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PRODUCTIVITY COMMISSION

INQUIRY INTO TASMANIAN FREIGHT SUBSIDY ARRANGEMENTS

PROF M.C. WOODS, Presiding Commissioner

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON FRIDAY, 20 OCTOBER 2006, AT 1.02 PM

Continued from 18/10/06 in Launceston

PROF WOODS: Welcome to the Melbourne public hearings for the Productivity Commission Inquiry into the Tasmanian Freight Subsidy Arrangements. I'm Mike Woods, I'm the presiding commissioner on 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 8 September this year. The commission has met with a wide cross-section of people and organisations interested in the issue. We've talked to groups from a diversity of backgrounds, listening to their experiences. We've 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 in the course of 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, and remind participants that a full transcript will be taken and made available to all interested parties. At the end of today's scheduled hearings I'll 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 Cascade Brewery. For the record, could you please state your name, your title and the organisation you are representing.

MR BURSLEM: Max Burslem, general manager of supply for Tasmania.

PROF WOODS: Thank you very much. We have the benefit already of two submissions from Cascade for which we're very grateful. One was provided in May and one in response to our draft report, so that has provided us with very useful information and in fact you'll note that we drew on your submission and included some of that material in our draft report. We can discuss that. But do you have some opening comments that you wish to make?

MR BURSLEM: Yes, thank you. As you're aware, both our submissions are on the public record.

PROF WOODS: Thank you.

MR BURSLEM: There is no confidentiality that has been attached to either of the submissions. If you do require some further information of a confidential nature, we are prepared to supply that to you. I don't propose to go through each of the submissions in detail but rather to go through some key points to highlight what we believe are the key points within the submission.

PROF WOODS: Thank you very much.

MR BURSLEM: Cascade actually employs 100 people in the production side. Overall we've got 140 people involved in Tasmania. There are $6 million worth of wages; a $15 million local spend. Cascade is often seen as just Cascade Brewery. Attached to it we have a beverage plant producing non-alcohol products. We also have on site our own maltings which is now unique in Australia to have a maltings on site. So some of the figures that go with such a diverse operation is we spend some $500,000 on apples a year, taking in some 6000 tonnes; blackcurrants 700,000, which is the total - - -

PROF WOODS: Yes, I saw that.

MR BURSLEM: - - - crop of blackcurrants for Australia; over 300,000 on raspberries, and we would have probably 95 per cent of the raspberry crop within Tasmania; malting barley, we spend 1.4 million, and we are 50 per cent of the malting barley that's grown in Tasmania. We also have a large support for local infrastructure such as the rail in the community, particularly in sponsorship. I think we probably put a sign on nearly everything that's sponsored.

That gives you a background to the company. First of all, I'd like to say that Cascade supports the submission that was delivered by David Quinn in Hobart, and certainly behind that submission, specifically the wharf-to-wharf basis for claims. We currently submit in both wharf-to-wharf and door-to-door, but if there was a reason to want to simplify the paperwork we could go wharf-to-wharf. Currently some of our invoices do show the whole door-to-door invoicing. We certainly oppose a flat rate for containers, particularly because there are some specialist products that are required to transport product.

We do not agree to see any rorting, and we support any measures to eliminate any rorting of the system. If we go back to the flat rate, the effect of a flat rate on Cascade would be a 40 per cent reduction in assistance. This would add some 50 per cent to our freight costs and 5 per cent to our total costs. I would make a point in the draft report it says .5. That is an error and should be 5 per cent.

PROF WOODS: Yes.

MR BURSLEM: I think the other important thing to note from our company is that it does cost us more in inventory of stock because of the time it takes to actually ship from the brewery to a depot, then change it into shipping containers, rail to the ports, ship it across Bass Strait, put the containers onto rail to a destination and then de-stuff the containers and then deliver to the customer. It certainly adds probably four to five days in inventory. That is not only in finished goods going north, but it also is a key requirement for any southbound raw materials that we have to bring into the state.

If we just look at southbound freight, that's critical to the Cascade situation because we have to bring in aluminium cans and all glass bottles, as there is no infrastructure in Tasmania for the production of those type of containers. We go across all four classes of freight equalisation. We have aluminium cans which are in class 1. That is due basically to the weight of the cans, it's just like shipping air. Glass and sugar are in class 2. In class 3 is basically all our northbound product, and we do have a very minimal amount in class 4 which is things like caps where we don't have full containers to ship them forward. So we are involved in all four classes in both south and northbound.

Cascade competes within its parent company Foster's on cost profiles to determine the best sourcing arrangement and a continuous assessment is made of our viability within the company. Freight rates are negotiated nationally, so we have what we consider very competitive freight rates and we use different transport companies on different legs, depending on their quotations. We would like to see some enhancements to the scheme, in particular recyclable or returnable containers. There is mention made within the draft report of the containers, however, we believe that it's vital to us to get some assistance with returnable containers such as empty kegs. We actually ship into the state some 2000 empty kegs a week, fill with product and send out.

PROF WOODS: You can't fill them with another product within the group and empty them down there?

MR BURSLEM: I don't think we've got the population to be able to do that. I wish we could, it would certainly help our sales. We will be making our own submission by the 27th to the Productivity Commission on returnable containers. We will also be making a joint submission with other interested parties. Even with the southbound subsidies our raw material input is some 25 per cent higher than our mainland counterparts. I think what we certainly need is some confidence in the system so that we have confidence to invest in capital to ensure ongoing commitment to the company and to maintain equity with the mainland.

PROF WOODS: Thank you very much. As you would have noted, we did draw on your first submission. In fact, I think, one of our boxes is totally devoted to some illustrations that you provided in that. If I could just explore the freight task a little further. In your initial submission you talked about the vast majority of regional mainland Australia generally having single-mode transport access. That's true in one sense, but within your company do you in fact use rail a reasonable amount for moving product around Australia, whether it's Melbourne to Perth or Brisbane or wherever?

MR BURSLEM: Melbourne to Perth certainly is nearly all rail, probably in the 90 per cent. But from, say Sydney-Brisbane, there is a combination of rail and road.

PROF WOODS: So you do have intermodal costs in a lot of your transport tasks on the mainland as well as the intermodal necessity of using sea freight from Tasmania?

MR BURSLEM: Not to the degree because, if it's from Brisbane to Sydney by road, that is loaded directly at the point of production - - -

PROF WOODS: Then delivered.

MR BURSLEM: - - - straight through to the destination. So we certainly don't have the same problem of stuck in containers that we do with things like slip sheeting et cetera to maximise the volume we can get into a container.

PROF WOODS: But if you are using rail, whether it's from Melbourne to Adelaide or Melbourne or something, then you do have those intermodal costs as part of your freight task.

MR BURSLEM: Yes, but some of it can be loaded directly at the site as well.

PROF WOODS: It's just that your submission does paint a one end of spectrum and the other approach, but indeed even within Foster's Group generally there is some combination of those for other than the Tasmanian freight task. It draws my attention to the material that you did include in that first submission that we did put in the box. The way it was structured it appeared as if there were nine tasks that the freight tasks from Tasmania to the mainland typically involved and happily only two tasks if you happen to be on the mainland. But on closer inspection - which we chose not to elaborate on in our draft report - but as you look at it the mainland equivalent really isn't just the first and last step because (a) there's the transport task in between, which you've sort of put into the first step for the mainland equivalent but it really encompasses three of the steps in the Tasmanian freight task, and to the extent that you use intermodal then there are a couple more steps as well.

So I'm suggesting that perhaps you've simplified the contrast between the Tasmanian freight task and the mainland alternative freight task for point of illustration.

MR BURSLEM: Yes, but we don't have any alternative than to use sea freight, whereas there are alternatives for the mainland operations.

PROF WOODS: I agree there are alternatives, but it's also true that within the group the actual freight task is a little more complex than the simplicity portrayed in the submission. Anyway, we just need to be conscious of that. The freight rates southbound for consumer product within your group, ie, the competing beer brands et cetera, are they the same freight rates as you achieve for northbound product under TFES? Do you have any sense of whether there are any differentials in the actual rates charted for the sea leg?

MR BURSLEM: No, I don't. I can't give you the differential.

PROF WOODS: Do you have a sense that there might be a differential?

MR BURSLEM: It would be more consistent with our class 3 northbound finished goods. It certainly would not be in a class 1 such as empty cans because of the weight factor.

PROF WOODS: Also given that there isn't a subsidy for southbound consumer product, presumably that gives you some natural protection at least within the Tasmanian market given the fact that freight costs represent roughly 10 per cent of overall production costs and that the TFES picks up roughly half of that so you're talking about the 5 per cent. So you do have an advantage within the Tasmanian market for you Cascade product relative to other competing consumer - - -

MR BURSLEM: Not necessarily so because on the scale it is produced on the mainland they can produce at a cheaper rate than we can. So their cost of goods on the mainland is still cheaper than what our cost of goods for production in Tasmania is. So they can still freight and still maintain price parity.

PROF WOODS: So that's something about the cost of production in different locations as distinct from the existence of a sea freight disadvantage.

MR BURSLEM: Our cost of production would go up higher without southbound - - -

PROF WOODS: Without the subsidy, I agree, but putting aside the transport issue, there are different costs of production in different locations of Australia and you're saying that on the mainland within your group scale size - - -

MR BURSLEM: It's economies of scale.

PROF WOODS: I think that's quite interesting and relevant to overall considerations about the placement of economic activity and decisions by investors. You made reference to the four to five-day inventory. To what extent does the cost of that in terms of working capital et cetera built into your figures of the disadvantage to you or are they additional costs that you haven't factored in?

MR BURSLEM: We haven't factored them in.

PROF WOODS: Are there any other of that category - I mean, clearly there's inventory, is there any - in terms of wrapping or other costs that you incur that aren't built into the freight cost disadvantage or is working capital your primary one?

MR BURSLEM: Yes.

PROF WOODS: Very good. You expressed some support if government chose, arising from this inquiry, to move to wharf-to-wharf of being able to comply with that cost structure for subsidy claiming purposes. Do you feel confident that there is a discrete and definable set of costs that belong to wharf-to-wharf and a separate and discrete understandable set of costs that are intermodal that could be encompassed within that subsidy arrangement or is there some uncertainty within industry as to which costs belong in which category?

MR BURSLEM: No, I think our invoices, if it's door-to-door, state what's on them and some is shipped wharf-to-wharf so we don't see any complications there. I mean, to administer the scheme is probably only 2 per cent issued to us and it has been streamlined in recent years.

PROF WOODS: What sort of initiatives have helped you with that streamlining?

MR BURSLEM: We've produced an Excel spreadsheet to monitor everything that comes in or out and set it up so that from that we can submit to Centrelink for payment.

PROF WOODS: The design of a wharf-to-wharf subsidy arrangement has a fundamental flaw in that you are subtracting a fixed road freight equivalent from a variable actual wharf-to-wharf cost. If you're a low-cost, high-volume shipper and you're probably mid-ranking but there are others even lower than you, I would assume, who are very high volume and achieve the cheapest freight rates, then subtracting a fixed rate RFE from their lowest cost wharf-to-wharf invoice produces a reasonable assessment of freight cost disadvantage. But if you're a very high-cost shipper, say, in the fruit and vegetables-type area or related and you're subtracting still that single road freight equivalent then the scheme may be in fact overcompensating for the actual disadvantage that underlies the subsidy.

You sound like you sit somewhere in the middle. Are your road freight - and you do a lot of road freight in your total transport task - the road freight equivalent that is used and would be used in a wharf-to-wharf subsidy arrangement, do you think that accurately and reasonably reflects what your actual road freight cost experience is?

MR BURSLEM: Yes, and why I say that is we have a national group that look at our road freight costs and we have within our company what we term A-legs where we get a set rate for high volumes going forward and then we have variable legs. So I'm certain that we are fairly competitive within our road rates.

PROF WOODS: Would it be possible if we framed questions explicitly to put to you to provide us with some commercial in-confidence information on some of those road freight legs. I can't ask you to give a firm commitment to that effect - - -

MR BURSLEM: If you would like to put a submission to us - - -

PROF WOODS: - - - and you use best endeavours to reveal - - -

MR BURSLEM: - - - we will certainly look at it and come back to you.

PROF WOODS: That would be greatly appreciated because that may help understand the high-volume, low-rate long-term contracts versus the variable rate contracts because there does seem to be a floor in the wharf-to-wharf calculations having a single flat rate from which you deduct a variable actual invoice.

MR BURSLEM: But wouldn't some of that information be available to you now from auditing through Centrelink?

PROF WOODS: We're gathering as much information as we can. The Centrelink data - apart from some concerns that many participants have expressed with that data doesn't help reveal the road freight equivalent side of things and it's that that I'm particularly interested in exploring to understand the variations. I mean, there is industry-published data but that's notoriously unrelated to actual rates that people - - -

MR BURSLEM: Some of it is on the record because we're submitting door-to-door claims now so from what we're already submitting you can work - - -

PROF WOODS: You can do some calculations and we have been doing those.

MR BURSLEM: Yes.

PROF WOODS: But there's nothing like seeing some actual freight rates. Anyway, we can but ask the question and you can but consider the answer.

MR BURSLEM: You're asking us to do your work.

PROF WOODS: No, we're asking all participants who have an interest in this inquiry to submit information to help us to come to a view on what is our appropriate response to their concerns and I don't identify Cascade singly in that factor. But if I was to rely only on published schedule rates, I am sure you would feel that they were not an accurate representation of what actually happens in industry. It is a two-way street.

MR BURSLEM: Yes.

PROF WOODS: I don't have any further questions of you from the submissions other than again to express our appreciation (a) at the amount of information you've provided in them and (b) that you've provided on the public record which I am encouraging a few other participants to do likewise. Do you have any matters you want to raise that we haven't explored?

MR BURSLEM: No, I have nothing else apart from we will put in a submission on the recyclable containers.

PROF WOODS: Much appreciated and if you could pass our thanks back to those who participated in putting this information together. Thank you very much.

MR BURSLEM: Thank you.

PROF WOODS: If I can call forward our next participants, Rural Logic Australia to come forward. Thank you. Our next participants are Rural Logic Australia. Welcome. Could you please for the record advise your name, title and organisation you are representing.

MR BAXTER: Thank you. I represent Rural Logic Australia Pty Ltd. My name is Bill Baxter and I'm a director of that company.

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

MR BAXTER: Sure.

PROF WOODS: Please proceed.

MR BAXTER: Thank you. Rural Logic trades grain and related stock food products sourced from the mainland into Tasmania. We also trade grain domestically throughout Australia and bring in grain from Western Australia into all the eastern states. Rural Logic is a member of the Grain Industry Association of Victoria which represents the post farm gate body trading in grain in Victoria. We trade products into Tasmania in bulk containers, in full bulk container lots to farmers, mainly farmers. We utilise the three shipping companies, that is Toll, Patricks and ANL. We go into the three ports, of course, of Bell Bay, Devonport and Burnie.

Our customer base is mainly farms, as I said - dairy, poultry and pig farmers - and major end users of grain in the state of Tasmania. Rural Logic is also a registered agent for the TFES and we process freight claims on behalf of our farmer customers with details of each claim being shown on our customer invoices so they know the amount of the rebate we're getting with each container. We believe the current TFES scheme allows mainland grain suppliers to deliver product to Tasmanian farmers on a competitive basis and at the same time comply with the strict import quarantine requirements that are needed for Tasmania. It has got to be clean grain, it's got to be free from prohibited weed seeds, and that again restricts the grain supply locations.

We believe we have to be flexible as far as where we draw grain from, and that is because into Tasmania you can't put weed seeds, such as Paterson's curse or spinifex and other products that are becoming very prevalent in certain parts of Victoria. We certainly pass on the benefit of our freight tasks via the TFES to our customers, and most of our claims are on a door-to-door basis to compensate for the Bass Strait logistics. I guess there are three parts to that. We believe that because we have to put grain in containers it's a multi-modal transport route - number one - and therefore you're paying extra freight for that, but you're paying extra freight because you're going across water, over and above the road transport cost or rail cost; thirdly, there's an additional side cost because you have to bring every product into Melbourne, and once it's into Tasmania you move it sideways to our customer.

We're different from probably a lot of the other major claimants through the TFES in that our customer base is all over Tasmania and we must get the product, and we sell all our products on a delivered farm basis. So therefore most of our claims are on a door-to-door basis. I just want to talk about grain prices and demonstrate that in Victoria you have different zones and different pricing applicable to each grain, each zone.

PROF WOODS: Can I just clarify, are these farm gate prices?

MR BAXTER: Yes, these would be farm gate prices in the Wimmera. The Wimmera prices are farm gate. The Goulburn Valley price and the Melbourne price are delivered end user at those locations.

PROF WOODS: Delivered to a depot?

MR BAXTER: Delivered to a depot, delivered to an Inghams, delivered to a Ridley Stockfeed.

PROF WOODS: But within the Goulburn Valley, so it's a delivered price from and within the Valley?

MR BAXTER: Yes, that's right. That could be delivered to a dairy farmer or whatever, yes. The reason I'm putting those prices up is that you can see that Goulburn Valley shows a price differential of about $5 to Melbourne. When you look at the freight cost of moving that grain between Goulburn Valley and Melbourne it's probably about $25 a tonne. But there is a market in the Goulburn Valley because there are so many dairy farmers in that part of Victoria and in southern New South Wales, so grain has its own price in the Goulburn Valley. It doesn't really have that same value in the Wimmera because there's no large end users in the Wimmera, and consequently a lot of that grain that is in the Wimmera ends up coming to Melbourne or it goes to Portland for export markets. Of course, in the last 12 months we haven't seen a strong export market, and it has been the domestic market that's dominated the price range.

The next table, I guess, is a reflection of what's happened with grain prices throughout Australia and these are Melbourne-based prices, but it just shows you the fluctuation in wheat and feed barley prices on a delivered Melbourne basis. That also tends to have a variance in each of the zones in which we're sourcing the grain that we need.

PROF WOODS: There are probably a few others who are using that peaking part of the graph to argue some other features of the wheat industry at the moment.

MR BAXTER: Exactly right. I think we'll stay away from that one. I guess there's a growing need for us to source our grain from up-country locations. This graph or table that we've put up - number 3 - summarises the situation of the previous two. It shows that the prices at each - if people didn't know where the Wimmera was or where Horsham was, it's in central western Victoria. But on top of that we're showing, if we were going to move grain to Tasmania - if we had a freight bridge - we'd bring the grain directly through Portland across to Smithton which is our primary market in Tasmania. We supply about - 80 per cent of the grain that comes through the system to Tasmania would be coming out of the Wimmera, and that's two reasons: one is that economically it's probably the best place to source it; number 2, the Wimmera and that central part of Victoria is one of the only areas that we don't have Paterson's curse, where all of north-eastern and southern New South Wales, most of those areas have Paterson's curse generally in farm or paddocks. So we try and source in that area where we know we can get it past the quarantine system in Tasmania and it's good quality grain.

PROF WOODS: Can I just clarify on that one, the $32 is a road freight equivalent then of moving from Portland to Smithton?

MR BAXTER: Correct.

PROF WOODS: The $14 is a road freight equivalent from Burnie to Smithton.

MR BAXTER: Correct.

PROF WOODS: Good, thank you.

MR BAXTER: Now, the only thing I would say there is that the 32 is directly into Smithton; the 14 is coming out of Burnie.

PROF WOODS: Yes, yes. So you take Wimmera, Portland, Smithton, the 28 and the 32, that picks up the loading and unloading on a truck but then just a straight through run, in effect - - -

MR BAXTER: Yes.

PROF WOODS: - - - had you a land bridge, and then unload - - -

MR BAXTER: Exactly, at the end, which would apply on the mainland at any domestic rates - - -

PROF WOODS: So similarly the $30 from Wimmera to Melbourne is the cost of loading and unloading to a customer in Melbourne but doesn't include a sort of trans-shipment or intermodal cost.

MR BAXTER: Correct.

PROF WOODS: Now, are those intermodal costs picked up then in your 850 to 950 full container load figure that you've also got there for the shipping rates on that figure? I'm just trying to understand which bits are intermodal and which bits are transport.

MR BAXTER: Okay.

PROF WOODS: I mean, I find it a very helpful map, I just need a little explanation of a couple of the bits of it.

MR BAXTER: The 850 to 950 is the actual freight cost of the container from wharf-to-wharf. It doesn't include the transfer of product from a road truck, through a depot, into a container.

PROF WOODS: So wharf-to-wharf only?

MR BAXTER: Wharf-to-wharf only, yes.

PROF WOODS: That range then - partly to protect confidential information - but if there was a bias to one end of that range, do you have a view as to which end of the range it would bias towards?

MR BAXTER: I suppose that range is there because we would claim on a wharf-to-wharf basis only about 5 per cent of the product that we send down. Most of it is door-to-door. By having a bias, do you mean - - -

PROF WOODS: Is it more at the 850 end of more at the 950 end or you don't - - -

MR BAXTER: Probably 910 is the number you're looking for, I would think, but the three shipping companies do vary. We trade everything on a per-tonne basis, so between 850 and 900 dollars, you're talking $4 a tonne, getting 25 in a container. So there are a lot more savings that can be made through the logistics than the $4. For example, if you can land product in Bell Bay rather than cart it down from Burnie, that's an extra $8 per tonne if you had to do that extra land cost.

PROF WOODS: Okay. So the efficiency of the logistics chain can override some marginal changes in freight rates.

MR BAXTER: Exactly, that's correct.

PROF WOODS: A very important point.

MR BAXTER: I guess if we go to the final table which is a summary of those three freight legs, Wimmera, Portland and the freight bridge down at Smithton, it does reflect the fact that if we do it through Melbourne, we're paying 90 to 98 dollars a container and the difference in that is between using B-doubles to bring it to Melbourne or sending containers up to the Wimmera to get them loaded as opposed to the freight bridge where we're saying it would be $28 to Portland and then just got two freight quotes over a distance which is 420 kilometres which made it $32. It's a B-double carrying 44 tonnes. So we would maintain that there's at least a $30 difference between using an efficient freight bridge by road as compared to the current method of intermodal movement via Melbourne, across the sea and then delivering it to our customer.

PROF WOODS: That just helps me because on your written document, you've got the page that's got the map on it and the first line underneath that says, "In summary, see table 4 below." There is a $60 per metric tonne to $65 differential. In fact you're talking about a 30 to 38-dollar differential, aren't you?

MR BAXTER: Yes, sorry.

PROF WOODS: That was my earlier comment about being thrown; I didn't understand. Now, this will be a public document.

MR BAXTER: This was a draft and we'll amend that.

PROF WOODS: Okay. So that will go up on our web site as soon as you produce the final - yes, if you could just clarify that because I became totally confused at that point.

MR BAXTER: I could see that.

PROF WOODS: So we're talking to $30 to $38 a land bridge compared to your actual costs of shipping.

MR BAXTER: I was more concerned about getting the other figure right which was the $775 per container or FCL which equates to the $30 - - -

PROF WOODS: Thank you.

MR BAXTER: As I said, that summary there is just showing that there is a $30 difference and that's our submission. Thank you.

PROF WOODS: Much appreciated. I think I've asked you a few of the questions I had on the way through but a couple of others: do you ever entertain the use of mini-bulk shipping or because of the nature of the task, do you load it directly into containers at farmgate? So is mini-bulk shipping an option for you to meet your customer needs?

MR BAXTER: We have been involved in that in the past but there are some issues. The fact is that mini-bulk would be a cargo of perhaps 6 to 7 thousand tonnes.

Having that stock in Tasmania, you would take a bit of a market risk with having that much product in Tasmania with a very limited market. It would be far better to leave that stock on the mainland and have available the local domestic market, the export market and also Tasmania. So there are some restrictions from our point of view putting that tonnage down there. A big end user that had that demand may certainly - - -

PROF WOODS: So if they could guarantee their throughput, so it wasn't sitting in the Tasmanian grain elevators - - -

MR BAXTER: Stored for a considerable time, yes. I think you'll see this year, with the drought coming on, the use of probably bulk vessels going to Tasmania, again simply because it's a flexible freight bridge. You can use that bulk ship to come out of Portland, Port Adelaide, Ceduna or wherever you want to and it can bring grain wherever it is the cheapest and most suitable to the end user.

PROF WOODS: So you're a multisource company. You will just source from wherever the market provides you the best arrangement on behalf of the - - -

MR BAXTER: We have to, to be competitive.

PROF WOODS: Are you just a costs-plus type enterprise in that respect?

MR BAXTER: Yes, certainly are. We take a risk and forward buy and we forward sell, but we always try and cover most of that back to back and make sure the situation is secure, yes.

PROF WOODS: Absolutely.

MR BAXTER: It's very volatile, as that graph showed.

PROF WOODS: Yes, that's right. If you had forward sold at a certain rate, you would be very exposed. One option that we floated in the draft but didn't favour was moving to a wharf-to-wharf only. It has found favour with a number of the participants and you don't - I mean, you talk about 5 per cent only of your tasks being invoiced or the subsidy being invoiced on wharf-to-wharf, but would there be insurmountable difficulties in you isolating the wharf-to-wharf component in the total freight task? You do use multiple shipping companies, so you're not tied to one who gives you the total door-to-door task, so presumably you would have invoices for the Bass Strait component within your database.

MR BAXTER: We have a few. We get a freight forwarder to do that whole task for us, to move from a country location right through to the end user and basically they submit an invoice that has obviously three components, a road component in Victoria, a container rate, and doing it that way, we believe they're able to negotiate better rates, I guess from the point of view that a lot of our customers have taken one container every two weeks or one container every month, depending on the size of their enterprise, and therefore there's not the opportunity with one individual end user to get some volume discounts.

PROF WOODS: No.

MR BAXTER: But put together, we can get some economies of scale, yes. I suppose I take it and I think the overview and where it does say that the scheme, the operational rationale, of the TFES is to recognise individual shipper's sea freight costs disadvantages relative to a road freight equivalent and to pay accordingly, I see that as the main theme. I think it would be very hard to have a fixed rate for the sea leg, simply because we come from so many multiple locations and the cost can vary just by loading in Melbourne, which we can do in every instance, but we can't load in the country in every instance. So some movement you would get the benefit of B-doubles coming to Melbourne, in others you don't get that benefit. I think that door to door, from our point of view, provides our customer a transparent way of seeing what the freight cost is. They get it off their invoice. We show it very clearly on the invoice, so they know exactly what their freight cost is from point A to point B.

PROF WOODS: But you could task the freight forwarders with whom you contract to identify the wharf-to-wharf component within the invoice that they provide.

MR BAXTER: Yes, certainly could.

PROF WOODS: Others have made reference to the administrative costs and we make mention of that in our draft report for southbound grain of the onerous obligations for collecting data, duplication of paperwork and the like. Now, different businesses conduct their business in different ways. What's your own experience with the administrative side of the subsidy task?

MR BAXTER: I think the system has certainly improved over the last four to five years to the extent now where we are now handling the claims of most of our customers, our dairy farmer customer. Before, we had a system whereby we were sending paperwork out to the individuals and, no reflection on dairy farmers but some of them aren't very good with their paperwork, and quite often we would be sending copies because their fax didn't work or we'd be doing it again, and it was just a mess at times. Some of them were very good. We - now that we handle all their claims and we're able to do that, as long as we clearly show it on the invoice that we're sending them the grain, the system works extremely well. We would put in a claim every five to six weeks and that would be a three to four hours' task which works very well. It's all summarised and we've been audited once. I guess in the next couple of years we'll probably be audited again. But the information we send to the TFES or Centrelink in Tasmania, it's got the freight invoices, it's got clearly access to any of the invoices that go to the farmers, so they've pretty well got all the information they need, I would say. So, yes, it's an administrative task that we have to do once every five to six weeks.

PROF WOODS: Very good. Certainly the information you've provided and the clarity with which you've expressed it is very helpful to us. I don't know of any particular issues then that I need to raise any further. You'll provide a final - - -

MR BAXTER: Yes, yes.

PROF WOODS: Put that on the public record, for which we're grateful. Are there any matters that we haven't covered that you'd like to explore or to reinforce?

MR BAXTER: I think the only point is that we believe that this current system does remove the majority of economic disadvantage of transporting grain and feed products to Tasmania. Not having an alternative - and I didn't believe the alternatives that were suggested in the draft report provided a good alternative, so I'm very happy with the scheme the way it is working now because I believe it does compensate for that extra cost. It's a bit tongue in cheek but I do go along with what the Prime Minister said that he'd suggested that the current scheme should remain in place and I go, "Hear, hear," but that's all. I just believe that system - the one we've got, the level of compensation - is adequate. If we introduce a new scheme, fine, but it should be at similar levels and also reflect the flexibility that is required to source grain in different locations, whether it be from South Australia, New South Wales or Victoria, and it just needs to have that flexibility.

PROF WOODS: You put up barley figures in that other graph. Do you also trade in barley and other grains?

MR BAXTER: We trade in feed barley, triticale, wheat - wheat being milling wheat, feed wheat - we accumulate malting barley for maltsters - not Tasmanian maltsters but certainly maltsters on the mainland. We buy it at different locations around the country and bring that into Victoria for malting. We bring a lot of lupins - probably last year about 7000 tonnes of lupins out of Western Australia to Tasmania, New South Wales and Victoria. So we're involved in, I guess, the Australian domestic grain industry. We accumulate a little bit for export but we don't get involved in export trade.

PROF WOODS: Do you actually take ownership then of the grain on the way through and then resell to the farmer?

MR BAXTER: Yes, yes.

PROF WOODS: Now, the feed barley, would you see that there was an opportunity for mini-bulk travel for that as well as wheat? I mean, the Tasmania Wheat Freight Scheme has this oddity, as its name implies, of being only wheat but it's not the only grain that could be mini-bulk shipped. But is barley of such a volume that that would be a possibility as well?

MR BAXTER: It would be a possibility, yes. There is potential to do that at certain times of the year, yes, and at certain times right now with the drought, you'd be trying to source feed barley, maybe not from Victoria, from another location where a mini-bulk ship could be employed, yes. I think the rate maybe that is currently applicable to the bulk wheat is probably about right because there are certainly efficiencies in moving bulk grain into Tasmania, as opposed to moving containers.

PROF WOODS: But you get a bigger subsidy if you go by container.

MR BAXTER: True, true.

PROF WOODS: It seems to be slightly distortionary but we're using a less efficient method of freight because it produces a greater taxpayer subsidy.

MR BAXTER: I think that's looking at it in one aspect. If I say that if you take a position and you put 7000 tonnes, from my point of view, and put it in Tasmania, I say that's not a very smart move. It may be bulk or it may be through another body who is looking at moving feed barley or bulk wheat, and certainly to some of those companies it may be, but to us it's not the right way to do it.

PROF WOODS: No, I understand that.

MR BAXTER: Bearing in mind it presents another handling of grain, another road transport from out of the ship. You can put it into the elevator bins at Devonport and then we have to move it again to an end user where at least with a container you've got straight through, passed through.

PROF WOODS: All right. Thank you very much. I appreciate your submission and the information that you've put on the public record.

MR BAXTER: Thank you.

PROF WOODS: I'm sure many other participants will follow suit. Our next participant is Australian Paper, if they would like to come forward. Could you please for the record state your name, titles and organisations you are representing.

MR RUZSICSKA: Manfred Ruzsicska, M-Strad Pty Ltd, on behalf of Australian Paper.

MR MATHERS: Julian Mathers, Australian Paper, general manager supply chain.

MR PORTER: Phillip Porter, Australian paper, national logistics manager.

PROF WOODS: Thank you very much, gentlemen. Can I place on the record our appreciation for the assistance that Australian Paper has given this inquiry, and we've had the benefit of several submissions and a presentation in Tasmania, and I understand you're appearing this afternoon because you wish to elaborate on a few points and present some additional information. So do you have an opening statement you wish to make?

MR MATHERS: Certainly do. As you've mentioned, we've already presented previously in Tasmania and I don't intend to go through the detail for all that there, but I do have some people here who can answer detailed questions if that's necessary on that submission. I would confirm from the outset again our endorsement of the position presented by David Quinn and Manfred Ruzsicska in Hobart, but I do want to make a few additional and clarifying comments, if I may.

PROF WOODS: Please.

MR MATHERS: We're the only manufacturer of fine paper in Australia. What that means obviously is that all of our competition, all of the papers we produce in Tasmania, some 220 plus thousand tonnes per annum, are from overseas. We started operation in Tasmania in the 1930s so we've been there a long time. The reason I bring all of those things up is to start by saying that a lot of things have changed in that time. Without going over the whole history of the world in the last six decades, two things relevant to this commission are the way competition has changed for our business over that time. Certainly in the last 15 to 20 years there has been an enormous expansion of competition in our region, particularly from China but other countries in the south-east Asian region. Whereas once we might have relied on the tyranny of distance to protect our industries, here in Australia we are very much part of the global marketplace now. This has relevance to this commission, I feel, with regards to how does an industry in Tasmania that was established six decades ago compete now on the basis - on an equal footing with these people who are on our door and in particular with regards to obviously the inequality as we see it between our ability to get our products to market cost effectively versus a mainland operation.

Second item I'd say relates directly to the internals of Australia and that is the other thing that has significantly changed over that time, in our view, relevant to this commission is the development of the infrastructure, mainland infrastructure and transport. That has, in our view, over time eroded that competitiveness of our Tasmanian operations notwithstanding the application of the TFES, which has gone a long way to address that. On those aspects I'd like to put on record with the commission that the need for equalisation of transport for Australian Paper and Australian Paper's manufacturing operations in Tasmania has never been more important than right now, facing competition like we never have before. That's fine, that's the world and we're all big boys. But we don't need to do it on an uneven playing field and we believe that removing this scheme will be presenting us with that.

Having said all of that, we've presented a great deal of information to the commission, we're currently working on revising some parts of the confidential component of that submission to make that more overt for everybody, and I think that's as suggested by the commission at previous meetings. We agree with the need for the scheme to be based on accurate measure of the sea freight cost disadvantage and the need associated with that for regular adjustment to reflect changes as they go along. In this regard is our expectation that we will be contributing to the industry's development of a conceptual framework to enable that to happen.

Reflecting, I guess - and really, that was - that's the majority of what I wanted to say. I did, again, want to reflect back to the commission the importance of this for the viability of our manufacturing operations. We are very sensitive to margin pricing issues in this regard and the scale of cost impost on our businesses in Tasmania if TFES was to be removed would be significant in that regard for the ongoing viability of our Tasmanian operations. Can't say it any more clearly than that, I think. That's really what I wanted to confirm and wrap up at this meeting. I would ask though if the commission has anything, reflecting on the last week in particular, with regards to Australian Paper's submission or any of the other items that you'd like to put to us I'd be glad to hear that.

PROF WOODS: Much appreciated. Thank you for that. Couple of things. One that comes obviously to mind is you were making reference to competition from overseas producers and clearly Indonesia has got some very large paper mills with a production capacity in any one mill that I think would probably be very large relative to Australia's total paper production, let alone China, let alone elsewhere.

MR MATHERS: Yes, that's right.

PROF WOODS: Of course they don't benefit from a freight subsidy. So I just wasn't quite sure when you were talking about level playing fields you presumably weren't referring to the fright component of the playing fields in that they don't have the benefit of an Australian taxpayer-funded subsidy for their freight.

MR MATHERS: No, they don't. What I was talking about was the disadvantage that Tasmania's place - versus an operation on the mainland in getting that product to market.

PROF WOODS: Right. But your main competition is coming in fact from other non-mainland sources - - -

MR MATHERS: Absolutely.

PROF WOODS: - - - who themselves have to pay market rates for their freight?

MR MATHERS: Absolutely.

MR RUZSICSKA: Could I possibly add a small element to there? One of the, I guess, things about having a level playing field is where we've moved to from where we once were. One of the key features is that the federal government has made a lot of investments in land transport infrastructure which has improved the distribution network within Australia on the mainland. It has also significantly, through waterfront reform and the like, has actually managed to reduce the waterside stevedoring costs for containerised product and the like. Those benefits have actually served to disadvantage Tasmanian shippers competing in the mainland Australian market. The waterfront reforms, whilst they're - and Australian Paper, I imagine, fully endorses any waterfront improvement that can be achieved. The waterfront reforms that have actually occurred have actually served to disadvantage Tasmania because none of those benefits have flown through to Tasmanian shippers.

PROF WOODS: But is that because the Tasmanian shipping was, relative to overseas shipping, more efficient initially?

MR RUZSICSKA: Yes. Tasmanian - - -

PROF WOODS: So in fact you've had the benefits of efficiency for a very long time. It's just that some others are now capturing some of those benefits. I'm not sure it's a disadvantage. It's just a relative decline in the advantage that you've had for a very long period.

MR RUZSICSKA: I would put it more along the lines that there was an equitable position where everybody was playing on the level playing field and if that playing field would have been kept that way everybody would have been competing the same way they are now. But by providing that additional waterfront reform, for argument's sake, the federal government has provided an advantage to foreign importers and by default increased the disadvantage to Tasmanian producers.

PROF WOODS: That is a peculiar perspective of those that you are arguing for at this stage. The fact that we are able to reduce some inefficiencies elsewhere perhaps produces a more level playing field but it depends on the value or the peak that you would be arguing at this point.

MR RUZSICSKA: I think it actually probably comes back to where you were at the start.

PROF WOODS: Yes, indeed it does. We can agree on that.

MR RUZSICSKA: Yes. The investment in additional production capacity, if you like, was made on the basis that, "This is the state of circumstances and if all else stays equal this represents a very sound and a good long-term investment." On that basis companies such as Australian Paper, and dare I say a number of other major investors, have built facilities in Tasmania. Now, unfortunately, some of those cost structures have changed on them.

PROF WOODS: I think it's probably on the public record that Australian Paper made certain market decisions about where it would concentrate its activity over the last few years and therefore shut down one of its Shoalhaven plants because the relative benefits of operating in Tasmania were greater. So in one sense the decision-making within the company says, "Well, there is an economic benefit of being in Tasmania relative to being in Shoalhaven."

MR MATHERS: In that case there is some misunderstanding, commissioner. The products that were transferred from the Shoalhaven mill were transferred to Maryvale mill in Victoria. The decision that was made in regards to the closure of the Shoalhaven machine was fundamentally about the exporting of paper as it affects our operations within Australian Paper at the moment and the viability of that particular machine to be able to continue on and do that at a sensible level. No, we moved the products that came off Shoalhaven paper machine to Maryvale mill.

PROF WOODS: But the products that were produced at Shoalhaven, were they not similar to the products that you produce in Tasmania?

MR MATHERS: Yes, well - - -

PROF WOODS: But you chose to shut the Shoalhaven not the Tasmanian one because of the relative advantage of the Tasmanian.

MR MATHERS: Yes, and - well, relative advantage, yes, you can say that. There's a lot of factors in that, like you'd understand - - -

PROF WOODS: Yes. Look, I - - -

MR MATHERS: - - - scale and size of machines.

PROF WOODS: Yes.

MR MATHERS: All of those sort of things come into it, yes.

PROF WOODS: Yes, some costs and legacy investments and - - -

MR MATHERS: Yes.

PROF WOODS: - - - all the rest. But in the sense that there was a decision-making process that said, "Shoalhaven, Tasmania one, Tasmania two," you shut the Shoalhaven and retain the Tasmanian because of a whole range of factors?

MR MATHERS: It wasn't a decision that was - had any regard within any company for a Tasmania versus Shoalhaven. It was entirely looking at the viability of the Shoalhaven site to be able to continue to manufacture those products versus manufacturing those at Maryvale mill. Papers are all similar but they're not identical and all machines can't make the same papers.

PROF WOODS: Perhaps I'm just looking at some wording that then may have led me to that conclusion but I'm sure it can go onto the public record at some stage.

MR MATHERS: Yes.

PROF WOODS: Okay. We have explored in previous presentations from your company in Tasmania the option of a wharf to wharf and you'd confirmed that Australian Paper sees that as an option that - - -

MR MATHERS: Yes.

PROF WOODS: - - - you'd be happy to pursue. Can I clarify, you were indicating that yourselves and others are exploring ways of developing administration and parameter reviews et cetera for such an option should that be one that government chooses to pursue.

MR BAXTER: That's correct, yes. Just started.

PROF WOODS: That would be very helpful to the commission. Clearly we did identify it as an option in our draft report and given the strong support by a number of significant industries we will explore that even further so we would be grateful for some contributions on that. The flat rate proposal, which again we put forward in the draft report, was an attempt to overcome the distortion that wharf-to-wharf has. I mean, there are several design concerns that the commission has with wharf-to-wharf, one clearly being the opportunity for invoices to be presented from a total door-to-door activity that load the wharf-to-wharf component to maximise the subsidy. A second as to whether there is any potential confusion as to what constitutes intermodal versus door-to-wharf or even then within wharf-to-wharf and whether double-claiming may be possible through such confusion.

The third significant concern is that in a wharf-to-wharf arrangement you're deducting a single road freight equivalent from a variable presented invoice. Do you have any views on any of those three design features and as to why they are of not such great significance as to favour a wharf-to-wharf approach to a flat-rate approach?

MR RUZSISCKA: Probably the biggest incentive for having the current, if you like, calculated-disadvantage mechanism as opposed to a flat-rate mechanism is that the flat-rate mechanism in its rigid structure doesn't actually recognise the variability of the float rates that are paid. Acknowledging this duality issue that's been mentioned in the past et cetera that we have a fixed road freight equivalent rate and acknowledging that there is some scope there for potentially having one or two different rates that would provide for a more accurate assessment of the disadvantage. The underlying thing is that the variable method of calculating disadvantage or recognising disadvantage based on the difference between actual sea freight rate and the road freight equivalent provides a better basis for providing assistance because embodied in that is the recognition of differences of market power, ability to negotiate, scale of operations and a whole host of variables like that. It's probably the underlying driver as to why one scheme is preferred over the other.

PROF WOODS: With the wharf-to-wharf how could you design it such that you maximise the incentive on the part of the producer to negotiate the lowest possible freight rates. The flat rate has the singular advantage that you know what you are getting and therefore anything that you can to save in your logistics chain goes immediately to your bottom line. With a wharf-to-wharf and under the current design, you can see that there is an intent to somehow generate some incentives to have people focus on class 1, but the incentives aren't as direct as a flat-rate incentive structure would be. Is there anything variation to the incentive structure for a wharf-to-wharf that would maximise the desire of producers to minimise their logistics costs?

MR RUZSISCKA: I think that there is always scope for reviewing incentive mechanisms. In the sense that the incentive mechanism in the current scheme was set up, probably the critical thing is the recognition that there is a certain level below which it's impossible to command lower freight rates and arguably that's where the, if you like, the half-median point or the class 1 shippers were identified. For anybody to actually achieve a freight rate lower than that was highly unlikely or, if they did, it was probably more a very unique set of circumstances and that beyond that the objective is to actually compensate for a sea freight cost disadvantage as opposed to imposing an incentive for people to reduce costs. The primary driver needs to be to accommodate the disadvantage with the implementation being to actually get people drive freight rates down.

Having said that, of course one of the issues then is, to what extent is there, if you like, this notion of leakage and the potential for somebody other than the shipper to actually capture some of those benefits because the incentive mechanisms aren't significant enough to drive the price down. The importance of that is recognised and indeed, Australian Paper has had a look at some of its freight rates because it does in fact import product from overseas from international points of origin and they come via Melbourne and they're shipped across and they don't incur TFES assistance. The actual differential between those containers - and admittedly there will always be an issue here about what the contents is, the box weights and those sort of things, but substantively they're the same. I think there's about $14 difference between the two which, in terms of materiality, is insignificant.

So in fact if you look at it in that sense the incentive mechanism, as they stand at the moment, are probably delivering satisfactory outcomes. It would be very interesting - - -

PROF WOODS: Can I just clarify, the northbound rates are the slightly more expensive rates compared to the southbound rates?

MR RUZSISCKA: There's a marginal difference of about $14 which in the scheme of total costs is - - -

PROF WOODS: 7 to 8 hundred dollars per container. Is that what we're talking?

MR RUZSISCKA: In the interests of staying commercial-in-confidence, somewhere in there.

MR PORTER: It's a very sensitive issue for us, as you can appreciate.

PROF WOODS: I'm seeking clarification.

MR RUZSISCKA: Relatively speaking it would be within 1 or 2 per cent and that sort of variance could be attributable quite happily to the nature of the product that's being shipped, maybe the additional - potentially how much somebody wants the container or whatever that's coming through. There are a range of different variables that could account for such a difference.

PROF WOODS: Yes, I understand many of the things that drive the pricing of freight. But the presence of subsidy can be one of those factors.

MR RUZSISCKA: Yes.

MR PORTER: Can be. We've got an inherent interest in becoming more efficient anyway and trying to drive cost out of our business.

PROF WOODS: I'm talking about the freights that are offered to you, not your attempts to negotiate those freights down.

MR PORTER: Okay.

PROF WOODS: I understand your incentive.

MR PORTER: Yes, much so.

PROF WOODS: There are always two parties to these contracts.

MR RUZSISCKA: Certainly it would be very interesting to see exactly what somebody who was not, if you like, already in the market and had access to both sides of the freight equation, what sort of freight rates they would be receiving by comparison and unfortunately, that's something we're not really in a position to elaborate on.

PROF WOODS: Yes, all right. That's been very helpful. I think a lot of the benefit will come from these additional considerations that you're giving us as to how a wharf-to-wharf arrangement could work, elaborating on the reviews of parameters and the processes by which there may be consultation on an ongoing basis with industry to refine subsidies if that's the way the government chooses to decide.

MR RUZSISCKA: If I can add one additional at the moment.

PROF WOODS: Yes.

MR RUZSISCKA: An earlier speaker was talking about the complexities associated with the transport task, I believe the speaker from Cascade, and mention was made of the fact that the level of complexity in the diagram that was presented and the fact that they may incur - in fact rail might be used in a similar manner and that in fact that complexity doesn't sort of necessarily show up. Australian Paper does actually use rail transport at times as well and probably the key things in actually determining our assessment of the road freight equivalent and the like is that for the scale of the task from points of manufacturing in Tasmania to consumer in Melbourne, for the scale of that task a rail transport leg wouldn't be used. It would be a road freight equivalent and that those road freight operations are similar in case to, say, the operation between Albury and Wodonga.

PROF WOODS: So if you went Melbourne to Adelaide you'd be using road rather than rail?

MR PORTER: Yes, normally we would. That would be the case, yes.

PROF WOODS: But if you were heading out to Perth you would put it on the train.

MR PORTER: That's correct.

MR RUZSICSKA: But that really reflects, if you like - - -

PROF WOODS: Because the extra intermodal costs are outweighed by the cheaper per kilometre rate.

MR RUZSICSKA: Correct.

PROF WOODS: Very good. That's helpful. I was just drawing a point that you can make the comparison look starkly different but in fact reality can be a little bit more complex. Are there other matters you wish to raise while you're here with us? Certainly the supplementary information you will be providing will be very gratefully received by the commission. So we look forward to that. We draw your attention - the time ticketh by. I would like to sign this by 21 December for many reasons. But if you could get that information to us in a timely manner that would be very helpful.

MR RUZSICSKA: Yes.

PROF WOODS: Thank you very much.

MR RUZSICSKA: Thank you.

PROF WOODS: Can I at this stage invite - as I foreshadowed at the start of these hearings - any other persons who wish to come and make a presentation while the commission is sitting in inquiry, to indicate and then come forward. Thank you very much. If for the record you could please identify yourself - name, title and organisation you are representing.

MR MELLON: My name is Danny Mellon, I'm the national logistics manager for Simplot Australia.

PROF WOODS: Very good. Thank you for attending these hearings. Do you have a presentation you wish to make?

MR MELLON: I do. Firstly, we welcome the Prime Minister's statement that the TFES scheme won't be phased out. The stability of Simplot is crucial to the wellbeing of some 500 Tasmanian vegetable growers to the communities of northern Tasmania and to the Tasmanian economy as whole. To support Simplot production it is planned that during 2007 approximately 365,000 tonnes of vegetables with a gross value of approximately 96 million at the farm gate will be produced on 13,000 hectares of land. Simplot directly employ over 580 Tasmanians. Simplot freight is moved to a small number of specific destinations where exact freight costs are easily quantified. Simplot have made the freight movement between Tasmania and the mainland as efficient as possible by maximising the container utilisation to greater than 99 per cent and loading containers directly from our production facilities at the Ulverstone plant.

Simplot are competing largely against global supply chains where depressed Asian labour costs generate reduced farming and processing costs. Simplot's strategic weapon against cheap import products includes investment in modern plant equipment and processes, the elimination of supply chain waste and inefficiency and the proximity to the Australian market and the lower freight rates because of that. Simplot operate in a low margin, competitive business where freight costs form a significant cost. Any decrease in the TFES assistance is a direct incentive for Simplot to source product from the mainland or more probably from overseas. We are familiar and comfortable with the current TFES assistance mechanism and believe it is an adequate mechanism moving forward. Perhaps due to the bulk nature of Simplot movements, Simplot find the current application of the assistance easy to administer.

There may be other forms of assistance that achieve the DOTAR's original development goal but Simplot see the TFES methodology as an adequate and direct method for addressing the competitive gap between mainland and Tasmanian processing caused by the need to transport across Bass Strait. Funding freight is Simplot's preferred option for government assistance to Tasmania, as Simplot can be certain all the intended benefit flows to the assistance of actual freight costs, versus the possible benefit dilution with less direct assistance. Simplot don't support rorting in any form and welcome investigation and measures to make sure that that doesn't occur.

We did note the flat rate proposal in the draft report. We have a problem with a flat rate given that I assume it was calculated on purely ambient-type transport. Refrigerated or frozen transport that Simplot use northbound is a niche service and a more expensive service than pure ambient distribution.

PROF WOODS: As would be your road freight equipment, of course.

MR MELLON: Exactly.

PROF WOODS: So both the base and the actual rate you incur are higher than an ambient freight task.

MR MELLON: Yes, yes.

PROF WOODS: So the flat rate is trying more accurately to identify the fact that the road freight equivalent base varies as does the actual cost of your transport. Now, a separate question is the rate at which you are able to negotiate with the shipping companies, and from our understanding the rates in your market sector are higher for a whole range of reasons. One is, do you have seasonal variability and do you have sometimes low volume, high volume specialist transport tasks, so your freight costs are higher than those other producers who are in the bulk, low cost commodity gain.

MR MELLON: Mm.

PROF WOODS: So we understand that a flat rate, a single flat rate, cannot equally meet the needs of high cost shippers compared to low cost, high volume base load shippers. We are conversant with that issue but there is the separate issue that your road freight equivalent would be high, as is your shipping freight equipment.

MR MELLON: Yes. Simplot support the industry submission presented by David Quinn in Hobart earlier this week and note that in his submission he quoted a flat rate proposed by the draft report at being 20 to 50 per cent worse off for some. Simplot would be at the higher end of that scale as far as disadvantage.

PROF WOODS: Do you have a rough calculation? So you're saying you'd be at the roughly 50 per cent disadvantage for flat rate relative to your current subsidy?

MR MELLON: Yes, that's correct.

PROF WOODS: I'll let you proceed.

MR MELLON: I'm just trying to work through my notes. Simplot support the annual review of the subsidy and the parameters around the road train disadvantage, and we will be submitting a response to the PC draft report by the due date of next Friday, and we hope to place this on public record, whereas our first submission was completely in confidence.

PROF WOODS: If there's a table or two that would inform us that is strictly commercially in confidence then by all means attach it as a confidential supplement, but the more that you can place on the public record, the better the quality of the debate generally during this process. If I can just clarify that clearly, there are some figures that help us to understand that you wish to protect and that's fine. But to the extent that you can maximise the amount of information that you put on the public record, that's clearly the most preferable. Anything else on your notes?

MR MELLON: No.

PROF WOODS: You made a comment that you felt that the current subsidy arrangements give you some certainty that all of the benefits flow to freight cost disadvantage. That doesn't allow for the potential for any leakage of the benefits to other than the producers or shippers. Is there a possibility that through the freight rates charged by shipping companies, for example, that they could take the subsidy into account in the rates they set and therefore appropriate some of that subsidy themselves?

MR MELLON: Yes, there probably is. I can't speak for other companies but for Simplot, we feel that the subsidy provided flows straight through to the competitive position of Simplot.

PROF WOODS: So you don't see that the rates that you're negotiating with the shipping companies are in any way inflated by them to appropriate part of the subsidy. You feel confident that the competitive nature of the Bass Strait shipping market is so strong that you're achieving the lowest rates possible?

MR MELLON: For Simplot, yes.

PROF WOODS: Do you have other shipping tasks other than Bass Strait by which you could make some comparison and give some greater certainty to your understanding of that?

MR MELLON: We do. We have processing plants on the mainland as well, as well as importing products ourselves, so we have direct comparison of the cost of transporting freight from Tasmania to mainland as well as from our other mainland processing plants to market.

PROF WOODS: Thank you. That's very helpful. In terms of the administration of the scheme, do you have any views? I think you made mention that it's not an overly difficult task. Is that correct?

MR MELLON: Yes, it's quite simple to administer. As I mentioned earlier, it's perhaps because of the bulk nature of what Simplot moves, we fill containers to 99 per cent capacity and it's a very simple administrative task within the current scheme for Simplot to manage.

PROF WOODS: The freight cost disadvantage that the scheme subsidises is focused on the Bass Strait shipping component plus the intermodals. Does Simplot incur other costs or production disadvantages by relying on shipping compared to if you were on the mainland and sourcing product and using road or rail?

MR MELLON: Yes, we do. In our earlier submission, there's a fair list and rather than go through that list, I might resubmit something on the public record which talks to that. But to summarise, our whole supply chain is geared around optimising those containers. We have no incentive to inflate freight costs. We seek to minimise it, so our whole supply chain is around filling those containers to absolute capacity and we incur cost at the factory and in Tasmania as well as the warehouse end in the mainland warehouses in destuffing those containers and reconfiguring those optimised footprints into a saleable pallet form.

PROF WOODS: I'm conversant with that information you had, so to the extent that you can put that on the public record, that would be very helpful because I think it makes clear that there's not just the freight cost but a whole range of associated activities that relate to relying on sea freight compared to road or rail freight and that would be quite useful to have on the record. Are there any other matters that you would like to raise to the commission during this hearing process that we haven't yet discussed?

MR MELLON: I guess any threat to the TFES assistance as it is in the current format generates some risk to our operation and threatens future investment in Tasmania for Simplot. We're committed to Tasmania. Our margins are very low. If the TFES assistance were to be reduced or removed, our ability or desire to invest in future Tasmanian operations would be limited.

PROF WOODS: I think I understand that point. That being the case then, if there's nothing further you wish to add - - -

MR MELLON: No, thanks.

PROF WOODS: Are there any other persons present who wish to come forward? That being the case, I will conclude these hearings into the inquiry into Tasmanian freight subsidy arrangements and thank participants and look forward to the provision of supplementary submissions. Thank you.

AT 2.38 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY

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