpinning that. Indeed, I would suggest that to some extent there's a mechanism there in place under the Tasmanian Freight Equalisation Scheme Review Authority. It's just a question of what the terms of reference are for the review authority at any given point in time. As it's not a standing authority it has, if you like, a transit role on an issue-by-issues basis but within the existing ministerial directions framework I think that they could be quite happily accommodated.

I also see that the parameter adjustment, if it was undertaken in an industry consultative mechanism, industry is going to be more receptive to any changes that are made because they know that it is based on local information and therein you get confidence in the result and less likelihood that any results will actually be challenged.

PROF WOODS: Perhaps if TFGA and/or other bodies, TCCI and that, would like to find somebody who could write a page or two on that and submit it to us, that would be helpful. All right? Any other comments that you wish to make?

MR RUZSICKA: Nothing specific. Probably just to wrap up that both schemes, the freight equalisation and the wheat freight scheme, are seen as being essential to Tasmanian industry and the agricultural sector in particular; that we see that there is a clear equity issue that they are addressing and it's difficult to see a more pointed way of addressing that specific freight assistance. We would like to be in a position where we could actually have greater confidence in the assessment that's being undertaken given the evidence that's being presented by people that are actually out there in the field at all different levels and the fact that there seems to be an inconsistency between that information that has been presented and some of the other economic assessment data; some way of reconciling that if you like.

Aside from that we see that the existing mechanism provides the best way of delivering on the stated sea freight cost disadvantage and that, indeed, with some sort of an effectively parameter adjustment framework we could probably move on to a

position where the benefits to all concerned would be improved.

PROF WOODS: Thank you.

MR STEEL: I think Manfred summed up beautifully but I would just like to thank the Productivity Commission for giving us the time to talk to our rejoinder today.

PROF WOODS: Thank you very much. We appreciate that.

MR RUZSICKA: Thank you.

PROF WOODS: Our next scheduled participant is Tasmanian Chamber of Commerce and Industry. Until they arrive we will have a short scheduled break.

PROF WOODS: In these hearings our next scheduled participants are the Tasmanian Chamber of Commerce and Industry. Gentlemen, if you could for the record, please state your names, titles and organisation that you are presenting.

MR BUCHANAN: It's Neale Buchanan, general manager of operations for the Tasmanian Chamber of Commerce and Industry.

MR HALL: Stuart Hall, economist, of the Tasmanian Chamber of Commerce and Industry.

PROF WOODS: Thank you very much for coming. We appreciate the involvement of the chamber in this inquiry. Do you have some opening comments that you wish to make?

MR BUCHANAN: Yes, we do. As I said earlier, we are happy to engage in a dialogue with you on some of these things but there are certainly some points we would like to make at this stage. I want to address just a little bit about why we think the freight equalisation scheme does exist and, indeed, should continue to exist. We are certainly prepared to make some responses on some of the specific proposals and findings you made. Stuart is available to give our feeling on the general state of the Tasmanian economy and how this would fit in if it was removed, what it would do for the economy, because we would certainly say that Tasmania's economy is not particularly strong at the moment in our analysis and we think the loss of the equalisation scheme would be a huge blow to it.

So just a little bit about the TCCI if you're not aware. We're a nonprofit organisation. We've got 2490 businesses as members and they employ over 78,000 Tasmanians and we've got members right around the state. As far as the case for the freight equalisation scheme goes I guess the point that we would put to you quite strongly is that we don't see this as something about regional development, as assistance for a region of Australia. We see this very strongly as a state equity issue, that this is about equity for the state of Tasmania as an equal participant in federation. We think you have to approach the review from that point of view and not as a regional assistance package but from that - that this is about equity, to ensure that Tasmania can participate in the federal without disadvantage.

We believe if you take that tack to the review then you come to a different conclusion. So that's our first point. The second point really is that I think there's a false premise in some of the thinking about the TFES, that if it was dropped that the investment decisions - the production would move somewhere else in Australia. We don't believe that's necessarily the case. We believe there is a strong feeling that investment decisions would be made that would move production to overseas countries. I guess talk's cheap in these sorts of things, but you've heard from the major manufacturers and I'm sure you've heard from others.

Just from a personal perspective, prior to joining the chamber I worked for Cadbury Schweppes in a senior role. I don't speak for Cadbury in this capacity obviously, but I can certainly attest that when we made major investment decisions there were three options: one was Tasmania; one was Victoria and the other one was New Zealand and they were very carefully balanced investment decisions. But Cadbury could speak for themselves.

PROF WOODS: Yes, and they've made that point.

MR BUCHANAN: I guess our third point is the one about the economy, that we do think it's in a relatively weak position. We certainly are not experiencing the strong growth that we see in some other states. We see any sort of diminutional loss of the freight equalisation scheme as being a big blow to the Tasmanian economy generally. I guess the other point we'd make is that the way it's currently structured we think is a pretty efficient way to ensure that Tasmania has equity. It's a payment that's based on outputs. We think this is by far the most effective way to ensure equity for the state of Tasmania. We look at some of the other options and some that were flagged in the draft report and to us they don't look like they'd be as effective as an option.

So, for example, you could give assistance, but will it have the same sort of economic value-adding assistance that we currently see from the freight equalisation scheme? We'd say quite strongly no. So that in a nutshell would be our four strong arguments. I'm sure it comes as no surprise to you that the chamber like other participants are opposed to the proposals in the draft report. We certainly reject the phasing out as you expect. I don't want to labour that point and we certainly think the structural assistance package that was proposed would be quite ineffective compared to what currently operates with the equalisation scheme.

The proposal on the wheat freight scheme, we don't have strong views on that. We don't claim to have a strong knowledge of that. It does seem to us though that it does warrant a lot more detailed analysis than what we read in the draft report. We don't claim, as I said, to have any great expertise on that one, but it does seem to me that before a recommendation was made to abolish it that you'd need to do a lot more analysis on that issue.

As far as the flat-rate proposal goes, it's I guess the fall-back position in the draft report. We're strong opposed to that. Whilst superficially it's attractive to have a flat rate and you get a far more simple arrangement, again, we emphasise the point this is about equity. We don't see how a flat rate can deliver equity. Those smaller producers who can't negotiate better freight arrangements than say the larger more regular ones will be disadvantaged by a flat rate. Also, I guess, it doesn't recognise that there are different types of freight, that there are specialised categories of freight,

refrigeration is the obvious one where again there would be a disadvantage with the flat rate. So I guess it's no surprise in our response that we are opposed to what you say. I can move through your draft findings or - - -

PROF WOODS: I think we can probably pick those up in discussion, but perhaps if you do want to provide a sketch of the state of the economy just as a background, contextual understanding, that would be helpful at this point.

MR HALL: Yes. It's a view of the chamber, I suppose, that the Tasmanian economy probably currently sees itself in a delicate position. There are possibly a number of leading economic indicators that would suggest that we are struggling in a number of forms and we'd like to think that our population is tending to head in the wrong direction in terms of its age profile; there's a lot of problems. I mean a lot of these problems that the Tasmanian economy experiences aren't limited to Tasmania, certainly not even Australia. They're global problems, but we see that Tasmania has got a problem of its own and is probably more advanced than other states and possibly the world.

At this current time we also see that there's a lot of uncertainty out there in the business world in terms of the state of public infrastructure, telecommunications network and the cost of energy; also there's the impact of the pulp mill and what that might have on the Tasmanian economy and now the threat of the TFES being abolished. So what this means for business is that it creates this whole plethora of uncertainty in the business world which is going to reduce our investment prospects and the state government has been working hard to attract investment which has fallen down in recent years. Obviously we're trying to attract - and make sure that Tasmania remains open for business and with all this uncertainty in the economy the attraction levels are going to be eroded away.

So we see that the reduction in the scheme would have far greater consequences than just the monetary value that the scheme produces for the Tasmania business community. I mentioned the economic indicators and I suppose when I talked to them, the population - is that it was a worrying concern. Our productivity levels are the lowest in Australia in terms of sort of GSP per capita or GSP per hour worked, whichever way you look at it we still sit at the bottom of the heap. Our investment in research and development by the business community is quite poor and this is quite related, I suppose, to the scheme.

In terms of the workforce participation we've also got the lowest participation rate in the country and in terms of education and training we've got one of the most uneducated populations in Australia, I suppose, in terms of post-secondary education and also training and up-skilling in the business industry. So in terms of the freight equalisation scheme and how it affects all this, it adds to the uncertainty, it reduces our attractiveness to invest and it sends the wrong signals to our investors that we're

trying to move forward with the economy.

PROF WOODS: I think you've painted a fairly clear picture there. Thank you for that and that was efficiently done. Let's turn to the state equity issue. I can't see that there's any area of particularly fruitful debate. Just one briefly on your second argument, the premise of location of investment. The modelling that was done for the Tasmanian government didn't assume if there was a closure of a particular production activity in Tasmania that it would automatically be relocated to Australia. It assumed that the resources would flow to then the next most value added activity within the total Australian economy. So it doesn't swap a paper mill in one for a paper mill in another or a chocolate factory in one for a chocolate factory in another, it says that if you free up those resources where is the next then value added using the current input/output tables of the Australian economy. So it doesn't do that like for like investment. But that's a modelling issue, I don't think it's overly germane to the total argument.

The efficiency of the current scheme is probably where we can most usefully have some debate and discussion. The concerns that the Productivity Commission has with the scheme design as such in part relate to the opportunity or the incentives that the scheme design creates that producers may be claiming more than what the underlying freight cost disadvantage is. There is also concern that of the 92-odd million dollars provided by way of subsidy, that not all of it anyway goes to Tasmanian benefit, that there is leakage by way of appropriation by shipping companies or other participants in the total economic chain.

The question then is, is there some other way of providing assistance to Tasmania - which picks up your regional economy type point - that would more effectively target what you're trying to achieve, which is a viable growing economy here rather than providing subsidy, some of which gets leaked across to non-Tasmanian participants. So they're the sorts of underlying concerns we have. You came out in support of the current structure. Would re-defining the scheme to more narrowly focus only on the wharf-to-wharf disadvantage be something that the Chamber has a view on and you can see relative merits of that, compared to the current structure which allows a door-to-door claim?

MR BUCHANAN: I think on that particular issue, I'd put the rider that we don't claim to understand as well as we might the door-to-door argument. We understand the argument that's being put in the draft report that wharf-to-wharf is more efficient and doesn't give that potential for - well, I'll call it royalty. We just don't understand the issue well enough. We think it should be looked at in more detail and indeed that's what we've said in our written response on a number of the points about the whole structure of the scheme, is that we do think there needs to be greater analysis. We've certainly heard from larger members that they think wharf-to-wharf is the better way to go but we don't have a strong view to that effect. We certainly don't

rule it out as a more effective option.

PROF WOODS: Okay. Subsequent to the release of the draft report, we have been receiving more information which we will incorporate into analysis. But certainly the weight of argument to date and particularly, as you identify, from the large producers is that they would be prepared to move to a wharf-to-wharf. The question then is the impact on other producers who are also participants in the scheme. I mean, we have something like 1300 claimants so there are a vast number of people who interact with the scheme and you would have to look at the effect across them all.

MR BUCHANAN: That's my caution is that we haven't have direct feedback from any members about the door-to-door versus wharf-to-wharf issue other than the bigger ones who said they thought they could probably accept it. I'm just cautious as to - - -

PROF WOODS: In fact in many cases - - -

MR BUCHANAN: I just think we should understand what the issue really is here and just what the impact might be.

PROF WOODS: Okay. Right. I think, as a commission, we've now got a reasonable understanding that it's a matter of looking at the consequences for some of the smaller players and what sort of transition periods might be required or some other way of moving to that. Is there point in discussing then with you some of the design features, some of the individual parameters or would you prefer to have this discussion at a broader level of your concerns?

MR BUCHANAN: Probably the broader level.

PROF WOODS: Okay.

MR BUCHANAN: Certainly what we say about the design issue though is that we think - we believe they should be looked at. Again, I suppose that's where we would be critical of the draft report is that it does make a number of statements about some of the design aspects and just issues. Does the current structure and encourage rorting? Is there leakage to the shipping companies? It makes those statements but there's nothing really to go by. I mean, we certainly clearly won't condone rorting of the scheme, we - - -

PROF WOODS: Not too many people have volunteered first information to - - -

MR BUCHANAN: I'm surprised that's the case. But it's interesting. I'm fairly recent to the chamber and got involved just as I joined with this particular review and

I heard a lot of talk about, you know, is there rorting and how might be doing it, but there doesn't seem to be any evidence that I can see that there is rorting. I guess that's the point we'd certainly put back to you strongly is, let's try and analyse this is greater depth, let's really try to understand why has there been the growth in payments that we've seen in recent years. I mean, I had my view and it's a - - -

PROF WOODS: Please. On the record.

MR BUCHANAN: It's a layman's view from someone who worked for one of the major producers and we spent a lot of time trying to understand what we could and couldn't claim under the freight equalisation scheme. I suspect there's quite a healthy element of that but that's just a pure personal speculation on my part that people have realised that they can get more out of the scheme than what they were claiming and I think that's probably one of the factors. But I can't point you to hard evidence and say, "This is what's really happened," but I think it sort of gets to the - - -

PROF WOODS: I think you're a lot closer to business than we are.

MR BUCHANAN: I think that though is that really there's got to be that analysis to really try and understand these issues. I mean, we hear what's said about is there leakage to the shippers. There might be but we don't know. We don't here any argument that there is. Maybe there is but, again, I'm not sure how you sustain that argument but I think it needs something of substance rather than, "There's a potential for a problem," which is - - -

PROF WOODS: Well, I guess there are three sources to base the argument on. One is scheme design - does the scheme creative incentives or allow that sort of behaviour? and, if so, you would have to criticise scheme design in principle anyway. So that's one. The second is, is there evidence that individuals have put forward who have credible knowledge? and in that case, yes, some people have come forward and made statements whom we consider to be credible witnesses.

Then the third is their mass data that you can analyse on the extent to which people are maximising their claims - and nobody has been suggesting yet that they're illegal but that they're maximising their claims within scheme design. Hard data on that - I mean, if you as the chamber who are closer to industry than we are don't have that data, then the commission itself is hardly likely to have better data. But at least we get to steps 1 and 2 and those in themselves are, in our view, reasonable grounds to take a view. If somebody was to provide step three as well, well, that would be even better but so far nobody has volunteered. But, anyway, that's the nature of our process.

But, you know, if neither step 1 nor step 2 were met as well, well, then arguably the commission would not have a basis for putting views but we do have

some experience in analysing schemes and, as I say, scheme design, credible evidence and then mass data. That's how we operate.

MR BUCHANAN: I think one of the things that we'd urge you is perhaps to engage at the individual company level and try and get those answers. I mean, I think this is what the major manufacturers put to you yesterday and we strongly endorse that, that I think there's a lot to be said to go and visit some of those major manufacturers and really understand directly just how the scheme impacts on them and how they use it

PROF WOODS: Yes, and there is a combination of getting written submissions from them, some of whom have put them in the public arena, for which we're particularly grateful. Others have chosen to put some confidentiality on a whole range of matters which we're encouraging them to again put on the public record that the more transparent the analysis, then the more credible the recommendations that we produce. So we are having that dialogue with participants to put as much on the public record as possible. Are there matters that you wish to go through?

MR BUCHANAN: I think only to emphasise that as far as the way forward, given the Prime Minister's statement that there will be a freight - I'm sure you've had that - - -

PROF WOODS: Yes, we are aware of the - - -

MR BUCHANAN: You've probably had that brought to your attention, I suspect.

PROF WOODS: Yes, yes.

MR BUCHANAN: I think it would be worthwhile to have that dialogue at individual level with the major participants. We would certainly urge a greater and detailed analysis of some of the issues that have been raised that we've talked about. You may well have done it, but the draft report doesn't really give the analysis on some of these issues that I think we should have. I guess at the end of it we're not opposed to change I think in the business community. We're opposed to change if it was to remove the scheme. We'd like - if it's possible to produce a simpler, more transparent scheme that would be a great option, but we don't want that at the cost of the current level of assistance.

So we're more than happy to work with you to try and understand some of these issues and what might be better options for the scheme, but we certainly didn't see it in the draft paper.

PROF WOODS: Okay. I appreciate you making time available and look forward to more written material. Thank you very much.

MR BUCHANAN: Thanks for that.

PROF WOODS: Are there any others present who have not made a statement who wish to come forward? That being the case, I will close these hearings for Tasmania and the inquiry will recommence in Melbourne on Friday. Thank you very much.

AT 12.39 PM THE INQUIRY WAS ADJOURNED UNTIL
FRIDAY, 20 OCTOBER 2006

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