



PRODUCTIVITY COMMISSION

INQUIRY INTO TASMANIAN SHIPPING AND FREIGHT

MS K. CHESTER, Presiding Commissioner
MR D. QUINLIVAN, Head of Office

TRANSCRIPT OF PROCEEDINGS

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Continued from 5/2/14 in Hobart

INDEX

	<u>Page</u>
VEOLIA ENVIRONMENTAL SERVICES	
DAVID BEARD	
UELESE MIKA	
CRAIG FRASER	249-269
REGIONAL DEVELOPMENT AUSTRALIA TASMANIA	
CRAIG PERKINS	
MIKE BRINDLEY	270-278
G A COSSAR AND CO PTY LTD	
GEOFF COSSAR	279-285
CUTHBERTSONS BROS PTY LTD	
WAYNE JONES	
JOHN BARKER	286-299
JOHN BARKER AND ASSOCIATES	
JOHN BARKER	300-307
NATIONAL SEA HIGHWAY COALITION	
STEVE MARTIN	
ROBERT HARRISON	
ROB BAYLES	308-318
BELL BAY ALUMINIUM	
RAY MOSTOGL	319-330
HARVEST MOON	
NEIL ARMSTRONG	331-343
NET SEA FREIGHT TASMANIA	
STEVE HENTY	
BRIAN EAST	344-364
LAUNCESTON CHAMBER OF COMMERCE	
MAREE TETLOW	365-371
AGILITY LOGISTICS	
BRETT CHARLTON	372-375

MS CHESTER: Ladies and gentlemen, we might get under way. Welcome to the public hearings for the Productivity Commission Inquiry into Tasmanian Shipping and Freight, including the current arrangements for supporting freight and passenger services between the mainland and Tasmania. My name is Karen Chester and I'm the Presiding Commissioner on this inquiry. I'm joined by my colleague, Daryl Quinlivan, who is known to many of you. Daryl is the head of office of the Productivity Commission.

At the outset, and for the public record, I would like to say how much the Commission does appreciate both the timeliness and the overall quality of the submissions that were received from the inquiry participants, of which we have received over 60 to date. The purpose of this round of hearings is really to facilitate public scrutiny of the Commission's work and to get comment and feedback on our draft report.

We commenced our public hearings on Monday in Melbourne and then held two days of public hearings in Hobart. Following this hearing in Launceston today and tomorrow, a further hearing will be held in Canberra on Monday. We will then be working towards completing a final report for the Government having considered all the evidence presented at the hearings and in submissions as well as other informal discussions, and we look forward to the provision of final or supplementary evidence and evidence that we get from our public hearings.

Any supplementary evidence or submissions is required to be received by 7 February given the time frames we have on our final report. We will be delivering our final report to the Government on 7 March and that will be available once released by the Government, which may be up to 25 parliamentary sitting days after completion.

Just turning to today's hearings, we like to conduct all our hearings in a reasonably informal manner but I do remind participants that a full transcript is being taken and for this reason we can't take comments from the floor, but at the end of today's proceedings I will provide an opportunity for any persons wishing to do so to make a brief presentation. Could I also remind any media attending the hearing today to make themselves known to Commission staff and there's a little guide as to the dos and don'ts for media in the public hearing process that's available on the table at the back.

Participants are not required to take an oath but should be truthful in their remarks and you are all welcome to comment on the issues raised in other submissions to the inquiry. The transcript from our public hearings will be made available to participants and will be available from the Commission's web site following the hearings. I think all of you may be aware that public submissions are also available on our web site.

To comply with the requirements of Commonwealth Occupational Health and Safety legislation and some good old commonsense, you're advised that in the unlikely event of an emergency requiring the evacuation of this building you should just follow the green exit signs and make your way outside.

I would now like to welcome to the hearings our first participants this morning from Veolia Environmental Services. If you could each just respectively state your name, title and organisation that you're representing for the purposes of our recording.

MR BEARD (VES): David Beard. I'm the group general manager for Tasmania and New Zealand.

MR MIKA (VES): Uelese Mika. I'm the operations manager for the resource recovery division in the south.

MR FRASER (VES): Craig Fraser, and I'm the senior consultant for Veolia Environmental Services.

MS CHESTER: Thank you very much and thank you for appearing today and for your initial submission. Just in terms of auditory volumes, while we have mikes, that's for the recording but there's no projection, so if we could all try to speak up a bit so our observers are able to hear the dialogue. I think I will just give you an opportunity first if you would like to make some opening comments and then we will get into some questions that we would like to follow up with you on having received and read your submissions.

MR BEARD (VES): Okay. Firstly, thanks for the opportunity to present today. I will just give a brief outline of I suppose what the business is and a few of the issues that we face. Craig will run through some of the recommendations that we have put forward and some comments and whether we agree or disagree and the like, and then really we would just like to treat it fairly informally and ask any questions that you like.

Veolia Environmental Services provides industrial services globally but in Tasmania that's what we do, and waste services, recycling services, scaffolding and lots of other bits and pieces. We're one of the major employers in Tasmania, in the hierarchy in respect to what's considered a major employer, with over 300 employees in the state. Most of the business runs typical but the recycling business has been the hardest hit in respect to facing global issues, not only the freight issue facing Tasmania but also the Australian dollar fluctuation and commodity price fluctuation, to name just a couple.

We export about 41,000 tonnes per year, which is all of the recycling material from Tasmania. Just recently we were able to get out of a bad contract which was about four or five thousand tonnes and that is being done by another provider, but in general speaking we handle the majority if not all of the recyclables from kerbside and also the majority from industrial clients, that being plastics, cardboard, newsprint. You're quite well aware of what there is.

25,000 of the 41,000 goes to international export, into China, Malaysia, et cetera. The question has been asked of us a lot, "Why can't you sell that into mainland Australia or process it in Tasmania?" There is no market. Even one of the biggest collectors of recycled material in Visy also export product into international markets. So 25,000 tonnes goes offshore; offshore as in international waters.

When the shipping service ceased operation within Tasmania there was \$1.2 million of additional cost to our business, which turned a viable business into an unviable business overnight. We have long-term contracts with municipalities and we are unable to, even after dialogue, share the pain, so the cost was worn by the company and we were very lucky that we were in a lot of other services, otherwise we would have closed the business down.

Our aim is not to present today seeking a prop-up of our business in any way or form, but more looking at what can be done to return an international ship to Tasmania that allows us to compete with our mainland counterparts and make recycling viable. I have had discussions with senior executives within municipalities that have said that, at the moment, the cost of recycling or potential cost of recycling going forward when these contracts conclude really puts in question whether that service will continue.

From our perspective, we have long-term contracts that are a little different than some of the other presenters that have presented to you, in that our long-term contracts will come to an end at a point in time which then we re-price and we can basically pass that cost on but what it means is that that cost in most instances will be passed on to local government and then local government will pass that cost on to the consumer, so from a business point of view, we have a market at the moment.

That market doesn't have competition outside of Tasmania and at the end of the day, the consumer will pay but in the meantime, we are running a business that is losing a lot of money. So, yes, without further ado, I will pass over to Craig. Craig is our expert within the business in respect to product sales, so he does all the negotiations with our international buyers but also handles all the logistics in respect to the shipping. The local freight is someone else but Craig is across is. So I will pass over to Craig.

MR FRASER (VES): Thank you.

MR BEARD (VES): Sorry, one other point. On the 1.2 million extra cost, just over a four-year period, so since 2010 to 2014, our costs of freight have gone from \$24 a tonne to \$76 a tonne. Yes, I just wanted to get that one across. My apologies.

MR FRASER (VES): Going forward, I was just going to step through the recommendations and some of our comments. Is that satisfactory, to do it that way?

MS CHESTER: That will be fine. Thanks.

MR FRASER (VES): So in the report from the Commission, the draft recommendation, there's a series of recommendations and then some comments at the back, so that's how I thought I would proceed.

With recommendation number 1 about the coastal shipping service, we have some very strong feelings and having had some discussions with international shipping lines, both here and from their head offices in south-east Asia, that the issue of cabotage is fairly important on the agenda for a number of international shipping lines to see this issue changed, because that would then give them a great incentive to come back and direct call into Tasmania. That would give them an extra profitability leg where they can, for example, bring containers. If they call at Brisbane, they could bring containers down to a Tasmania port. They have got a charge that they can put in there, so that makes it basically an import. They are getting some revenue, plus then for an exporter like ourselves, we are getting an empty container sitting here in Tasmania that doesn't have to be recommissioned, so there would be a cost saving for us in our export freight rates.

Moving on to the recommendation number 2, this is speaking about the freight equalisation scheme and, look, we agree with that and we really don't have any further comment other than, yes, we do agree with that recommendation. The recommendation 3, once again, more about the freight equalisation scheme and draft reporting and public submissions and we also agree with that, so we don't have any further comment. Recommendation number 4, the Australian Government and its public response and timely management of the freight equalisation parameters, once again, we agree with that and really don't have any further comment.

Recommendation 5, where we are speaking about the flat rate for assistance, obviously, this is one thing that for us - all we require is certainty and as David pointed out earlier, we have got contracts that go between seven and nine years, so we just want something so that when we put together a contract, then we know that we have got certainty as to what goes forward. Now, if it comes out that there is a recommendation that there's a flat rate per TEU or a subsidy, that would be agreeable to us but of course the other thing we wouldn't want to see is that it disadvantages us from the current scheme; so a flat rate, yes, but so long as it doesn't disadvantage us,

because we are struggling as it is.

We have pointed that out and above all that we can't accept variables for our council contracts and as you can imagine, trading in international commodities, which we do even though it's low value commodities, we still have high volumes and we have the US FX rate to contend with and a fluctuating market, because we are out there in the world market for pricing, so that's another - all those variables. So, please, if there's a change, we just need some surety going forward.

Recommendation number 6, and it's speaking about comprehensive reporting, so, look, this is one thing that - comprehensive reporting, all these things, we understand that and we agree with that. Inclusion of annual payments to recipients would raise commercial incompetence issues. That's probably the only thing the recommendation seeks, that we need to bear in mind from our business point of view commercial incompetence.

Recommendation number 7 about examining the cost benefits, yes, we agree with this and no further comment on that one. Recommendation 8, talking about freight equalisation schemes and the minimum claim value, obviously for us as a large business this is not an issue but we would also like consideration of the unfairness to small business and start-up businesses if there's some minimum. So from our company viewpoint, it doesn't affect us but we think of others.

Recommendation 9 about infrastructure extending to self-assessment, we agree with that recommendation and we don't have any further comments. As far as the Tasmanian wheat freight scheme, obviously, we can't make a comment on that as it has no effect on our business. Recommendation number 11 regarding the passenger freight and the broader perspective there, we really can't make a comment on that because it actually doesn't have an impact on our business as well. Recommendation 12 regarding TT-Line and the Government - - -

MR BEARD (VES): I think, yes, I will just touch on that one. I think there is a broader discussion to be had about the privatisation of many government owned businesses within Tasmania. There seems to be an extraordinary amount of them and there is limited opportunity for private investment in public infrastructure. In our business alone, we deal with most of the government owned enterprises but just even on a simple thing like land fills, you know, which are a mechanism for resource recovery, et cetera, the majority of those are owned by councils, medical waste facilities - what else is there? - security collection businesses, some very strange businesses that government are in that I have never come across in my whole working career in other states, so a micro look at, I suppose, government owned enterprises and potential for public investment would be - private investment, sorry, would be welcomed.

MR FRASER (VES): So from our viewpoint on not only recommendation 12 but in a bigger picture for the Tasmanian Government to look at this ownership and these underlying objectives. Draft recommendation 13 and 14 are of particular interest to me because I sat on the freight logistics council committee and so these - we have had multiple discussion about this over a 12-month period while on that committee and from the Veolia point of view, we do agree that the consideration for additional alternative models and privatisation and even the one port strategy all should be considered very carefully and there would be obviously advantages and disadvantages but they need to be weighed up and can't be dismissed.

Recommendation 14, once again, we agree with this recommendation and through the FLCT work that I have seen and from a company viewpoint, we agree these things. Recommendation 15, also we agree with this recommendation and recommendation 16, we also agree with that one as well.

Now, just moving on to the requests for information and request number 1, this is speaking about north and southbound freight equalisation, we would support a recommendation if the TFES northbound was to include export shipments but we believe and our preference would be that if we look at an international vessel returning to Tasmanian ports. If we extend freight equalisation to northbound exports, this is a continuation of a subsidy and we believe that having spoken to, as I said previously, a number of international shipping lines if issues like cabotage and some of the volume issues can be addressed, and in our submission we did submit some information on that, that that would be the preference.

We as a company are bleeding because of this lack of an international vessel and the way that we go about things at the moment, so we would really like to see something done. Of course the introduction of TFES on exports is going to solve the problem but, as I said previously, our preference is the return of an international vessel. People like Swires have offered services here and at this point in time continue to offer a very, very limited service, a direct call out of Bell Bay.

We have spoken to at least two other international shipping lines. One representative from one of those shipping lines is here today in the audience. They have expressed and have the capabilities of being able to direct call Tasmania but all the stars must align. Being the largest 40-foot exporter of materials or containers out of Tasmania, it's just high on our priority list to be able to get these guys in dialogue with the right people.

As far as southbound claims by Veolia for freight equalisation, these are minimal to us but once again we believe that the issue of cabotage ties in here. If there was an international vessel calling then that could also impact on whether there's a need for southbound freight equalisation or interchanges.

MR BEARD (VES): Just to add on to that, one of our biggest issues is actually getting containers, so if the shipping line and cabotage was removed and moved down the coast basically and called into Tasmania then 40-foot containers could be delivered. We're still paying for those 40-foot containers to go from the north of the state to the south of the state and transporting them back to the north of the state and then onward bound, so it's just another cost with the lack of containers.

MR FRASER (VES): Request for information number 2 regarding the minimum value, we believe that \$500 would be a reasonable number for a minimum value on a claim. Recommendation number 3, to what extent does the TT Government owned provide competitive pressure across Bass Strait? Look, we believe that it does keep the market competitive. We also would disagree that less competition on Bass Strait would be helpful and we feel that the introduction of an international shipping line direct call Tasmania with cabotage restrictions removed would increase competitive pressures on rates across Bass Strait.

MR BEARD (VES): The only thing I'd add to that is that I suppose we're in the same boat in respect to a business and a business that has a majority share of what goes on. A lot of our contracts are transparent, so all the pricing is basically there to see with our customer and I think that in respect to the Bass Strait legs and the current shipping lines, it's just interesting the pricing, without going into any detail, but I think there is a role for either transparent pricing or an Essential Services Commission type oversight in respect to making sure that those pricings are real and quite transparent.

MR FRASER (VES): Request for information number 4, speaking about an open tender process for Bass Strait freight and passenger services. We support that process if it could be implemented. Request number 5 is: what specific benefits would be for Tasmanian shippers from removing restrictions on coastal shipping? I think I pretty well covered that with the point on cabotage but once again I'd like to emphasise the fact that if we could do this here, it would give another incentive for an international shipping line to re-enter our market.

We have had discussions as an organisation with shipping lines. We know that there's more than one international shipping line that is interested in doing this and it's something that we addressed in our submission with a proposed matrix model which is explained in our submission originally, how this may be implemented to give support in the initial years of an international service returning so that the volumes can build up because the business is only successful on volume out of Tasmania. It has got a scattered approach at the moment. So our matrix model there we believe is something that could be helpful in implementing the start up of an international service. We've discussed this as a viable thing with a couple of international lines. They see it as a very practical outcome.

Number 6 is regarding the Tasmanian Government and the ports. The one port strategy obviously that Infrastructure Australia has mentioned was discussed at the Freight Logistic Council between meetings is something that needs to be weighed up. It obviously is something that's out there that Infrastructure Australia feels strongly about and we just need to - is it what Tasmania needs and will it something that will be an advantage?

MR QUINLIVAN: Are you able to go a little bit further than just asking the questions on this?

MR FRASER (VES): Yes. Look, I think that and Veolia in our discussions - we're a very small state. We have a number of ports but what is the infrastructure cost versus continuing to go the way we are? There's a lot of work there. It's not something that will be a very simple decision.

MR BEARD (VES): One of the things that we've struggled with is where our investment is going to be, so at the moment a lot of our material is actually stored at depots rather than actually taken - you know, so we double-handle. If we can take it straight through to a storage facility or even locate our - because we're due to do an upgrade of the Hobart facility. It has run its life, and so if you're going to invest multimillions of dollars, we want to invest it in the right spot so that we don't have a lot of this double-handling. So we just need some clarity on where it's going to be, what it's going to look like and we can follow.

MR FRASER (VES): Point 7 sort of is tied in with this a little bit because speaking about the ports, we understand that Tasports is offering special rates for port service charges et cetera out of Burnie, so that's obviously weighing things in the favour of Burnie Port. Hobart has got the deepest water port, so the best draft but will an international vessel call there? Is that really now not going to be a commercial port but if it was, as David said, we do our investment in Hobart.

Is Burnie going to be forever what it is? Is it going to be expanded, but can Burnie be chosen? At the moment with the fact that Tasports are offering special rates, is Bell Bay the place? So for us it's all a matter of - we don't care where it is. Just tell us. That's where we'll put our infrastructure because that's the best way to do it. So does that mean that one port is going to be how it is going forward because it's chosen on its merits as being the most central spot for everyone to move their freight to without any other things sidetracking it, eg, what Tasports are doing down at Burnie with special deals? I think it's just clarity for us, that we invest - - -

MR BEARD (VES): I suppose the other beauty is that we don't just run a recycling export business, we run a lot of other businesses, logistic type, and if we have, you know, where the growth is going to be, where the centralisation of services is going to be, then we will seriously look at that for investment.

MR FRASER (VES): Just moving on to the last three points here, just speaking about the road network and any restraints there, we just wish that all of the road networks and states would have uniform regulations on weights and laws, et cetera. We find that we do some of our work as from Tasmania up to Sydney. Once we hit Marulan at the border of New South Wales-Victoria, there's a different weight limit applying, and that's a difficulty for us. We can maximise our weights here, but we can't because, if it's got to go over the border there's an issue, so we have got to light load as far as we're concerned to make the regulations; so we would like to see that those things all align.

Point 9, about the cost of Tasmanian services, freight services, with road freight in other states, because I handle the commodity sales for all Australia and New Zealand for Veolia, I'm very familiar with what's happening here, and we have shipments coming out of Mackay back to Brisbane from South Gippsland up into Melbourne, and we find that the rates in Tasmania are very competitive so we don't have any issues there. The final point about rail, as we are a minimum rail user, we really don't have any comments about that.

MR BEARD (VES): We are only a minimum rail user because it's more beneficial cost-wise for the road freight.

MS CHESTER: Thank you very much for those opening comments, and they were comprehensive and considered, going through all our recommendations and information requests, so we do very much appreciate that; that's very helpful. It would be good to ask some follow-up questions as you have covered quite a wealth of ground there.

MR BEARD (VES): Sure.

MS CHESTER: It would be good if you could talk a little bit further about the impact on your business following the exit of the AAA service. You mentioned a figure of \$2 million being a further cost impost, and you referred to \$24 per tonne versus \$76 per tonne. It would be good to get a little bit more of an understanding of the impact that has had on the business in terms of percentage change in your operating costs, and then also the path to market, given we are now transshipping through the Port of Melbourne.

MR BEARD (VES): Yes. I suppose the return on funds dropped from about 13 per cent, 13.14 per cent to, I think we are running negative 13, negative 12, negative 13 per cent, so it's sort of the way I'd like to term it, rather than sort of percentage of operating. We trimmed out business considerably through that time, and there are ways that we can reduce our costs in not processing material and taking it to landfill, and just taking the high value product. That's not in line with the

contracts and it's unacceptable to our customers to do that.

Sorry, I'm going off the track a bit, but once you have educated the public it's very hard to change that education, so it's not like okay, we are only going to do this part of the business now and, for example, glass is not going in the recycling bin. The community doesn't change that quick, and there's a lot of other things going in the recycling bin that I can't divulge to you. Prices, when the shipping line ceased in 2010, our price was around \$24 a tonne, which was a good price. That was based on the volumes we produced and I don't think it was a sustainable price at \$24 a tonne, so - the 40 bucks a tonne was about right, we thought, at the time.

MS CHESTER: Who was providing the shipping services at that point in time?

MR FRASER (VES): It was the - - -

MR BEARD (VES): The AAA service, yes.

MR FRASER (VES): So other than AAA service we mostly supported PIL and OOCL.

MR BEARD (VES): Yes, and it went from \$24 a tonne to \$67 a tonne to \$76 a tonne pretty well in a straight line. A lot of the Bass Strait shipping lines moved their prices fairly regularly and in line with CPI plus, and then we also had the Port of Melbourne tax come in as well, but there were sort of jumps on the way though, but it was pretty well a consistent lift to the 76. We did a lot of things internally to reduce our costs, which we should have been doing anyway, so maximising the tonnage that were in the containers. We were finding that we were sort of underpacking the containers, how do we rebale, et cetera.

There was also - and I don't know enough about it, but I will mention it and if someone is presenting later, they might know more about it, but there was money provided through the grants. We got, I think it was just a little under a million dollars a couple of years ago as a one-off support, but there was also money given for infrastructure improvement to increase the efficiency of freight, and that was for the port at Burnie. We didn't see any decline at all in respect to the cost of freighting, so the money was given to basically improve the efficiencies. The service provider probably got those efficiencies, but that wasn't passed back to the consumer at all, or any other customer as in us. What else would you like to know on that?

MS CHESTER: At the moment which shipping services are you using?

MR BEARD (VES): Currently, we do transship through Melbourne and really and truly in Australia, a nightmare. It is just diabolically challenging in every aspect, because it all sounds very nice. Out of Tasmania we use OOCL and PIL shipping

service, which are ex-members of the AAA consortium. Our biggest problem is getting empty containers, so we can only use - there was this theory out there that by being able to go out of Melbourne, you only had two or three shipping lines to choose out of Tasmania. Now we are going to ship out of Melbourne, you've got 15. We have got to have empty containers in Tasmania, so we don't have 15 to choose from; we still only have the ones who are operating here who are getting empty containers in, or will reposition them for us.

We used to tranship in Singapore, now we have got to transship in Melbourne and Singapore to a lot of our destinations, so double transshipment, plus the coastal service to be able to get the containers from Devonport or Burnie to Melbourne, and then get them onto the international service. All our freighting deals are done with those shipping lines. They provide us an all-in rate that is from Devonport to, say, Port Klang or to wherever it may be in south east Asia.

I don't necessarily have to have any dialogue about pricing with the people who are taking it across Bass Strait as a feeder service, because that's in our rate, but we still do have to do the day-to-day practical things, that's make sure we get the container to Devonport well in time for being able to get it over to Melbourne to be able to meet the cut-off times for going out of the export vessel there. That is just so difficult, and it has added administrative time us because there's changed from the coastal line, "We can't take your containers today," or we have to load so far in advance, we literally have to load our containers a couple of weeks in advance to be able to meeting our Melbourne ship to go off to south east Asia.

It's really difficult for our customers, they can't believe the transit times, they can't believe that a container can get left behind and, because we do our own customs for our EDNs and all our PRAs internally, there's just juggling all the time and there's changes of the times, and there's changes of receivals, not only in Melbourne for the international line, but there's also changes of receivals for the coastal shipping that take it across for the feeder, so it's proved to be very difficult for us to be able to enjoy a free-flowing service that we were used to when AAA was here.

MR FRASER (VES): If we export and we don't meet our time lines in regards to the quantity of material that we said would arrive there on a particular time, we get penalised.

MS CHESTER: Thank you for that, that's very helpful. Just focusing a little bit more then on the competitiveness of Bass Strait shipping, and you referenced a little bit before your views around the pricing and that there could be a case for some regulatory oversight of pricing. In our draft report we provided some commentary around that in terms of feedback interviews that we had from the ACCC describing it as while it was a thin market, there was a modicum of competition amongst the current three shipping line services. Are you able to elaborate a little bit more on

your experience and any evidence you could share with us from your own experience about the competitiveness of Bass Strait shipping?

MR BEARD (VES): With the price, I'll leave that to Craig, but it's only a small market in Tasmania, a population of five hundred and twenty-odd thousand, so we are going to operate where there are limited suppliers and I suppose my comments were - and we're one of those, our own business. For Tasmania to move forward - everybody has got to make a buck. There's no question about that. You're not in business unless you can make a dollar, but as to how far that extends I think needs to be looked at across all businesses, so whether it's a shipping line going across Bass Strait or whether it's our business in respect to a contract with municipalities.

I get told all the time, "But you're the only supplier," and we have to be either the only supplier or one of two in certain markets because of volume. There is just not a business case to sustain the business if the volume is not there. What we endeavour to do with a lot of our partners is to lay the pricing down flat and have it very transparent in what we do and I suppose we're happy to pay for services where there is limited market - I'm talking about the shipping - as long as we know we're getting a fair and reasonable price.

We're not shippers. We use shipping services. We don't understand the costs. I'm sure they're very high, but having some confidence in the pricing we get at least says, okay, that's the benchmark. We need some certainty around what the prices are going forward and how they're going to increase because we're entering into long-term contracts and, you know, you need the long-term contracts to justify the infrastructure spend. It's a catch-22 in a revolving circle. To the pricing, Craig is sort of across that.

MR FRASER (VES): Two points I would like to make on that one. Firstly, I will just speak about export because domestic is really not where I'm at. From an export point of view, as I said, we're basically using two international shipping lines and their rate to us includes that feeder leg, but of course when that feeder leg price increases, then they come back to me and say, "It's out of our control." It's an easy one for them, "It's out of our control. It's the feeder leg guys that have increased."

Of course what I then say to them is, "Okay, please go back and find out - we're using feeder A to take it across Bass Strait at the moment. Please go back to feeder B and find out whether we can do a better rate." I can guarantee and I know that if this feeder A increases, feeder B increases, or if feeder B increases, feeder A increases their rate as well. That may or may not raise more discussion and more questions, but it may be just because bunker fuel has gone up, CPI or whatever it may be, but it always happens very close and it's a bit frustrating, I must say.

The second point that I would like to raise is from my knowledge from the

Freight Logistics Council and they did a comparison on some European and UK services that are a comparison to Bass Strait and I think it was between 30 and 35 per cent higher for Bass Strait than it was for those services similar in the UK and Europe, so I think that says a lot.

MS CHESTER: I think we're familiar with the figure of 24 per cent but there was a range across the different case studies that they had and I think from their report it was attributable to labour costs and fuel being 23 percentage points of the 24 percentage points, but obviously a very material difference.

MR BEARD (VES): We still push about 16,000 tonne just into the mainland, so not for export, and we do that through a tender process and we have just finished it now.

MS CHESTER: We have received evidence from some of the shipping lines covering the Bass Strait that they are looking at some additional vessel purchases that would introduce materially more capacity from about 2016 onwards. That's probably something that you're aware of and do you have a view on what sort of implications you might expect that to have on the costs of Bass Strait shipping for yourselves.

MR BEARD (VES): Until we see what the prices are going to be, we really haven't got a comment. That's a business case for themselves.

MR FRASER (VES): I think that discussion of new vessels being implemented has been ongoing for between seven and 10 years so, yes, when it happens let's see what the results are, but it has been discussed for a long time.

MS CHESTER: Just returning to some of the comments you made before about coastal shipping and cabotage, and thank you very much for your support on our recommendation there. It would also be good to get some feedback from participants like yourselves about the scope of the foreshadowed review that has been announced by the federal minister for infrastructure and Deputy Prime Minister.

I think some of the evidence that we have received from interested parties has suggested that getting the scope of that review right is going to be quite important. There were some changes, obviously, to the legislation in 2009 and 2012 but that was already off the back of a very different regulatory arrangement for coastal shipping, so it would be good if you had any thoughts on that. You don't need to share them today but in any follow-up information that you could provide us, that would be helpful.

MR BEARD (VES): The only comment I would make is one of the visits we made when we were in Hong Kong with one of the shipping lines was that they are prepared to put together business cases based on different scenarios and work with

government and suppliers and was quite excited when we talked about the cabotage as a potential.

MR FRASER (VES): So I would say that our recommendation is that the engagement of these international shipping lines in that report and that information required would be essential.

MR BEARD (VES): Absolutely.

MR FRASER (VES): Because they know exactly what's going to help them make a more beneficial and more profitable model, which then is going to give longevity to a return international ship to Tasmania.

MS CHESTER: So there's a number of international shipping lines that you held these discussions with?

MR FRASER (VES): Correct.

MR BEARD (VES): Yes, we have held discussions on the basis of they do work for us now but through Melbourne, and discussions saying, "We need a ship back in Tasmania, a direct shipping line. What do we need to do for you to make that happen?" and I suppose two of the things were - one was to look at policy and legislation around things like cabotage and the other one was certainty of volume.

MS CHESTER: Let's turn to that issue because we have received some evidence from other parties, in particular the Tasmanian Exporters Group, around the proposal for expansion of the current Swire Shipping service to include a regular international container freight service, which as we understand it - not a lot of commercial detail at this stage apart from it would be a service once every 18 days, it would be from Bell Bay and it would need \$33 million of assistance from government over the initial three-year period.

Before we talk about that as a potential option, it would be good to know from the shipping lines that you have spoken to what sort of minimum volumes they feel would be required, and assuming from one port, to justify the commercially sustainable return of a regular shipping service and what sort of quantum of assistance they have raised with you during that transitional period.

MR FRASER (VES): We have spoken to three international shipping lines and of course it's not just the volume of exports but it's the volume of imports that's important for them. There has been a range of numbers spoken about equivalent to (indistinct) imports, three to five thousand; exports, 10 to 14 thousand.

Then we have actually raised with them how this could progress and what would be

needed for initial start-up and obviously the Swire's case is more publicly known about what they have been - because it has been in the media, but the other lines that we have spoken to and we have presented, which is in our proposal, the matrix model, that does outline costs and subsidies which has been proposed by one of the political parties in Tasmania and they've all said that that assistance would be not specifically necessary but extremely helpful in initially starting over a three to five-year period a direct call shipping service.

One of the lines that we've spoken to has a system in place where they actually have a route at the moment, a worldwide route of a series of vessels and they've said that they could make that change and have the vessels call Tasmania but they're saying it's not specifically relying on some assistance from the government but as I said, it would be helpful and in the proposal that we've spoken to all these guys about, we've also mentioned how some of this money could be used as the volumes grew; that funding that was assigned to make those volumes grow could also, if it wasn't fully utilised within a year, be put into some capital which would go back into port infrastructure and that's one of the things that the lines have mentioned that port infrastructure needs some money spent on it.

So our model which is - it's probably not explainable within this hearing but has got all those facilities in there and they've all accepted that as of great assistance for a long-term sustainable shipping line. You know, we're talking about something that might need to be introduced over a three-year period but then it would make sustainability for ongoing, you know, 10 to 15 years.

MS CHESTER: So in the model, the matrix model that you've developed what sort of quantum of assistance would potentially be required during that sort of three-year period of transition?

MR FRASER(VES): Okay. Well, the proposal of one of the political parties within Tasmania, and we understood that this international shipping was probably more a state based thing than a federal based thing but whatever, is for \$33 million over three years; only because that figure has been out there and so we've taken use of that and maybe not all of those funds, which is 11 million over three years, each year for over three years, may not be all needed to do that and so consequently as I said before, some of that money that was left over could be turned into use into capital into the ports to make an improvement if it wasn't used in each of the three years.

MS CHESTER: But just to clarify and make sure that I fully understand, some of the shipping parties that you are speaking with said that the assistance isn't absolutely required to restart a regular international container service to Tasmania?

MR FRASER(VES): Correct.

MS CHESTER: Okay. The quantum of volumes that they said would be required for a commercially sustainable, regular international container shipping service to Tasmania, assuming one port, if I'm correct from what you said was about 19,000?

MR FRASER(VES): So somewhere between three and five thousand import.

MS CHESTER: Yes.

MR FRASER(VES): And 10 and 14 thousand export - - -

MS CHESTER: Okay. In our draft report we did refer to some work that had been done, I think by GPS and that was an input to the FLCT report which I do have to say was a substantive body of work and very fortuitous for the Commission that we were able to draw on that and rely on some of that, the heavy lifting that had been done, so thank you.

There was some work done by GPS that suggested, and they're meant to sort of be the gurus in this area, that the sort of volumes that were required for a regular - and we'll come back to what we mean by regular in a moment, a regular international container shipping service to somewhere like Tasmania would be around 37,000 to 54,000 TEU a year. I'm just trying to work out, it seems to me a bit of a gap between what you're hearing from some shipping lines today about what they need in certainty in volumes to return to Tassie versus what was suggested by someone who's an expert in the area based on international experience.

MR FRASER(VES): Yes. I can't exactly comment on that, that's just - - -

MR BEARD(VES): The discussions we had were mixed up with the cabotage discussions, so it could've been just the bunny-hop basically down the coast and then the top-up out of Tasmania.

MS CHESTER: Okay, so that's an important point that the discussions that you're having are premised on - - -

MR BEARD(VES): Yes.

MS CHESTER: So setting aside assistance for a moment, are premised on there being some material changes in coastal shipping.

MR BEARD(VES): Absolutely. Yes, absolutely. We're not saying

MR FRASER(VES): Yes, definitely. Sorry, yes. And our discussions have been brief so, you know, we haven't been meeting regularly or anything but saying what

would it take to get a ship back to Tasmania and they're saying they're willing to work with the Government or whoever it might be to look at all options, and every time we sort of mention cabotage the eyes lit up.

MS CHESTER: So stepping back for a moment and looking at it from a policy perspective and what levers to pull, it would be sensible then to see how far the Government is able to go with the coastal shipping review before looking at what quantum of assistance to give to a shipping line to start a regular service to Tasmania. Would that be a reasonable sequencing of thought?

MR FRASER(VES): I would think that they should run in parallel, yes. Yes, because otherwise we'd get one little bit and then - it's all a timing issue here for everyone, you know; like for us it's - we're bleeding, we're bleeding. It's a timing issue. So we want to see things moving very quickly in whatever direction it may be and as I said, our preference is an international direct call ship again. But, yes, if we could run those two things in parallel that would be much better and get a quicker result.

MS CHESTER: From the perspective of Veolia, what sort of nature of service do you require? The one service every 18 days is that something that meets your needs, because we've had feedback and evidence from other businesses in Tasmania that that doesn't meet their requirements for a regular international service.

MR BEARD(VES): We're very lucky because ours is a non-perishable good. But when we sell into the market, the market moves, I think it's reviewed every month isn't it?

MR FRASER(VES): Every month, yes.

MR BEARD(VES): Every month. So if our buyers buy at a certain price and then we deliver three months later the whole system's out of whack. So we still need to basically get it within that four-week period, it's probably about right.

MR FRASER(VES): Yes, we could do a fortnightly call. We could stretch it out and even do a monthly call because of our commodity as David said, is fine, it's not going to cause any grief. It's only our buyer at the other end. If we say to our buyer this is what's happening, this is how it is, then we can work around that and that will be satisfactory. It's just if, say, we had a fortnightly service and then all of a sudden we had it omitting all the time and we did some irregularities, that would be a problem for us - - -

MR BEARD(VES): One of the things that's been mentioned before through the whole debate over the last two or three years, is that because your product is non-perishable therefore in high season in respect to whether it be agriculture or

whatever, you can stockpile and then basically you'd go under the seasonality, and then when we haven't got anything to provide then you could basically bundle your material on.

We can't work like that, because our material sort of comes in pretty consistently over 12 months. Storage is not an issue because you could deal with that, but the buyers require a consistent flow to operate their mills; you know, paper mills, cardboard mills, plastic mills and the like. So it's an interesting game we play.

MS CHESTER: And important for us to get a sense of the 37,000 international TEU that are coming in and out of the state at the moment, what percentage of that 37,000 does a less regular international service meet the needs of if there's going to be an element of government assistance, from whatever level of government, to encourage that service?

Because I'm sure you'd understand the issue that we're sort of grappling with at the moment is we're looking at considering the merit of extending the eligibility of the TFES for the northbound, to anything that's transhipped through Port of Melbourne which would extend to exports, at the same time as someone is suggesting introducing an international shipping service which is the reason that exports haven't previously been covered by the scheme and now that that service isn't available, it does raise an anomaly in the current scheme so we've have to balance those competing needs at the moment.

MR FRASER(VES): There is another thing that needs to be taken into consideration, especially when we're talking about volumes is the port of transshipment in the Asian region, and from my limited knowledge about other industries but we believe that the hub is Singapore and Singapore will then attract European trade whereas if, say, the hub for transshipment was Kaohsiung in Taiwan then that may limit the volumes that would be able to be attracted for exports, say, of onions or something like that going to Europe. That's an important thing to take into consideration with the conversations with international shipping lines: where is their transshipment hub in Asia?

MS CHESTER: As we understand from some of the limited evidence that we've received to date on the Swire Shipping proposal, it wouldn't be Singapore but have you had some discussions with Swire in terms of international shipping lines that you've been talking with?

MR BEARD (VES): We're finding it very hard to talk to Swires.

MR FRASER (VES): I've attempted to have a lot of discussions with them, right up to their GM of Australia. It has proved to be difficult.

MS CHESTER: We're hoping to have an opportunity to speak to them on Monday at our public hearing, so that's why getting some feedback from you today is very helpful.

MR BEARD (VES): Yes, that's good.

MR FRASER (VES): I suppose one of the things just to add in respect to whether it's a subsidy or whether we get a ship back, it's our strong belief that we need to have innovation. We need to have efficiencies and there are things that we did as a result of the shipping issue to tighten our business, to sort of limit the bleed. We don't want to get to a point where we lapse back into a subsidy driven state. We should be able to stand on our own two feet at a point in time. We're just at a very big hurdle at the moment where there's a lot of businesses right on the edge of being able to go forward, so innovation, efficiency, all of the right measures in business and then we look at the rest. So if we can pull the levers in respect to making it attractive for a ship to come directly into Tasmania, even if it's via a coastal port, it would be our preferred option.

MS CHESTER: Thank you very much. In terms of the assistance you're currently getting under the scheme, and not wanting to go into too much detail, are you able to give us a bit of an idea of the nature of that support in terms of how much is northbound versus southbound?

MR FRASER (VES): 99.9 per cent northbound, .1 per cent southbound. No, all of ours is northbound. We may have some small items that we bring in that are eligible for southbound TFES but other than that, all ours is northbound.

MS CHESTER: And you?

MR BEARD (VES): It's around 60 per cent odd that's going through to international orders.

MS CHESTER: Okay. Then if we extend the scheme to exports as is being forward as a potential option, the impact then on what sort of volumes then would be eligible for TFES for Veolia today, the work before - - -

MR FRASER (VES): We'd have about another 25,000 tonnes of material that would be eligible and we get 24 tonne in a container.

MS CHESTER: Thank you. That's very helpful. Just a couple of other comments that you made earlier. I am conscious of time. We've got some other participants but there are some questions I'd still like to get through. You touched on before a concern around the commercial-in-confidence nature of information if it were to be in the public domain, the order and magnitude of assistance that are received by

individual companies under the TFES. Are you able to just elaborate a little bit more on what sort of commercial and confidential information that that would actually reveal because I'm trying to better understand that concern.

MR FRASER (VES): Look, I think that was a general comment; that we've got competitors and so we don't mind some of that information being out there because some of it, if you drill down through the public domain, you can get it at any rate, but it's just a comment; that we would prefer as much commercial-in-confidence so that our competitors don't get information through another means that would affect our business.

MS CHESTER: You say it was just the headline matrix of company A gets X dollars from - - -

MR FRASER (VES): Not a problem.

MR BEARD (VES): Yes.

MS CHESTER: Okay. So it's just more if there's detailed level of information?

MR FRASER (VES): Yes, if there's any detailed level. Yes, that would disturb us.

MS CHESTER: It would be helpful if you could let us know what level of detail, where you get to the point that you feel it would be releasing commercially sensitive information.

MR FRASER (VES): Sure. Yes.

MS CHESTER: Thank you very much. One other point that you touched on which is stepping back from the schemes for a moment - and we did receive some evidence and presentations yesterday that stepped away from the scheme and looked more broadly at some of the policy levers that could apply to the Tasmanian economy. You touched on the issue of councils, and that was a matter that we received some evidence on yesterday, and the suggestion that there could be merit or some review of amalgamations of councils in Tasmania. Is that something you're able to comment on just purely from the perspective of the cost to your business of having to interface with the number of councils that are in existence and whether they have different business models and different tender templates and all the rest of it?

MR BEARD (VES): I suppose I'll handle this one. For us having multiple customers makes it difficult in respect to combining enough volume to get the efficiencies et cetera in. We've seen some really good examples of where councils have worked together, particularly in the north of the state, and combined volumes to

then put out a commercially viable contract or tender.

Some of the smaller municipalities haven't moved as quickly in that regard. I'm talking about the recycling collections and waste collections and in that respect. My comments earlier in regards to local government is that they seem to be in a lot of businesses that can be provided by the private sector. My background was in local government by the way so I know both sides, but the drivers for innovation and efficiencies culminate into profit for a business. I just think there's a lot of opportunities there for private enterprise to take the pressure off local government in delivering a lot of the things that are currently delivered in that way.

The other side is the water sector. Again, the infrastructure is publicly owned and there are opportunities to put new innovative products in. So as far as municipalities go, I was in Victoria under the Kennett era, working in local government and I saw some amazing efficiencies come about by making larger regional centres. I personally am a supporter of, I suppose, less councils delivering a wider range of equality within the areas that they serve.

MS CHESTER: Thank you very much. That's helpful. Thank you very much for appearing today and for your initial submission. We look forward to getting some more feedback from you in the next few days but again thank you for your time and appearing today.

MR BEARD (VES): Thank you.

MR FRASER (VES): Thank you.

MS CHESTER: I'd now like to invite our next participant to join us RDA Tasmania, Regional Development Australia.

Thank you very much for attending and agreeing to present today. Just for the record, if you could state your name, title and organisation that you're representing?

MR PERKINS (RDA): I'm Craig Perkins, I'm the CEO of the RDA Tasmania Committee. I also declare, I'm the mayor of Meander Council too, as well.

MR BRINDLEY (RDA): My name is Mike Brindley, I'm the Community and Strategic Development Officer for the northwest coast, again for Regional Development Australia Tasmania Committee.

MS CHESTER: Thank you very much, and thank you gentlemen for what was a very comprehensive initial submission that we received from RDA. That was very much appreciated. Are there any opening comments that you would like to make? I just mention that the microphones are for the transcript, but not for the (indistinct) so if can project as much as possible, that would be appreciated.

MR BRINDLEY (RDA): Sure. Very quickly, an introductory comment in respect of what RDA Tasmania actually does. A very brief overview, we are a not for profit organisation that is funded by the federal government through the Department of Infrastructure and Regional Development. Our role is to work with state and local governments, industry representatives, community organisations and, of course, not for profit to actually identify and promoted opportunities that provide outcomes for Tasmania. They could be economic outcomes, social inclusion, education and, of course, health outcomes, per the charter of our regional plan.

We are one of 55 regional committees based in Australia in the RDA network. We are the only one of its type in Australia that represents an entire state. RDA Tasmania also provides secretariat services to the Tasmanian Logistics Committee. The logistics committee was formed as a result of the Freight Logistics Council of Tasmania that recently wound up, and it has now morphed into the Tasmanian Logistics Committee, so we work with the TCCI as well, and the members of that committee are also members of the logistics coordination team that provided quite a body of comprehensive work towards the end of last year.

The opening comments we wanted to address in respect of the draft report that the Commission provided, namely three particular items. Firstly, talking about a long-term freight strategy for Tasmania, which is very close to what we see as being reported; the identification and drafting of an economic development plan for Tasmania and, thirdly, the potential for morphing of federal departments or agencies that are responsible for the freight equalisation scheme and how it's administered.

We start with, firstly, the freight transport strategy which we have a copy of, the Tasmania Freight Logistics Council report, that you may have received. They produced with our help, obviously, the last report before they transferred it to the logistics committee, a strategy to 2050 which we have a copy of here. It's very important we recognise from an RDA perspective that there be a long-term freight strategy considered for the state of Tasmania. We have recognised through discussions with the Productivity Commission at the round table that there hasn't been a freight strategy for Tasmania. We are one of the few states in Australia that doesn't, and as a result there has been federal recognition of our dilemma, but at the same time a very ad hoc process of investment in the port infrastructure. We believe a long-term freight strategy would actually enable better placement of the port infrastructure, recognition of potential specialisation and a long-term outcome for the Tasmanian economy.

Secondly, we wanted to have a look at the economic development opportunities for Tasmania and RDA Tasmania produces a regional plan, which we have a copy of here. That is provided back to the federal Department of Infrastructure and Regional Development on a regular basis annually. That report looks at demographic infrastructure of Tasmania, including people in various age groups and their needs. It looks at the economic opportunities for Tasmania, including the industry problems that we have throughout the state. It looks at health and education outcomes for Tasmania, and it looks where we can actually develop opportunities to actually help the state in regard to its own self sustainability.

The report itself that we produce is not on its own. We recognise the state Department of Economic Development does actually produce their own report, and again we have a copy. They work in synergy and we work very closely through a memorandum of understanding, so we actually do produce an annualised document, which they have also recognised as economic development strategies for the state of Tasmania.

RDA, as an independent organisation, does have that ability that we don't have a vested interest as far as being a federal agency or a state government representative, so we have that independence that allows us to be quite constructive, but also critical of issues that are very important to Tasmania, and look at it in a way that can actually produce the best outcome, so we do fully support the Commissioner's recommendation to actually look at a long-term economic development plan for Tasmania, bearing in mind that it also that it is subject to the political cycles that we all endure at a federal and state level; so whatever longer-term strategy is considered has to have the ability to be manageable, but also be reviewed on an annual basis in line with Tasmania's changing economy.

MR PERKINS (RDA): I think that a really important point is that our view, obviously freight transport is a critical element of Tasmania being a competitive

economy, and just listening to the previous conversation around freight volumes and the like, our view is we need to focus on the elements of our community that strengthen the economic output, to get volumes up, be it for shipping domestically and internationally, or whatever else, so if you grow the economy and you create an environment where you grow the economy, the likes of the shipping - some elements of that take care of itself. It's when you find the economy struggles and all of a sudden the perfect storm that we have had in previous years around the high dollar and the like, these things come to the fore and become the focus. They are important that we continue to look at ways to be more efficient and improve them, but growing the economy should be a number 1 priority.

The last comment we had was draft recommendation number 7 when we talked about the Department of Human Services, which has been given the charter of actually administering the Tasmania Freight Equalisation Scheme, and we know recommendation 6 was the Department of Infrastructure and Regional Development providing public reporting. We thought it may be worthy of consideration where one agency would actually handle not only the reporting but potentially the administration of the freight equalisation scheme on the basis of creating better efficiency and harmony within the one organisation, or one agency, I should say.

It seems logical, if we are looking at an efficiency from the outside, where the freight equalisation scheme can deliver the best outcomes for Tasmania exporters, that also should be looked at from within government as well.

MS CHESTER: Thank you very much for those opening comments, and it is refreshing to get a submission that steps back and looks more broadly at the issues affecting the competitiveness of the Tasmanian economy, which we try to do, given we did receive a broader scope of reference from the Government, while much of the focus is on the two schemes. We do in our report go to some lengths to try to identify some of the areas where we feel there might be some other policy levers that could more meaningfully and fundamentally impact the competitiveness of the Tasmanian economy. What views would RDA have in terms of what policy levers, both a the federal and state level, would perhaps have a more fundamental impact on the competitiveness of the Tasmanian economy?

MR PERKINS (RDA): From a shipping point of view, I think the cabotage issue is important, and certainly I understand the arguments around providing reasonable wage rates and the like that are put forward but I think, if you stand back a little bit, you go what industries are being held back from growing internationally because there's a competitive part of their business that is removed because it costs a lot more to freight their goods so, if you take Tasmania in isolation and given that 99.5 per cent of our freight has to go by sea, whether it's domestically or internationally, I think there's an argument, if you can't relax the cabotage laws nationally, if there's a capacity to do it in a Tasmanian context, recognising the single

limitation around exporting, most goods have to go by sea - you obviously don't have the rail and road to connect us to the mainland - and by doing that, does that then make the likes of the industries that struggle with other competitive costs more competitive? So all of a sudden the manufacturing sectors become stronger, so you actually - you know, I don't want to get into a union argument, the arguments around protecting certain elements of it, it actually might free up and grow the economy and people's wage and income rates and household incomes in other sectors because you've actually made one area more competitive. So I think that is an important area for us.

The other one too is recognising - and often we see freight, I'm talking about volumes, and I think we need to look at where value is created as well. If you take Bell Bay, for example, and one report I saw says it adds \$2 billion to the Tasmanian economy, so you have got a small area there that significantly impacts and benefits the Tasmanian economy around value, but their volumes might not be as big as something else that puts things through containers that might be producing elsewhere in the state, where it's more efficient when they go through Burnie, so the competitive tension between ports and where they best exit point is sits too much around volume, and also from a government point of view I guess in understanding the way the (indistinct) works it needs to look at where value is created because, I think, you can't do one in isolation.

MR BRINDLEY (RDA): The only thing I would add to Craig's comments which is the aggregation of freight tasking, we are a low volume producer with a diversified freight task. We are mindful of the fact that we have a plethora of port infrastructure which is all ageing and there needs to be recognition of the fact of where Tasmania is currently as far as exporting is concerned and where we're likely to be, say, in 10, 50 years' time and the significance of the export investment that's going to be required in order to address that.

We know in the north-west there are mining opportunities that are being explored with the potential of coming online very soon for instance, there is a dairy industry that is increasing in size; horticulture, agriculture and manufacturing goods all need to go out of the north-west coast ports, so the recognition of not only that but how that's likely to change in the next 50 years. There needs to be some consideration of aggregating a freight task so that those commodity exports can actually be consolidated, economies of scale can be achieved and obviously the boats that come in will hopefully reduce the cost because you are receiving a bigger loading, so to speak.

Internationally with shipping there has been concern about the need for government to prop up or support by way of monetary enticement an international shipper to come to Tasmania and provide a regularity of service. There is a concern and from consultation we've had with our key industry people about the long-term

sustainability of that, it is a significant impost on the Tasmanian Government and the federal government to actually entice an international shipper to come here but help entice them to remain. So there needs to be a business case, it just can't be a case of simply a handout to help them remain. They need to actually see from their own point of view that there is a regularity of base cargo, both forward and back, but at the same time it's got a long-term self-sufficiency, that it can actually stand on its own two feet over a period of time.

MS CHESTER: Thank you very much, those comments are very helpful. Just turning to the point around the ports and ports rationalisation which was part of the focus of the FLCT report and obviously we're aware that Tasports is developing medium to longer-term strategy but also presuming that the scope and the focus of the Tasmanian Government's integrated freight strategy will obviously touch on ports as well. What do you see as the obstacles to date for a port rationalisation, given you have much lower volumes and then a fragmented port structure in Tasmania?

MR PERKINS (RDA): Where to start on that? I think there's a number of issues. Obviously it's about the capacity of each port and the functions that they currently play and if you were going to rationalise, they all have their own issues and challenges in terms of to be able to grow them in terms of ship access and vulnerabilities to weather and depth of water and all those kinds of things and ironically the port most likely to support any growth is probably the Hobart one because it's the best sheltered, the deepest and the like.

But I think again it goes back to where volume and value is created, which is that the cost of then additionally transporting goods from - if you're creating value in Bell Bay, to Burnie to put it on; you know, there's a cost (indistinct) and I'll come and talk about that later no doubt. So having then with access to shipping right where they produce makes sense from an efficiency point of view, but it doesn't mean you can't then - so if you got it to Bell Bay and all of a sudden you have to have the commodities out of Burnie they're going to have the same issues.

In a small economy I would suggest that those costs, even though you look at a map and it doesn't look very far, they're enough to put competitive pressures on businesses and when we operate remote from our markets, if we were any further south we'd be in Antarctica, you know, there's nothing else below us in that regard so we operate a long way from our markets so any additional costs within the state isn't going to help in that regard. So I don't know what the answer to the rationalisation problem is, or challenge is but I go back to I think what we need to do if we focus on growing the economy around it, it doesn't become the issue that it's put up to be at the moment and obviously there needs to be investment and the like but let's get our output higher to cover off on that as opposed to reducing our costs by - - -

MS CHESTER: One other issue that we touch on in our draft report and trying to

sort of have more of a context around, one of the key drivers of the Tasmania economy was that in Tasmania 27 per cent of gross state product is effectively government and that compares to 19 or 18 per cent for any other state or territory in Australia. I think this is highlighted in the freight logistics task where you look at all the major freight infrastructure assets, ports, Tasrail, Tasroads, TT-Line, are government owned. Does RDA have a view on private sector involvement in the freight logistic infrastructure network?

MR PERKINS (RDA): We haven't had a discussion on it. Personally my view is I don't have an issue with that; like at the end of the day if it brings additional funds in to support access to a service and the private sector can do that more efficiently than the public sector, then you put checks and balances around things to make sure that you're happy with it. I think the Launceston airport, for example, over the last 20 years or whatever since it was privatised is a great example about how that's benefited the region from an access point of view. So if done appropriately, it could work.

MR BRINDLEY (RDA): I think also there needs to be a cultural shift from what community demand of government and of its freight task in Tasmania and effectively there has been a recognition at federal and the state level of investing in multiple ports and that's created an expectation from business and community on the expectation there's going to be a boat there and it's going to take their freight when they need it.

The price is the key issue and it's a case of probably managing expectation of business as well, knowing very well that in order to achieve efficiencies there may well need to be some consolidation considered. Now, that may be a bigger boat coming in but a bigger boat can only go into a certain port, so that may well be long term what sort of investment infrastructure needs to be created in order to accommodate that kind of larger-scale type of vessel and of course the regularity of the service it's going to provide.

MS CHESTER: Just in terms of the development of the integrated freight strategy for Tasmania, is RDA involved in that process?

MR PERKINS (RDA): One of our committee members sits on the freight logistics coordination team and certainly we have through the - what's it called?

MR BRINDLEY (RDA): Tasmanian Logistics Committee.

MR PERKINS (RDA): Thank you, I always forget the name of it. So involvement through that as the secretariat. So our role is we try to create an informed position so we can provide advice to government when required on this, as opposed to being a driver.

MR BRINDLEY (RDA): Just a point of clarification, I was under the understanding that the logistics coordination team identified the need for a longer-term freight strategy but I don't believe they actually put one into their paper.

MS CHESTER: No, it was more the Tasmanian Government, state government's response to the FLCT report in December.

MR BRINDLEY (RDA): Okay.

MS CHESTER: It did say that they agreed that there should be an integrated freight strategy and they would get that under way immediately.

MR BRINDLEY (RDA): Sure.

MS CHESTER: We would probably need to get a better understanding on where that's up to at the moment, and I had thought that RDA through TLC might be involved in that.

MR BRINDLEY (RDA): Not as yet; and again, we're very mindful of the debate going on around that as it's coming into election time as well so we're very mindful of being available but at the same time the Tasmanian Government may have other considerations in that respect as well.

MS CHESTER: Understood. One of the issues that we raised in our draft recommendation is a suggestion that it would make sense for the federal government to have some form of involvement in the development of that strategy, given ultimately at the end of the day the federal government would be funding a lot of that infrastructure. Is that a draft recommendation that RDA would support?

MR PERKINS (RDA): Yes, yes. Well, if you put two billion dollars into Bass Strait shipping over the last what was it, 25 years or something and got (indistinct) again from a federal government's point of view.

MS CHESTER: Yes, and also 43 per cent of the road funding in Tasmania so there's a lot of areas where - - -

MR PERKINS (RDA): That's right, yes, so it certainly makes sense.

MS CHESTER: Thank you, that's helpful. You touched on a view around the administration of the TFES and a suggestion around inefficiencies in its administration. I just wanted to get a better understanding whether the inefficiencies you were thinking of were related to the complexity of the scheme as currently designed or the way it's being administered and if you could share some evidence of

the inefficiencies you were referring to.

MR BRINDLEY (RDA): The comment was more of a broader view, not as much a qualitative analysis. It was more so the fact that you had two separate federal agencies providing support in respect of the TFES and it was more so just an understanding that Department of Infrastructure and Regional Development were two separate federal agencies that have been recently merged.

It seems logical in the case of the TFES, which is such a micro scale of that but at the same time you've got the Department of Human Services administering the scheme and you're asking in the recommendations that the Department of Infrastructure and Regional Development provide the supporting and reporting network around that, it seems logical if you had one agency responsible for all that there may have been inefficiency created by way of staffing, timely reporting and of course because you have that information to hand within the same representative or agency.

MR PERKINS (RDA): The knowledge gain for future policy and development, I guess, and understanding of where it goes.

MR QUINLIVAN: I think we'd have some difficulty with that, not so much that the costs or gains in this particular case are great but over the last decade the Commonwealth has been separating policy and service delivery and now is a national service delivery agency which provides services for all of government and that has definitely led to whole of government efficiencies; and so reversing that trend I think at present would probably be a negative thing, even though probably it wouldn't make a huge difference with a small program as you say.

MS CHESTER: We didn't have any other questions. Are there any other comments you would like to make today?

MR PERKINS (RDA): The only other two comments which I guess are observations as much is changing the rate and I'm not fully over how that works in terms of the rate that someone gets paid for using the TPS and as a comment about whether it be a flat rate or how that might work is any changes to it obviously they need to be equitable and by that I mean I guess it's comparing equitable in terms of the broader - is it equitable for Tasmanians compared to costs elsewhere in Australia.

So I think obviously ensuring there's openness around that, about how the costs have come to and what that means but if there is a change and it means that some businesses, it will have an impact on their profitability or their operations is how they might be managed through the process of any change should it occur and just understanding the consequences of it, I think that's important.

Another point just briefly, we didn't spend a lot of time on it but I just think the one around the Bass Strait visitor scheme, I can't remember what it's called, the passenger one, and I think you made the comment in the paper about it appears to be based in supporting inbound tourism. I'm not sure it was done to do that. I think that has become one of the main benefits of it. I wouldn't necessarily like to see that changed.

MS CHESTER: Thank you.

MR BRINDLEY (RDA): The only comment I'd like to add, thank you, is in respect of the last recommendation which looked at a periodical review of Bass Strait shipping that was to be conducted by, in the words here, "an independent party and should not compromise (indistinct) assessment of the aggregate benefits and costs in the strategy to date." We believe RDA Tasmania is well placed to provide input into that review process on the basis of our involvement with the state and local government and industry and community groups.

We believe that a review process should happen on a regular basis so that Commission hearings of this description don't happen on a periodic basis either, so that it actually becomes a self-evolving and self-regulating type of process that does recognise the changing demographic of Tasmania's economy, the people who live in it and obviously contributed through exports and what they send over to the mainland as part of their business model.

MR PERKINS (RDA): And I was just going to say for the record, I'm not a supporter of amalgamation for councils.

MS CHESTER: Okay. Thank you for that final thought.

MR PERKINS (RDA): Okay.

MS CHESTER: Which will be in the transcript, I'm sure. Thank you very much for appearing this morning. Ladies and gentlemen, we'll now take a short adjournment to have a caffeine break and stretch our legs and there's some tea and coffee in the next room, but if everyone could aim to get back here say by 10 minutes to 11 that will be much appreciated and we'll resume our proceedings. Thank you.

MS CHESTER: Thank you, ladies and gentlemen. We'll resume our proceedings and to our next presenter Mr Geoff Cossar from GA Cossar and Co Pty Ltd. Thank you very much for coming today and presenting to our public hearing. Also, thank you very much for your submission to our inquiry process. If you wouldn't mind just stating your name and the company you're representing for the record, that would be very helpful.

MR COSSAR (GACC): No worries. My name is Geoff Cossar. I'm a director of G A Cossar and Co Pty Ltd, a small business consultancy which has been operating - we actually have our 20th birthday this July.

MS CHESTER: Happy birthday. Look, Mr Cossar, are there any opening comments that you'd like to make?

MR COSSAR (GACC): Just a couple if I may. First of all, thanks for the opportunity to appear at this public hearing. As you would have seen in our submissions, we focused on the Tasmania Freight Equalisation Scheme and predominantly did so from the perspective of Flinders Island businesses. I guess the reality though is that when we looked at it, the current TFES isn't really true to name in our opinion, in that it only provides freight equalisation at road rates for certain industries and even then only for certain freight.

The current scheme seems to be widely acknowledged as very, very complex in its design and its claims processes seem to be very, very cumbersome. Our submissions, both the interim and the one subsequent to your draft report, it's sought to suggest changes to the schemes which we hope would simplify it and also truly make it a freight equalisation scheme for Tasmanian businesses, to try and remove the vast majority of its current distortions and its anomalies, to try and reduce procedural and compliance costs for both the Commonwealth and for those the scheme is designed to assist and, perhaps most importantly, to better achieve what we consider worthwhile Commonwealth Government public policy outcomes but in a non-discriminatory manner,

MS CHESTER: Thank you very much for those opening comments. It would be helpful because we do appreciate the special circumstances of the Furnaux Group of islands and the Flinders Island. If you could talk us through the main component parts of the relative costs disadvantages for a livestock based enterprise on Flinders Island.

MR COSSAR (GACC): I guess the transport costs are something that, particular to Flinders Island, are less - slightly less though to Tasmania. The values of land on the island are very, very low relative to other areas of Australia, the prime livestock growing areas of Australia, because the cost is so very, very high. For example, even

just attracting staff - there's a reference in the Commission's writings to mobility of labour. Just attracting staff to the island is onerous. The cost of living on the island is high. The profitability is low, so even to attract someone at a basic wage level, it's very, very difficult.

The Flinders Island council at the moment has an absolutely gun CEO but I suspect the appeal of the position has a bit to do with lifestyle, so unless someone is prepared to take on that sort of lifestyle and be happy with that sort of lifestyle and be happy with the diminished economic result they're going to get from it then it's very, very difficult to attract labour. That's probably a major aspect.

In terms of actually transporting animals and things like that, there's a seasonal element, so just when you need to move your animals north, south, east or west everybody else wants to do so. There may be particular sale dates in Tasmania or Victoria, so other producers on the island may want to hit those sales as well as yourself, so you've got this spike which clearly is going to attract logistical problems and price problems for you.

In terms of bringing new bloodstock in, you've got the same sort of issues. There's the transport cost. Someone growing cattle in New England in New South Wales, for example, that wants some fresh bloodstock can probably transport them in by truck from three or four hundred kilometres away at relatively low cost. Someone on Flinders Island, for example, doesn't have that benefit.

I guess the major thing that came out of my studies is just the fuel cost and just the absolute burden that places literally on every business at every level on the island. Everything is transported around. There's enormous differentials in costs of fuel between Melbourne and Flinders Island in particular. In my second submission I look at a town in north-west Victoria which is not too distant from the distance between Melbourne and Flinders Island. There was something like a 40 cents per litre differential in fuel.

That town is on a major highway between Melbourne and Mildura, so it's well suited by road transport but if you can imagine just adding 40 cents a litre to every litre of fuel you consume on your tractor or on your utes, even on your motorbikes and then having to pay an additional burden when you've produced your goods and sent them off.

MS CHESTER: For the operating costs of your business, what percentage of the operating costs at the moment are transport related? Do you have sort of an order of magnitude of what percentage?

MR COSSAR (GACC): Possibly as high as 10 per cent. That's direct transport costs but again, as I said, one of the problems is that a lot of the stuff you buy has - if

you buy fuel, it goes under a fuel category but there's a transport cost inherent in fuel. If you buy fertiliser, it goes under the fertiliser category but there's a transport in getting it to the island. So the actual underlying inherent freight costs in a business, particularly on the Furnaux islands and on King Island is probably a lot, lot higher than what you see in a line code in their accounts freight costs.

MS CHESTER: With respect to the shipping costs that you've experienced, and I appreciate this is the direct transport costs, not the imbedded transport costs, what percentage of the transport costs would the shipping voyage part account for?

MR COSSAR (GACC): The vast majority. I couldn't give a percentage but certainly the vast majority of - I mean, top to bottom Flinders Island is 60 kilometres, so once you've got the product landed at Lady Barron in the south, the transport costs to the absolute north of the island are relatively nominal.

MS CHESTER: How have those shipping costs moved over time for your business over the last 10 years?

MR COSSAR (GACC): I couldn't say, I'm sorry. It's just something you pay.

MS CHESTER: Turning then to talking a little bit more about the Tasmania Freight Equalisation Scheme, if you could first just give us a sense of the nature of the assistance that your company is getting at the moment. I don't need exact numbers but just the profile in terms of northbound, southbound and all those sorts of things.

MR COSSAR (GACC): The brief I was given was specifically not to look at my client from a self-interest perspective but to look at the issue from an island and a Tasmanian perspective, so I regrettably cannot give you a figure on that.

MS CHESTER: Do you have the figures then for the island itself?

MR COSSAR (GACC): No, sorry.

MS CHESTER: Let's go to then your thoughts and your views on the current design of the scheme. You've touched on two issues in your opening comments and in your submissions, the first being the eligibility, you know, what commodities and what industries are eligible for the southbound and northbound components of the scheme, and then secondly, the quantum of assistance. So maybe if we first turn to the eligibility under the scheme and if you could take us through your views around changes that might be required.

MR COSSAR (GACC): As I said, being a true to name scheme the primary objective, or the stated primary objective, is to try and equalise for Tasmanian

businesses the cost of moving freight around, in other words, to try and make it comparable with mainland businesses on a road freight basis. So that seems a fairly obvious and worthwhile policy in terms of equality and one part of Australia helping the other et cetera, et cetera.

When you drill down into the scheme itself, it's clear that there's an enormous number of industries that aren't eligible for historical reasons as much as anything. There's an enormous amount of freight that's not eligible and even for businesses that are eligible, there's all sorts of idiosyncrasies. I think a piece of equipment travelling from one spot to another may be eligible for freight assistance but not if it's a leased piece of equipment. Some parts of an item's product may be eligible, some parts not. There's differences if it's export, non-export and it just goes on and on.

I think I quoted in the first submission that the guidelines are about 82 pages which seems quite horrendous for what ostensibly should be in concept a very simple scheme.

MS CHESTER: Just turning to the issue of eligibility then, and you made some very broad comments there, if you were to identify, what would be the priority areas for extending eligibility under the scheme or getting it right from your perspective? In our draft report we do put forward the option of extending the scheme to all eligible commodities shipped to the Port of Melbourne which would then pick up exports. If you could give us a sense of where that suggestion fits within your priorities and what would be some of the other top priorities around eligibility?

MR COSSAR (GACC): I must support anything that extends the scheme to cover an attempt to equalise freight costs with the rest of Australia. The obvious exception is the bulk items that I just mentioned, in particular fuel because it is so insidious in the impact but even things like - there was an example given at the roundtable where the Flinders Island council was importing some road-making material, which they presumably got from Launceston or somewhere, to make themselves eligible under the scheme it was put in bags of some sort, loaded on to a ship, taken to Flinders Island and then unloaded and taken out of the bags.

To me the economic rationale was probably excellent, that the council may have saved themselves a dollar a tonne on net, but it seems to me that the federal government has paid for a freight subsidy scheme and they may have paid \$20 a tonne which \$19 a tonne has gone to putting stuff in bags in Tasmania and taking it out of bags and providing bags.

MS CHESTER: That's an important issue that you raise and it's something that we do comment on in our draft report with respect to businesses changing their operational strategies or their business model to become eligible for the scheme given the different categories and commodities of eligible. Are there any other

examples that you're aware of of businesses changing their behaviour to become eligible for the scheme? One example - - -

MR COSSAR (GACC): Not that I'm aware of. I haven't looked at that aspect. I've looked at more I guess the overall philosophical deficiencies.

MS CHESTER: All right, thank you. Turning then to the quantum, and we agree that the scheme is administratively complex given the way that it has been designed and particularly around the parameters to try to estimate a notional freight cost disadvantage for any individual business using shipping services across the Bass Strait versus a highway, 420 kilometres of highway on the mainland. I think we do form a view that it's intrinsically difficult, if not impossible, to really make that calculation to offset what is the true freight cost disadvantage for any individual business, so we are in the world of averages and medians, but if we look at the parameters as they apply at the moment, are you able to give us some feedback on what you consider from the perspective of Flinders Island to be some of the concerns you have around the parameter calculations?

MR COSSAR (GACC): I would suggest that there's no view formed because they're all so complex, quite frankly. In the back of the ministerial directions I think there's 150 specific items. There's about six or seven items that relate to different types of apples. I don't think apples have ever been grown on Flinders Island but the fine detail or some aspects is mind boggling. I guess I take the view that you would in the real world look at a principle and try and apply that principle but it's never going to fit every individual circumstance.

So without sort of saying close enough is good enough, there must come a point where trying to equate the freight costs to a road cost for every Tasmanian business with every item that they're shipping north, south, east or west becomes a nightmare and is worthless in terms of trying to get it precise which is why I was sort of in the submissions we put in looking more at broad parameters and saying if there's roughly a hundred per cent difference between shipping stuff, 400 kilometres from Melbourne up through Victoria or from Sydney through through western New South Wales, then use that as a benchmark.

MS CHESTER: So one of our draft recommendations is towards a flat rate of assistance for a couple of reasons. Firstly, the administrative complexity of the current scheme, trying to come up with a sort of notional cost disadvantage for different forms of businesses and their different circumstances and, secondly, the way the scheme currently pays doesn't really create an incentive to get the lowest costs, because you're paying more for your transport when the subsidy goes up. What would your view be if we were to get the quantum of the flat rate of assistance right from your perspective in terms of on average offsetting some of the freight cost disadvantage? Would you see a flat rate being a mechanism that would be workable

from your perspective?

MR COSSAR (GACC): It would be workable, but in the first submission I put forward the idea of a percentage basis payment and gave more consideration to that in the second submission. In terms of incentive, I would have thought that if a percentage of your costs are going to be rebated, then you still have a huge economic incentive to reduce the gross. There are other anomalies; I think I gave an example. I gave a mathematical example in the second submission that if a Tasmanian shipper was able to negotiate significant cost savings through bulk and a flat per container payment was available, then that could actually become a winner compared to a mainland business, simply by getting a percentage cut and then getting the full container load. There are a few other incentives that I thought a percentage based rate would fix.

The other aspect was to me it seemed a more dynamic approach if there was suddenly, as has been discussed in your report, there was a change in the shipping such that costs going to Tasmania's Flinders Island changed relative to Tasmania's King Island, then a flat container-based payment wouldn't really reflect those changes until a subsequent review, whereas if there as a percentage support and suddenly container rates or freight rates from Tassie to Flinders dropped by 20 per cent, then you would immediately see a consequent drop in the level of support needed.

MS CHESTER: Thank you, that's very helpful. With respect to the parameters and how they apply at the moment, we do make comment in our draft report that if the Government did want to continue with parameter-based design of the system, that each couple of years the Bureau of Infrastructure and Transport and Regional Economics does an update of the parameters based on the movements in the relative freight cost disadvantage between road and rail, and that freight cost disadvantage has reduced over time, so if the Government were to adopt those parameters, it would result in an situation where the amount of the subsidy would actually go down for Flinders, but go up for King Island. Is that something that you have given some thought to in terms of the way that the parameters are constructed and using a simple distance-based methodology?

MR COSSAR (GACC): The primary objective of the scheme was to try and give Tasmanian businesses the same freight costs as their mainland competitors based on a road thing. If the shipping costs between Flinders and the mainland Tas dropped by half then, clearly, they should get a much lower level of support.

MS CHESTER: The shipping services that Flinders Island is getting today, can you just run through those at a very high level and let us know if there's any gaps in terms of the needs of business on the island.

MR COSSAR (GACC): My understanding is there's a ship a couple of times a week. Again, going back to the getting produce off the island, if you suddenly had an opportunity to sell 500 cattle and they had to be delivered in Victoria tomorrow for a particular buyer, then it may not be possible. Even if the ship was travelling the next day, it may not have the capacity to take on that many cattle, so there's the logistics aspect. I'm not aware of the specifics of how often the ships run empty or half empty, but the problem always is having one available at the time and, if there's a special consignment like a big mob of cattle is sold, how are you suddenly going to get those off the island?

MS CHESTER: Thank you. One other area that we have a draft recommendation on is putting in place a minimum threshold on the line item claims for the northbound part of the scheme. We suggested a quantum of \$250. We are very cognisant of the fact that there's a lot of very small line items that are being claimed, some for \$1.92, as subsidy, which we, stepping back and looking at the administrative operation of the scheme may not make a lot of sense. Is that something that you have a view on?

MR COSSAR (GACC): I have made a comment that businesses since 2000 have been self-assessing their tax. I think, when I look back, I can remember putting in a business activity statement paying the Government \$3, which was a bit of a nuisance, but that was a compliance thing. In terms of this scheme, if it was simple and if it wasn't abnormally expensive to administer, then what's wrong with putting in a claim for a dollar? It sounds ridiculous, but maybe there could be an annual minimum; so that if there was someone who had small payments, they could make them and put in a one-year claim or something like that.

MS CHESTER: Okay.

MR COSSAR (GACC): To be perfectly frank, I can't see many people having an annual subsidy equalisation payment of under a couple of hundred dollars. Even if the scheme was simplified dramatically, I don't think they would take the trouble, if they do, they're silly, to claim \$5.

MS CHESTER: Okay. Thank you very much for comments. Did you have any other comments that you would like to make today?

MR COSSAR (GACC): No, I think we have been given adequate time in the first and second submission. We appreciate it very much.

MS CHESTER: And we do appreciate the two submissions that we have received from you; so thank you very much for appearing here today.

MS CHESTER: I would like to welcome our next participants who are joining us from Cuthbertson Bros Pty Ltd, and also John Barker and Associates, which I understand represents Cuthbertson Bros Pty Ltd as well. If you could each state your name, title and the organisation you are representing, that would be very helpful for the record.

MR JONES (CBPL): Wayne Jones, state manager for Cuthbertson Bros.

MR BARKER (JBA): John Barker, principal of John Barker and Associates.

MS CHESTER: Thank you very much for appearing today, gentlemen, and thank you very much for your submissions. It would be helpful if you had some opening comments that you would like to make.

MR BARKER (JBA): Thank you very much. Thank you for again for the opportunity as well as presenting today. Unfortunately, I must extend an apology for the managing director of Cuthbertson Bros, Mr Doug Dickensen. He is overseas at the moment. He extends his apologies.

As you know, Cuthbertson Bros Pty Ltd presented an initial submission to the Commission on 16 December 2013. The submission primarily addressed the Tasmania Freight Equalisation Scheme, the urgent need for a direct call international shipping service and Bass Strait shipping costs and competition, all matters being considered by the commission in their draft report, and we appreciate that.

Cuthbertson Bros welcome the Australian Government's view that the Commission's recommendations for the ACCC to review coastal shipping regulation is a very welcome initiative and we ask that that commences as quickly as possible. The company is confident this will assist in reducing Bass Strait costs. Cuthbertson Bros is worried that, contrary to the Australian Government and the current federal opposition's repeated intention of keeping the freight equalisation scheme, the Commission is pursuing a course of examining changes to the scheme that will significantly reduce payments to current eligible businesses and, at the same time, advancing the proposition to include all goods shipped through the Port of Melbourne, effectively including exports in the scheme. Cuthbertsons contend that the robbing Peter to pay Paul principle in this case is fraught with danger and it wonders if the Commission has been instructed by the Australian Government to achieve a cost neutral outcome.

A key concern of Cuthbertson Bros Pty Ltd for some years has been a flaw in the TFES which effectively discourages employment and capital investment in Tasmania to the benefit of Victoria, in particular by enabling businesses in Victoria to process and repack goods in Tasmania. For example, before the simplification of the international direct call shipping service 34 months ago, it seems obvious that

this practice had increased. The Commission's option to include exports on the one hand has the potential to stop that practice but it also has the potential, we contend, to encourage more Tasmanian businesses to potentially process off-shore. At the same time, it will have the effect of diminishing the opportunity for the recommencement of the direct call international service to Tasmania.

This creates somewhat of a dilemma for Cuthbertson Bros, inasmuch that they support both options but it retains a preference for a direct call international shipping service which will attract financial support from the state opposition, if they are elected. This inquiry has heard of shipping companies' serious interest in providing a direct international service to Tasmania. Cuthbertson Bros contend that it's an admission that there is no real competition at Burnie Point - at Burnie port as Toll (indistinct) leave from that port into the late 2020s.

The Productivity Commission draft report's information request 3 posed the question, "Would a scenario with only the two commercial shippers provide a more effective outcome?" The answer from Cuthbertson Bros is no. Both Toll and SeaRoad regularly increase their freight rates, as incidentally has the Port of Melbourne. The company emphasises the inclusion of export goods into the TFES should not be at the expense of the cessation of diminished payments with the scheme or cessation of - sorry, the diminished payments with the scheme or the cessation of the southbound containers.

The crossing of Bass Strait is a significant economic burden. Cuthbertson Bros particularly felt the pain and were forced to use this very expensive stretch of water since the international service ceased in April 2011. For example, the company's original submission highlighted the increase in shipping costs because it did have experience. Two years and 10 months ago when the direct international service was operating, the company shipped 20-foot containers from Bell Bay to China for \$1,090.

Today that price comprises a road component now Launceston to Burnie of \$500, shipping Burnie to Melbourne \$1,000 and shipping Melbourne to China \$500, a total of \$2000 or an increase of 910. In addition to that, we have had, as you are already aware, regular Port of Melbourne increases. The impact on Cuthbertson's bottom line of those export additional freight costs is in the order of \$250,000 per annum.

MS CHESTER: Sorry, what was that figure that you just mentioned?

MR BARKER (JBA): \$250,000 per annum.

MR QUINLIVAN: And what was the date for the 1,090 scale?

MR BARKER (JBA): That was what was able - that was the cost and the charge prior to the cessation of the service.

MR QUINLIVAN: Right.

MR BARKER (JBA): In fact the most recent invoices that we found prior to 11 April 2011. Cuthbertson Bros really now has responded to the recommendations and perhaps if I again just run through those. In respect to recommendation 1, which we have already commented on, they agree wholeheartedly. With respect to recommendation 2, they agree with the two-yearly review and recommendation 3, they agree to the process, also agree with recommendation 4. They do not support a single flat rate as suggested in recommendation 5 but certainly agree evidence of wharf to wharf costs and the option is the preferred option.

In terms of recommendation 6, it agrees clearly that there should be more transparency. There have been discussions previously in respect to protection of commercial in confidence information but what that really is remains to be seen. Really I think you can say it agrees with the release of the information as long as that information is consistent across all participants.

Greater access to online claims is supported in recommendation 7. As far as 8 is concerned, the threshold of minimum value, it is not supported. I think I contended once before, before you, that if there is some pain to the industry in the costs of dealing with the claims, then surely the process itself could be redesigned to support that.

As far as recommendation 9 is concerned, a self-assessment facility seems to be an obvious way and it has strong support from Cuthbertson Bros. Recommendation 10, we really have no comment, no experience or knowledge of that, the termination of the wheat freight scheme. As far as recommendation 11, a review of the passenger freight equalisation scheme is important but we stress it's not at the expense of tourism; rather, it should be for its benefit. Recommendation 12, we agree with the recommendation. Is the government ownership and expenditure of funds in TT-Line warranted? Could the funds paid to the state government in dividends be better utilised? The base question is around whether the TT-Line should be privatised or not.

In terms of 13, a full review of the commercial viability in government ownership of Tasport today, in the event that the managing director was here, he would have much more to say about that but I must acknowledge that he's not. As far as 14 is concerned, the comprehensive long-term integrated freight strategy is required urgently, fully supported, and the process for it which is outlined in here is fine.

The draft recommendation 15 which goes further and I noted from other hearings that other comments have been made before you but there has been little comment generally on this particular recommendation. From Cuthbertson's situation, they support it wholeheartedly. A development strategy is desperately required in Tasmania, a new development strategy. There are many fundamental issues that can be improved in this state (indistinct) raise little more than that in terms of my own contribution, surely.

Cuthbertson Bros contends this requires detailed comment and really warrants separate submissions and consideration. It does suggest that the joint Commonwealth and state economic council, once it's operative, deal with that matter and again, the managing director would love to be here to be able to tell you. I won't go any further with respect to that point and finally, in recommendation 16, we agree and suggest a review and evaluation should be within the purview of the ongoing joint Commonwealth and state economic council. We would suggest that be the target.

In terms of the information requests that were required, in respect of request number 1, we have already referred to the suggested inclusion of import/export goods into TFES. Cuthbertsons does prefer the opportunity to reintroduce the direct call vessel, international vessel. The company does not support removal of the southbound component of the scheme. It believes too many Tasmanian businesses in wealth-generating industries, particularly involved in the agricultural industry and rural industry as well as forestry and mining which qualify under the scheme would be adversely impacted.

As far the remaining information requests there are some very minimal comments. In respect to information request 2 it's not supported, Cuthbertsons is concerned about its impact on very small businesses. Information request 3, they do not agree with only the two commercial shippers being more cost effective. Cuthbertsons' past experience would suggest that if that was the case there's a likelihood of rate increases fairly quickly and I can elaborate on that if you wish.

Information request 4, the only interest is to ensure that there are no impacts in respect to that particular problem. I think as far as 5 is concerned, the potential of lower shipping costs and return of empty containers to the state ensures that Cuthbertsons would support number 5. I think you do have a bit before you already in respect to the difficulties with the receipt of containers into the state. One other comment I think I need to make, the request number 9 which relates to road freight rates and Cuthbertsons finds that the freight rates in Tasmania and the mainland are comparable. That's basically our contribution, unless you have some questions.

MS CHESTER: Thank you very much for those opening comments and just before we get on to some questions if I could just make a few points of clarification so as

we've got a full understanding of things. Firstly, John, you're here today representing Cuthbertsons but are there any other parties that you wanted to represent in your presentation today?

MR BARKER (JBA): No, this is for Cuthbertsons.

MS CHESTER: Okay.

MR BARKER (JBA): I will as my own business make some further comments, and I'm listed to do that in the agenda so I thought that was appropriate.

MS CHESTER: Okay.

MR BARKER (JBA): So I'm really talking at the moment for Cuthbertsons.

MS CHESTER: That's great and we'll keep the two separate - - -

MR BARKER (JBA): Yes, please.

MS CHESTER: - - - for the purposes of the transcript so there's no confusion as to what your views and positions are. Did you want to make any opening comments as well?

MR JONES (CBPL): No. Any questions I'll answer though.

MS CHESTER: All right, thank you very much. Just two other quick points of clarification from your initial comments, firstly with respect to the government's foreshadowed review of coastal shipping regulations and practices. I think you mentioned the ACCC involvement in that.

MR JONES (CBPL): Yes.

MS CHESTER: Our draft recommendation is just that the Government has announced the review and we're thinking it should be expedited.

MR JONES (CBPL): Yes.

MS CHESTER: The Government is yet to announce which parties or agencies will be involved in that review, just so we get that for the record.

MR JONES (CBPL): Yes, okay. Yes, thank you.

MS CHESTER: Your other comment cost neutrality, I just thought it would be helpful just to expand on the Commission's approach on that issue.

MR JONES (CBPL): Yes.

MS CHESTER: What we're trying to do is the scope of the reference that we've been given by the Government is the Government has stated quite clearly that it wants to retain the two schemes but wants to review whether the design has got it right or not and whether there are any inefficiencies that could be addressed and improvements that could be made. So that's our overriding objective.

MR JONES (CBPL): Yes, okay.

MS CHESTER: But we're very conscious that if the Government did decide that they wanted to retain the subsidy at its current quantum of assistance, ie, on a cost neutral basis, that this is a very good opportunity for us to make sure how that should be reflected in the design so we don't end up in a situation where we come up with a design recommendation and the Government then wants to do it on a cost neutral basis and we haven't given them some guidance on how they could do that in the most efficient way possible. So that's really our objectives as the Commission.

MR JONES (CBPL): Yes. Thank you.

MS CHESTER: Okay, so turning then to the commentary that you made around the impact on the shipping costs for Cuthbertsons with the absence of a regular international freight service to Tasmania for containerised freight and we do appreciate you sharing with us the numbers of the cost impost. Are you able just to share with us now what the path to market is for Cuthbertsons for the products, which shipping lines are being used and then where from Port of Melbourne the products are being shipped to.

MR JONES (CBPL): Right. Mainly they're going through either Toll or Seabridge or TT-Line they use, whichever trucking company we're using goes through those. It costs us a thousand dollars per container to get approximately to Melbourne, and then from Melbourne to China approximately anything between four and five hundred dollars per container.

MS CHESTER: How many shipping lines are you using for the exports from Melbourne to China?

MR JONES (CBPL): Approximately about three. That's about all we can deal with because of the containers coming into the state.

MS CHESTER: Okay. In terms of the shipping needs for Cuthbertsons for the export boxes, are you able to give us a bit of an idea of what sort of regulatory of the service would be required and to what hub in Asia would make sense?

MR JONES (CBPL): Well, actually we need it weekly if it's possible but it doesn't look like it could happen. Take this last week for instance, we ordered containers to go overseas and there was none in the state so we had to cancel those shipments and roll on to the next vessel and this is slowing us down all the time. The other thing is and I think we mentioned here about the subsidy, the northbound subsidy, which we - export we don't get but we get competitors on the mainland competing against us so you're getting the subsidy, taking it back to Melbourne and then shooting it overseas from there.

MS CHESTER: Thank you, and that's very well understood. The submission that you've made says that you would support the extension of the scheme to exports, ie, to those commodities being transhipped through Melbourne regardless of their ultimate destination but only whilst there's no international shipping service being provided. In our draft report we do explore the issue of the economics and what would be required for a commercially sustainable return of a regular international freight shipping service to Tasmania, and in particular we were very fortunate to be able to draw on the very substantive body of work that was done by the Freight Logistics Coordination Team in Tasmania and in particular there were some experts there that quoted some rates of minimum volumes that would be required, assuming from one port, of say 37,000 to 54,000 so I think the issue that we're kind of trying to grapple with now is - - -

MR BARKER (JBA): What's the volume required?

MS CHESTER: Yes.

MR BARKER (JBA): Do we think the volume required? I must say also that I have close association with Veolia as well so I'm aware of the comments they've made this morning and, you know, based on the approach to in coastal shipping and cabotage issues we think, and we've done some work on this over a long time and we think around 30 to 35 thousand TEUs.

MS CHESTER: Is that based on some discussion with international shipping lines?

MR BARKER (JBA): It's based on discussions that some of my clients have had with them and also an analysis of those exporters that we were able to make contact with. So we made contact with exporters about a year ago that would have had access to exporting around 19 to 20 thousand. Their view was that 30 to 35 would be the figure that would need to maintain a viable regular service.

MS CHESTER: The proposal, the concept that's being mooted at the moment with respect to expansion of the international shipping services that Swire is currently operating in Bell Bay to extend to a regular, albeit once every 18 days, international container shipping service, does the scope of that service meet the needs of

Cuthbertsons?

MR BARKER (JBA): We're having our first shipment in the next couple of weeks. Pricewise it's a little bit less than going to Melbourne, but still very expensive.

MS CHESTER: So this is with Swire's current service to Bell Bay.

MR BARKER (JBA): Yes.

MS CHESTER: For Bell Bay Aluminium where they're going to take some boxes as well as taking bulk?

MR JONES (CBPL): This is boxes. I don't know whether it's going with the same vessel or not. It is, isn't it?

MR BARKER (CBPL): Yes, it must be, mustn't it? Yes.

MS CHESTER: So of this existing service that Swire is offering into Bell Bay, it has been negotiated commercially I know without any government assistance to date, how many containers are they going to be able to take from Cuthbertsons?

MR JONES (CBPL): They can take what we can produce to certain ports only.

MS CHESTER: Of your exports then, and it listed a high level. It may not be the ultimate service that you're seeking but does that meet the export needs of Cuthbertsons today, that existing service into Bell Bay?

MR JONES (CBPL): Part of the shipments. It would only probably pick up about 50 per cent of the shipments.

MS CHESTER: How does the price compare - I have to be careful here. How much of the cost disadvantage does that address vis-a-vis transshipping through the Port of Melbourne?

MR JONES (CBPL): Approximately about three to four hundred dollars difference.

MS CHESTER: Thank you very much. That's very helpful. I'm sure you'll appreciate the issue that we're trying to juggle here is previously the scheme wasn't open to products, commodities going to the Port of Melbourne and then being shipped overseas because there was an international service being offered to Tasmania. That's no longer the case.

MR JONES (CBPL): No.

MS CHESTER: That does then appear to be an anomaly, so we're trying to go address the anomaly but in parallel an international regular shipping service is then available, so what are your views on - - -

MR JONES (CBPL): Again, this is a mixing between Cuthbertsons and myself as well. From Cuthbertsons - - -

MS CHESTER: Perhaps best if you just leave your comments to Cuthbertsons.

MR JONES (CBPL): Yes, if you can actually ask me that when I come in again because that relates to - but we did relate, and you referred to it. Remember in our original submission we were talking about the preference of one or the other and saying we preferred the export vessel but in the event that that took some time for introduction which you referred to then we thought perhaps the inclusion of exports into the scheme would assist to at least compensate the industries and businesses that were suffering as a result of that. That was the thought process that we had. Bearing in mind that many discussions that had occurred over time suggested that the quantum of impact on the scheme in terms of dollars may well be too high to consider from a government perspective. So we were looking at ways and means that we could actually come up with something that tried to balance it.

MS CHESTER: What (indistinct) of the volume capacity with the Swire service at the moment to take containers that you're aware of?

MR JONES (CBPL): Look, I couldn't say.

MR BARKER (JBA): I think you'd have to ask Swire but I think it's as few as a hundred.

MR JONES (CBPL): Yes.

MR BARKER (CBPL): It might even be less than that.

MS CHESTER: So if this service continues for Cuthbertsons on an annual basis what tonnage will they be moving for you?

MR JONES (CBPL): This is our first shipment and if it works out all right - as I said, it will only be to certain ports in China, so then we'll select to go through Victoria.

MS CHESTER: Thanks for that. That's very helpful. Is there anything else you wanted - - -

MR BARKER (CBPL): I was just asking where.

MR JONES (CBPL): Taiwan and so forth.

MR BARKER (CBPL): Yes, where? The route of the ship from here I was just wondering where that might be.

MR JONES (CBPL): As far as I know, it's up through Queensland and back through Taiwan.

MS CHESTER: What's the Asian hub that the Swire service is taking your boxes to now, for this next shipment?

MR JONES (CBPL): They're going to do Shanghai but I think they're using Kaohsiung as a hub for the Asian market.

MS CHESTER: Thank you very much. Earlier on you commented on one area that we asked for some feedback from participants on, with respect to the competitiveness of Bass Strait shipping and in particular two versus three. The issue we were aiming to get at there was really to what extent do current shippers feel that TT-Line is injecting competitive pressures into the freight market?

MR JONES (CBPL): I couldn't say really because I don't think many of our goods go TT-Line because of the noxious trade, so they would be going mainly through toll and SeaRoads.

MR BARKER (JBA): I think they're very entry, their very operation in the marketplace if you like, helps to create some pressure.

MS CHESTER: I think - sorry, go ahead.

MR BARKER (JBA): I was just going to relate to an example that occurred with the two-ship arrangement immediately after the cessation of the - - -

MR JONES (CBPL): With the increase.

MR BARKER (JBA): Yes.

MR JONES (CBPL): Yes, we were paying \$800 to Melbourne and overnight it went up 25 per cent to a thousand.

MS CHESTER: When AAA exited the market?

MR JONES (CBPL): Yes.

MS CHESTER: Thank you. That's helpful. I think one of the issues we're really getting at there is that for the other two commercial operators, because they're not government owned, they're private sector owned, they're looking at making very substantial investment decisions around new vessels and when they're competing against a competitor that's government owned that raises an issue of uncertainty which then impacts capacity on the route. So that's why for us it's important to try and get a sense of how much of a competitive impact TT-Line is having in the freight shipping part of the Bass Strait market, but look, we'll be raising that with other participants this morning.

MR BARKER (JBA): Yes, please do. The only comment I have to make on that is that we'd be looking forward to the substantial investments that are being suggested in respect to further vessels or new vessels. From my perspective I think it's now nearly three years that I've been told that "We're just about to invest in a new vessel or two vessels or whatever," so I hope that occurs. It would be fantastic if it does.

MS CHESTER: Thank you. Let's just turn to the scheme for a moment then. It would be helpful if you just outline the nature and profile of the benefits of the scheme that Cuthbertsons is currently receiving, so we can then understand what the impact might be if we opened up eligibility to exports being transshipped through the Port of Melbourne.

MR BARKER (JBA): From the scheme itself, yes. The benefits from the scheme itself at the moment are nil because they're all exports, right.

MR JONES (CBPL): That's right.

MS CHESTER: So there's nothing that's being claimed under the southbound?

MR JONES (CBPL): There's another container, probably two a year.

MS CHESTER: Thanks. I've understood. So if we were to then extend eligibility to all commodities being shipped to the Port of Melbourne, I guess the issue then arises what impact that would have on Cuthbertsons' business and then what impact that would have on Cuthbertsons' decision to go through the Swire service at Bell Bay, whether that changes the economics of that decision.

MR JONES (CBPL): It would do. It would open us to other vessels which had a lower cost from Melbourne to China. The main ones we're using are big companies like the ANLs and so forth, so it would give us the option of cheaper vessels to get the goods away, yes.

MS CHESTER: Assuming Cuthbertsons has done the math based on the current rate of assistance under the scheme, are you able to give us some indication of whether you'd be looking at continuing to transship through Port of Melbourne or whether the Swire service would still be economic.

MR JONES (CBPL): No, the Swire service would be economic.

MS CHESTER: It would still be economic.

MR JONES (CBPL): Yes.

MS CHESTER: Thank you. That's very helpful to know. You covered before the issue of not supporting our draft recommendation to move towards a flat rate of assistance. Are you able to just expand on the issues or concerns you have around a flat rate of assistance, given our objectives there which we hope were articulated in the report, primarily twofold: firstly, to reduce the administrative complexity of the scheme as it is currently designed and then, secondly, to try to remove the perverse disincentive at the moment to give the lowest cost of transport option, given that the cost of transport is high, the subsidy is higher. So just at the margin, you lose that incentive.

MR BARKER (JBA): I'm aware I've made the comment on the basis of discussion I've had with the managing director. His view was that he thought, as is the case and I think probably would have been expressed to you, there are winners and losers on the one hand but on the other hand, I have to say there's also some certainty in terms of rates if you have a flat rate scenario for planning. From what I understand, Cuthbertsons would prefer the current arrangement to continue, but we have heard so many times about the administrative burden that's placed on the scheme and, surely, the review that's being proposed should really look at the administrative burden and how that can be simplified for all operators, all users, but we would leave it open for determination.

MR QUINLIVAN: One of the difficulties is that any adjustment you make to remove the administrative overheads also has winners and losers.

MR BARKER (JBA): It does.

MR QUINLIVAN: As you pointed out yourself, the materiality thresholds and so on, so there has been a mixed view about almost every proposition for simplifying the scheme.

MR BARKER (JBA): That's the task you've got, isn't it, really? It's a difficult task, but I think from that perspective the operators in Tasmania will keenly look to

see what comes from the report. I mean, as I said, there's a view to not support it in this case from Cuthbertson's perspective, and I think that is where I should leave it.

MS CHESTER: It would be helpful for us though that if Cuthbertsons is not supporting the flat rate of assistance, if we were to move to the flat rate of assistance we've got to get the quantum right.

MR BARKER (JBA): Yes.

MS CHESTER: What is the negative impact on Cuthbertson's business operations?

MR BARKER (JBA): That's a big if. I mean, if the rate is right - - -

MS CHESTER: Assuming we get the rate right, is the flat rate as a mechanism of paying the assistance - - -

MR BARKER (JBA): No.

MS CHESTER: Okay.

MR BARKER (JBA): No.

MS CHESTER: So it's more uncertainty about the rate being - - -

MR BARKER (JBA): Precisely.

MS CHESTER: Thank you. That's helpful. You touched on before the issue of you were comfortable with one of our draft recommendations, which is to release the information on the assistance that's provided to prospective businesses under the scheme.

MR BARKER (JBA): Yes.

MS CHESTER: As long as it's consistent across all businesses?

MR BARKER (JBA): Yes.

MS CHESTER: I just wasn't clear whether or not Cuthbertsons had a view about the level of information and balancing commercial and confidentiality.

MR BARKER (JBA): No, they don't at this point.

MS CHESTER: Okay. With respect to the minimum threshold value draft recommendation, I appreciate that you have made it clear Cuthbertson's overall

position, which I think from your commentary was taking a broader perspective about the impacts on other businesses, but just if we can understand the impact from Cuthbertson's point of view, given the nature of your business and your operations, if we were to put a minimum threshold - - -

MR BARKER (JBA): It would have no impact.

MS CHESTER: Thank you, that's helpful. You did touch on the issue of ports and efficiencies and said that there may be some evidence that Cuthbertson's managing director would have loved to have shared with us, are you able to share any of that with us today?

MR BARKER (JBA): No, I'd prefer not.

MS CHESTER: Okay. If there is any evidence that Cuthbertsons - - -

MR BARKER (JBA): Would you like us to provide some more?

MS CHESTER: If we can receive it, that would be very helpful.

MR BARKER (JBA): That would be very good. You are most welcome. We would like to do that.

MS CHESTER: All right. I think that that has covered all the bases that we were hoping to work through from just Cuthbertson's perspective this morning. Are there any other closing remarks that you wanted to make from the perspective of Cuthbertsons before we then move on to the perspective of - - -

MR BARKER (JBA): No, other than to thank you again, and also to indicate that, as I have done before, we have made arrangements for copies of the submissions and that will be sent electronically through to the Commission, so we will be doing that tomorrow.

MS CHESTER: Thank you very much.

MR BARKER (JBA): Thank you very much for your time.

MS CHESTER: Just for the record, we will continue the proceedings for now with Mr John Barker representing John Barker and Associates. John, you don't need to state your name again for the record, but it would be good if you could just articulate the interest that you are representing as John Barker Pty Ltd, or is just yourself as an individual?

MR BARKER (JBA): It's me as an individual running the business of John Barker and Associates, and therefore over the last three years, two and a half years, being associated in one way or another with issues around this topic, principally initially, and I think I might have said before, because some of my clients had already been in this space and, as a result of that, over time more and more interest from clients and others in respect to aspects of this; so that's really my background reasoning, and also an interest in policy from my past background.

What I was proposing to do this time, because you are very much aware of the types of things that we have been talking of for clients and whatever, was to make a couple of brief comments to the Commission on the draft report as it relates to shipping and freight, and also some comments in respect to draft recommendation 15, which relates to a joint Commonwealth-state review of government policies and agencies.

Firstly, as far as the draft report is concerned, you would be aware that I strongly support a recommendation proposing the review of coastal shipping policy and regulation, addressing cabotage issues which are urgently required, and you have seen examples from that from the various people who have been before you. I am concerned, and you explained your position just a moment ago in respect to addressing and in respect to a break-even point. I can understand where you are coming from in that perspective, but knowing the pressures within the state in respect to the tenuous nature of some businesses, for example to be trained to reduce rates at this point of time, I don't necessarily disagree that rates shouldn't be reviewed and considered, but I don't believe that the economy of the state at this point of time, and particularly the nature of some of the businesses that I'm aware of, could actually withstand some of those adjustments, particularly if they're of sufficient severity that may balance out the costs to the scheme of the introduction of export freight.

That's my concern, really, about where that might take business generally here in the state. The potential reduction in freight rates, particularly the suggestion to remove the southbound one, which is something that I have not been overly involved in till the last six months, and having had all of that in more detail, the very nature of the scheme and the limitations and the restrictions on it to a point are quite good, but it does really ensure that some icon, wealth-generating type industries in the state, such as forestry and mining and the like, really do benefit from it as a result of that. If we start to play with that at this point of time, again, it's very concerning, and you have heard examples from other people presenting to you as to what they actually

perceive of that suggestion.

The Commission sought comment regarding consideration of the inclusion in freight equalisation to all eligible goods through the port of Melbourne. As we know, this introduces the inclusion of exports, which on the face of it support it. It provides a level playing field, which is one of the other issues that have been of concern for some time of people, certainly the exporters that are experiencing that difficulty, but it may also encourage more Tasmania exporters to do processing offshore, so that's another balance that we need to consider. Some were doing it already. Is it easier and cheaper for some of them now if they receive a subsidy across the strait to obtain - you know, to obtain or to be able to undertake processing offshore rather than here and again, the same problem of moving jobs and whatever from here could still be the case. I don't know but it could still be the case.

MR QUINLIVAN: Can I just check that I understand what you're saying, sorry.

MR BARKER (JBA): Yes.

MR QUINLIVAN: So we have heard previously, including from Cuthbertsons, that the exclusion of exports created an incentive to undertake the processing activity in Melbourne. So we understood that proposition.

MR BARKER (JBA): Yes.

MR QUINLIVAN: I think you are now saying to us that the inclusion of exports might not dilute that incentive very much.

MR BARKER (JBA): Well, that's possibly the case, you see. It may not be the case. It certainly solves the problem of - it seemed - no, that's not right. Certainly, it seemed to solve the problem of the issue that Cuthbertsons is speaking of. I'm not sure that it would. Right? So that's why really, you know, I need to be convinced that current exporters here or more of them don't move inter-state with their process and whatever and, therefore, we still have a problem with the lack of jobs in the state.

MS CHESTER: We are focusing simply on removing the practice that - we are aware of (indistinct) reports of businesses moving some processing to Victoria and they get - - -

MR BARKER (JBA): Yes.

MS CHESTER: They are not eligible for the scheme where they wouldn't otherwise be. If we extend it to exports and they are eligible for the scheme - - -

MR BARKER (JBA): So perhaps the ones - and the great majority were still

actually processing here but not obtaining great equalisation, still spending more money with their exports, as you know, with freight. What's there to stop them now, if there's an opportunity for them to receive freight equalisation across the state, from moving their processing from Tasmania to the mainland?

MS CHESTER: Because nothing has really changed because any goods that were being shipped to Melbourne previously, except for exports, were already eligible under the scheme.

MR BARKER (JBA): Yes, except for exports and I'm talking exports.

MR QUINLIVAN: Just taking the Cuthbertson - and I'm interrupting you to do this but just taking as a hypothetical Cuthbertson as the model, wouldn't the new incentive be to move their manufacturing or their processing activity to China rather than Melbourne? Isn't that what the change of incentive would create?

MR BARKER (JBA): There is the potential for that, isn't there?

MR QUINLIVAN: I am just trying to understand.

MR BARKER (JBA): Yes, I know. You're trying to understand. Yes, I was concerned that - and it's just to express it, that's all but I was concerned that with the number of exporters now, say it's implemented, able to receive freight equalisation to take their goods from here to Melbourne, then what's the disincentive for them to stay in Tasmania to process it? There's an opportunity there. There always is. You could say that there's more of an incentive to go there now because it's costing more. Right? I just think that ought to be thought of. You know, did they think of that?

MS CHESTER: We are hoping that by allowing them to offset some of the freight cost, with eligibility across that freight, that should remove the marginal incentive at the moment to process in Victoria, to the extent that they would be eligible for the scheme that they wouldn't otherwise tap into.

MR BARKER (JBA): I understand that. I do understand that and we were pleased from the Cuthbertson perspective to see that, yes, so - and I have made the comments in respect to southbound. So I must also say though that I think it's been expressly for that. Taking exports and allowing exports to comply so as to receive TFES would certainly diminish the potential of the reintroduction of a direct export vessel. We know why now and you have heard all of that, so I don't propose to proceed with that.

The other thing though that I did want to comment on was in respect of recommendation 15 and I consider that the recommendation is critical, that recommendation that the joint Commonwealth and state economic council should

undertake or Commission a stocktake and review of the existing policies and agencies associated with the pursuit of economic development in Tasmania, and I would urge the Government, the Australian Government, to initiate that review as soon as they can. I note the draft recommendation emphasises initiatives established by all levels of government. It relates to an issue. It should be extended to take a broader view, I believe.

As I say, my experience suggests that few state governments over the last 35 years have successfully restructured economic development in their state and I think invariably, every new government have restructured that particular portfolio and then followed the area with very little success but there are some questions that I think need to be addressed by this joint review which really, I think, emphasises why Tasmania has the problem that it has from an economic perspective and those questions are why is it that Tasmania has approximately 40 per cent more public sector employers to other states, employees relative to other states? The Tasmania public sector employs in the order of 27,000, 31,000 if you include the government business enterprise employees.

Why is it that Tasmanian ports, Tasmania rail and even one of the three Tasmanian shipping operators is Tasmanian Government owned? Why do we have in a small population such as Tasmania 11 departmental secretaries, multiple deputy secretaries, four levels of senior executive service in the public sector, those four levels ranging, valued conservatively, from 120 to 234,000? For example, why is it that water and sewerage infrastructure and services is owned by local government with dividends derived from and profitably returned to local government? Why do we have 29 councils? Why do we have 33 road entities and 33 planning authorities for a population of 510,000 people? Why do we have 11 state government departments and 83 state government agencies in Tasmania?

The list is extensive and my view is how can a state the size of Tasmania with our small population and aging demographic and disproportionate reliance on welfare support the state? How many people are there left to generate wealth in this state? It really is a big question, a huge question that needs to be addressed. The answers that I have are micro-economic reform in the areas of particularly local government planning and water and more efficiency within the public sector and structural reform of that public sector and the development of opportunities, which has clearly been referred to at least, opportunities for private investment in public infrastructure. There is much to do from what I can see and from my experience and an independent review is suggested for this forum to do and that's sufficient, I should suggest.

MS CHESTER: Thank you very much for those comments and it is to our benefit that someone like yourself presenting it does have a wider view, given the different businesses that you do represent and the length of time that you have been involved

in some of these policy issues. Just a few follow-up questions, if I may. It would be good to get your view on the issue of the sequencing around the reintroduction of a regular international freight shipping service to Tasmania and a coastal shipping regulatory review and I think you were here this morning and you would have heard some of the commentary discussion around that.

MR BARKER (JBA): Yes.

MS CHESTER: It seems to me that there is a sequencing issue if we have international shipping lines saying the economics of them coming to Tasmania and offering a regular service, whatever they may comprise, the economic changes fundamentally. The issue of cabotage is addressed.

MR BARKER (JBA): Yes.

MS CHESTER: And then on the other hand we have ideas being put forward as proposed to be put forward at the moment to provide transitional assistance for particular international shipping lines to start to operate sooner rather than later.

MR BARKER (JBA): Yes.

MS CHESTER: So I would be interested in your thoughts on that sequencing issue.

MR BARKER (JBA): I think the first - and I did hear this morning as well as being aware of their discussions. I think the first thing to do, the most important thing to do, is for an international vessel to come onto the service, you know, if it's attracted to do so in some form of support which as I indicated is being needed and you're aware, it's the best thing to do. And while that's occurring, while that support ensures that its volume increases, the introduction of that review and the changes to the coastal shipping arrangements, to cabotage in particular would, if you like, reduce the potential of the continuation of that support, to the extent that's being proposed, quicker.

So as I see it from a message to Tasmania and to Tasmanian producers and manufacturers and the like, the availability of that service is pretty good. It's been underplayed for a long time I believe here in Tasmania by saying it only represents X per cent of the whole export market, of the whole export out of Tasmania but not international export. The reality is I think it's been underplayed and is urgently needed.

MS CHESTER: Okay, and the sequencing then with extending the TFES to exports being transhipped through the Port of Melbourne?

MR BARKER (JBA): Yes, I would certainly prefer that to, you know, be considered in a couple of years to three years' time. It would allow - you're either going to have to do it now or later. If you introduce a vessel now you've got to give it a chance for service to develop, right, a couple of years. If you introduce the inclusion of exports now then the sequencing, that should be first and announce that so that we don't end up with a shipping operator coming into this market and then having competition with that because I can't see how a shipping company could continue to operate or operate viably in any way, even with a fair bit of support, if suddenly we've got exports attracting freight equalisation across Australia. I don't know - - -

MR QUINLIVAN: Could I put a hypothetical scenario to you where the discussions with potential shipping operators lead those companies to think introduction of a service some time in the second half of 2014 is operationally feasible. The federal government after review of coastal shipping arrangements announces that it wants to introduce new policy arrangements through legislation in the second half of 2014 and the Government in response to this inquiry also wants to make a judgment about the inclusion of exports in that sort of time frame. All of those three things sound plausible to me, they could come together in time in 2014. In that scenario, what would be your sequence and your preferences for dealing with them?

MR BARKER (JBA): Well, the time frame is attractive isn't it for that if, you know, all of that could come together, if you could ensure that these things are completed and were implemented, your recommendations were implemented before the end of the year. I still do see the attractiveness of the international vessel first; I do, and I'm looking at it not only in terms of an effective option in providing a service but also in terms of what it means to the message that it gives to the Tasmanian public. So I see that as a key, but I think the sequence is really now left to you. I'm quite happy from both perspectives - - -

MR QUINLIVAN: I'm asking a slightly different question.

MR BARKER (JBA): (indistinct) I know.

MR QUINLIVAN: In that scenario would you see it as desirable to defer a decision on inclusion of exports to help support the introduction of the international service for some time and come back to that later, perhaps in a couple of years?

MR BARKER (JBA): That was what I said initially, yes.

MR QUINLIVAN: All right, but I just wanted to be clear that that's what you are suggesting, yes.

MR BARKER (JBA): Yes. Okay?

MS CHESTER: You also covered in your earlier comments a view about the transitional needs of some businesses if we do change the design of the current scheme and in particular if the Government were to remain with the parameters, the parameter review would suggest that there would be a lessening of the rate of assistance. Are you able to provide any evidence of the businesses that you mentioned where any lessening of the level of assistance today would result in them discontinuing operations?

MR BARKER (JBA): I could present to you an indication of how they would wind down operations and the impact that it would have. I can do that and I think I indicated from one yesterday we're actually obtaining some information for you on that.

MS CHESTER: Are you able to provide that as evidence to the Commission?

MR BARKER (JBA): No.

MS CHESTER: If it's commercially in confidence we're happy to take it on that basis as well.

MR BARKER (JBA): Yes. No. Yes, that's what I'm saying: we will be able to provide it to you quite separately.

MS CHESTER: Okay, thank you. How many businesses are you referencing there?

MR BARKER (JBA): Well, I'm aware that two at least would provide the information.

MS CHESTER: Okay.

MR BARKER (JBA): But I may have more than that.

MS CHESTER: Thanks, that's helpful.

MR BARKER (JBA): I'm happy to communicate with you. I'm happy to communicate with you on that.

MS CHESTER: Okay, thank you very much. Thank you very much for appearing. Is there anything else you wanted to comment on this morning?

MR BARKER (JBA): No, that's fine thank you. I think you're probably sick of

seeing me.

MS CHESTER: Not at all.

MR BARKER (JBA): Thank you very much.

MS CHESTER: Ladies and gentlemen, we'll now adjourn our official proceedings for a chance to have a bite of lunch and we'll be resuming at 1.15 so would appreciate it if people could come back by about 1.10 so we can start right on time, that would be great. Thank you very much.

(Luncheon adjournment)

MS CHESTER: Ladies and gentlemen, we will get our hearing under way again. Welcome back for those that were here this morning and welcome to those who have just joined us. We have quite a few participants that we need to get through this afternoon so I would like to welcome first our participants from the National Sea Highway Coalition. Just for the record to let everyone know that we also did hear from the National Sea Highway Coalition yesterday in Hobart, Mr Michael Larissey and Mr Colin Howlett, but I understand that some of the participants today are representing some other organisations, so if you could each just state your name, title and organisation for the record, and who it is that you're representing this afternoon. Thank you.

MR MARTIN (NSHC): Thank you. My name is Steve Martin. I'm the mayor of the city of Devonport.

MR HARRISON (NSHC): Robert Harrison and representing the Real Estate Institute of Tasmania.

MR BAYLES (NSHC): Rob Bayles, I'm a farmer and also representing Transport Council.

MS CHESTER: Thank you very much, gentlemen. As I understand it, you're all members of the National Sea Highway Coalition but this afternoon the commentary and the evidence that you wanted to give is related to your sort of individual roles. Is that correct?

MR MARTIN (NSHC): Individual roles, but I think we have a common thought and question that we would like to provide to the Commission.

MS CHESTER: Okay. Would you each like to speak individually or is there just one spokesperson?

MR MARTIN (NSHC): I think we will start with myself as being the primary spokesperson and depending on how difficult your questions might be, I might refer to either gentleman on either side.

MS CHESTER: Okay. Thank you very much. Steve, I will leave it to you to make some opening comments if you would like.

MR MARTIN (NSHC): Thank you, and thank you very much for the opportunity to come here today to make a presentation. To start off with I would like to read a statement in regards to that Tasmania is a state of the Commonwealth since federation and, as such, has the same rights and expectations of other Australian states and territories. Equality, constitution obligations in relation to the movement of people and goods between Tasmania and the Australian mainland are addressed in

the Federal Department of Infrastructure's web site document History of Australian Road and Rail, and I quote:

One of the main reasons Australia became a federation in 1901 was to establish an integrated national economy. Trade, commerce and defence relied heavily then, as it does now, on the ability to move goods and people freely about the nation.

In the context of whether the requirements of federation have changed since 1901, High Court Judge Sir Anthony Mason in 1988 said:

At federation the states were separate communities with their own economies. Interstate trade did not loom so large. What was within the contemplation of interstate trade in 1901 when the Australian economy was a series of loosely connected local and regional economies was a fairly small group of activities. The reach of the Commonwealth's power was accordingly limited. Since then the logistical barriers between local economies have dissolved with the improvement in transportation and communication and those once separate economies have largely melded into one national economy.

For several decades the issue of the Bass Strait has been the subject of more inquiries and reports than I care to read, interpret or action, if that was actually possible. The issue at hand here is what Bass Strait is and what it should be. Bass Strait is Tasmania's economic corridor that links all Australian states and territories to create one national economy.

Other Australian states and territories use national highways, roads and rail as their economic corridor, with Tasmania being an island state only having Bass Strait, the body of water between it and its northern counterparts. However, economic equity is not enjoyed by Tasmania as the cost of moving goods and people between states is not equitable.

Tasmania suffers regular downturns in economic activity which has drastic flow-on effects to the community as in high unemployment, low literacy and numeracy skills as in education, homelessness, high rates of health issues, reduced investment and a loss of industry. Add the cost of doing business through Bass Strait, our economic corridor, and Tasmania is seriously hamstrung compared to the rest of Australia.

Whilst this may be happening, Tasmania has always looked to be inventive, looked to be competitive and looked to become a strong economic partner with the rest of Australia. However, again the cost of doing business across Bass Strait is what is holding us back.

The first decision to be made is, is Tasmania a part of the federation? As I have mentioned before, the answer is yes as per our constitution. Again, is Tasmania part of the integrated national economy? Again the answer is yes as per the Federal Department of Infrastructure's statement. Should Tasmania enjoy equity in access to the national economy through the same economic corridors that link all other Australian states and territories? The answer is yes as per High Court Judge Sir Anthony Mason.

Then my question is, is Bass Strait part of a national highway system? Yes or no? If not, what is the economic corridor that equitably links Tasmania to the rest of Australia, its federation of states and territories? If the answer is yes, then let's get on with it. Such an answer provides the foundation to work from. Simply then we need to work out the hows and not the why nots. So with all due respect, until this question is answered the rest of the reports, the committee meetings and inquiries are seemingly meaningless.

To answer it, we put to you, the federal government and the state governments, the committees and so on, that Bass Strait is part of the national highway system and it is a federal responsibility. Until everybody is in agreeance with that principle, then all discussions on how many ports, which ports - if compatible with the new Panamax size vessels, for instance, which needs a deeper sea port for our exports - the freighting and the manning issues of our vessels travelling to and from the state and so on, is simply putting the cart before the horse.

In finishing, once again I, we, put it to you that Bass Strait is part of the national highway system and that all movement of goods and people should be treated equitably as with the rest of Australia. Thank you.

MS CHESTER: Thank you very much for those opening remarks. Just turning first to I think what for you is the fundamental issue about whether or not Bass Strait is part of the national highway system, I think it's fair to say that for many the national highway system is a physical asset and we're conscious that that physical asset is typically bitumen with road transport vehicles travelling along it.

We are cognisant that the Bass Strait is water and therefore it's ships travelling along it, but I think the Government over the past 20 years has articulated a policy objective of ensuring the interconnectiveness of the Tasmanian economy with the mainland by seeking to offset the notional freight cost disadvantage of Tasmanian business and residents having to travel across Bass Strait via ships as opposed to having a hypothetical road or a bridge built across the Bass Strait. So it would be good if we could focus our discussion this afternoon on those schemes and to get your views and feedback on whether or not that addresses the issue from your perspective as the mayor of Devonport.

MR MARTIN (NSHC): Pretty much if I have an apple and I want to send it to Melbourne. I would like that apple to cost the same transport costs as it would be to send it from Melbourne to Wodonga, the 425 kilometres, and then if I wanted to send it back it would be the same cost again. The scheme of Tasfreight equalisations does not cater for that fully. It is not equitable and I believe that it holds back our industry, our investment and our employment in Devonport and the rest of Tasmania.

MS CHESTER: Are you able to provide us with some evidence as to how the scheme, as it's currently designed, doesn't address the freight cost disadvantage of shipping versus road for the nominal 420 kilometres on the mainland?

MR BAYLES (NSHC): Yes. In agriculture everyone, or Tasmania is promoted as the clean, green state that it is, which we are, is that the opportunities that come up in agriculture in the last few years is that the general public has invested heavily in water infrastructure to develop agriculture in Tasmania. A lot of our growth markets are going to get out of agriculture in Tasmania through export markets. We can't compete fairly with the mainland because of the way the system is at present.

If you look, there's local abattoirs in the northern area employing 70 people. They can't claim freight equalisation on the business they have just built, yet their opposition in Victoria can claim freight equalisation on lambs that they come in and buy and take back to the mainland then export out of the mainland. It's the inequity between the two states that's the problem. Recently, we bought some irrigation main from Victoria across. We had to fill out paperwork to get a freight equalisation claim. That wasn't accepted because we didn't have the - there was a bit of paperwork that goes with it, but if we had have lived at Wagga, we would have driven straight up the road. The federal Government put a bridge over the Murray so we can go from one state to the other state.

The same thing happened with a harvester we bought recently, \$5000 to shift it from Melbourne to Tasmania. You could have carted it across Australia for the same price is why we say we are do disadvantaged being Tasmanians.

MS CHESTER: From your comments, and just so I understand, you are comfortable with the TFES scheme as a means or mechanism to seek to offset the freight cost disadvantage for Tasmania business and farmers having to ship their freight or their products out of the state via shipping lines. Am I right in saying that you're comfortable with the scheme, but it's more about issues of eligibility and the quantum of assistance?

MR BAYLES (NSHC): It is, and as long as the system is set up in place - we don't expect it for nothing, but we don't see why we should have to pay extra.

MS CHESTER: Just on the issues of eligibility then, are you able to just outline which parts of Tasmania industry or businesses are not currently eligible either for the northbound or the southbound elements of the scheme that you should be today?

MR BAYLES (NSHC): A lot of the (indistinct) we are going to get out of agriculture and the (indistinct) is going to come by new export markets and export produce - freight equalisation isn't available for export produce, yet if we take it out and value add it in Victoria, we can get the freight equalisation on it. It's disadvantaging Tasmania, and this is the point that Steve started off with, it's taking jobs out of Tasmania, the current system. We need to develop this state and employ the people in the state. Somehow we've got to those same opportunities for Tasmanian businesses and do the business in Tasmania rather than export the business out of the state.

MS CHESTER: That's a very important point that you raise and one that we do touch on - we have some commentary on in our draft report. Given the way the scheme is currently designed, there has emerged an incentive for some Tasmania business to effectively export processing of some of their products to Victoria so they can be eligible for the scheme, because it doesn't currently cover any eligible commodities that are transhipped to overseas destinations through the Port of Melbourne. So one thing that would be good is we have heard a lot of anecdotal reporting about this, do you have any evidence you are able to provide to the Commission of examples of that sort of processing occurring, leaving Tasmania and going to Victoria to access the scheme?

MR BAYLES (NSHC): Yes. Yes, I do. For every lamb that leaves Creasy Abattoirs, which is new abattoirs, is in a growth stage, it has just broken into a middle east market, it's costing the farmer \$1.60 per lamb for every lamb that (indistinct) freight equalisation because it's export produce. If we wanted to export onions overseas and we bagged the onions in Tasmania and put them in a container for overseas market, you can't claim freight equalisation. If the same onions went bulk to Victoria and were bagged in bulk, you do claim freight equalisation. With their wool, Tasmania hasn't got a wool sale any more. If the wool is delivered to Melbourne before it's sold, you can claim freight equalisation. If it's still in Tasmania when it's sold in Melbourne, you can't claim freight equalisation. They are the inequities that are in the system.

MS CHESTER: Thank you, that's very helpful. You are aware of examples of some of that processing and changes to the way that the commodities being transhipped through the Port of Melbourne and then activities happening at the Port of Melbourne to then secure eligibility to the scheme.

MR BAYLES (NSHC): Yes. A lot of this new produce, it's not just around shipping, but a lot of the new growth in Tasmania, a lot of that produce is

airfreighted out of Melbourne; so it's the link that we need, because in Tasmania hasn't got an international airport, plus we have only got 500,000 people, that's why Bass Strait is so important to the growth of Tasmania we have got to get to an international airport. It's not just international shipping, it's the growth that we are going to get in Tasmania is through air travel.

MS CHESTER: Am I right in saying from your comment then that one of our - it's not a draft recommendation at this stage, but one option that we do explore in our draft report is extending the TFES scheme to eligible commodities that are being transhipped, all destinations, to the Port of Melbourne regardless of where they are transhipped to afterwards?

MR BAYLES (NSHC): Yes.

MS CHESTER: We touched on the issue of TFES in terms of eligibility and extending the scheme to exports, are there any other issues that you have around the current design of the scheme before we move on to some other broader transport issues?

MR BAYLES (NSHC): Just the paperwork to claim it.

MS CHESTER: Okay.

MR BAYLES (NSHC): Claim it by the year - the TT-Line invoice that I got, but it wasn't suitable for the freight equalisation system. What more can we get? We have sent everything we were given to be sent with the claim. It's the time that we waste doing it, yet if we went from Melbourne to Wagga, you just drive straight up the road.

MS CHESTER: Again, that's a very important point and one that we have received quite a bit of evidence from participants like yourselves in terms of the administrative complexity of the scheme. We try to address that in our draft report by having a recommendation of simplifying the scheme and having a flat rate of assistance with two objectives in mind there. The first is to reduce the administrative complexity for participants benefiting from the scheme but, secondly, to also try to avoid a perverse incentive that we had at the moment the way the scheme is currently designed. There's no incentive at the margin to get the lowest cost transport solution because the higher the transport cost is, the higher the subsidy is. So it would be good to get your feedback on our proposal for a flat rate of assistance.

MR BAYLES (NSHC): It's when you look at a claim form you have got wharf to wharf, door to wharf and wharf to door. I thought the reason why we are here today is to talk about the Bass Strait factor. Door to door is irrelevant; wharf to wharf is the point we are talking about. In the wintertime I rang the freight equalisation

department and asked what the claim was where you get out a container of grain. The person I was talking to said how was it coming? One option was Toll was going to bring it across. Someone would put it in the yard in Melbourne for us, we would pick it up at this end. We could get \$750 freight; but if Karen Chester Transport picked it up from regional Victoria and delivered it, sent us one bill for picking it up from regional Victoria and delivering it to us in Tasmania, as long as we were above the 42nd parallel line, we could get a maximum of \$855. What difference does it make where we live in Tasmania, whether above or below the 42nd parallel line and the dollar claim that we can get back out of the system?

MS CHESTER: Sorry, I may not have fully understood what you said there, so - - -

MR BAYLES (NSHC): What I was saying is, if Steve Martin Transport picked it up from regional Victoria and delivered it to the Melbourne wharf, Toll wharf for us, and Toll shifted the container of grain from Melbourne to Burnie and Myles Bros which is our trading name has picked it up from Burnie and we took it home, we can get \$750 freight equalisation in it, but if Karen Chester Transport picked the same container of grain up from regional Victoria and delivered it to us and we got one bill that we put in with our freight equalisation claim, as long as we lived above the 42nd parallel line, we can get a maximum of \$855. What's the difference?

It's identical when it's in the system. It shouldn't matter whether we live above or below the 42nd parallel line the freight equalisation. Yes, I think the freight equalisation scheme needs to be put into context. It's the Bass Strait part we're talking about. It's not how far we bring it to get it to Melbourne and how far we cart it after we get it at Devonport.

MS CHESTER: So if I understand the point you're making now, and correct me please if I'm wrong and I hope you never have to rely on Karen Chester Trucking Services because I don't have a truckie licence, is it's the different eligibilities between the northbound and the southbound components of the scheme.

MR BAYLES (NSHC): No. The point I'm making is that you can claim it either door to door or door to wharf or wharf to door. Why does the distance - the road transport affect the claim? It's Bass Strait that we're talking about.

MS CHESTER: With the help of my colleague Daryl Quinlivan who has connected the dots for me, thanks, Daryl, I think it's the scaling factors in the parameter calculations that you're referring to that results in that outcome. That's part of the reason in our draft report we talk about there are some anomalies and some different outcomes that you get with the different scaling factors in the parameters. I think it comes to the heart of the issue with how the scheme is currently designed. It's intrinsically difficult with the parameters calculations and the

methodology to come up with what's really a notional rate cost disadvantage of shipping versus the 420 kilometres of road that makes sense for every single business; that actually really represents their individual freight cost disadvantage.

So you end up with a scheme where there's parameters and they'll keep making different calculations which then results in those sorts of different outcomes that you're talking about. That's part of the reason why in the draft report we have made a recommendation to move towards a flat rate of assistance.

MR BAYLES (NSHC): Yes.

MS CHESTER: It would be good to move on to some broader transport issues around shipping across Bass Strait but are there any other comments of the impact that you have around the TFES scheme?

MR MARTIN (NSHC): Just one. In the time of being involved with the freight complexities in Bass Strait most of the people that I've bumped into that have been in business and they've got the expertise, not myself, in regards to Bass Strait they're very much all in favour that the Freight Equalisation Scheme should include the affordable movement of all people and freight in and out of Tasmania and all trade extended for both domestic and international import and export. We have got support very much throughout the state for that type of expansion for the TFES.

MS CHESTER: Thank you very much for those comments. If we just stepped back for a moment maybe and look at the competitiveness of Bass Strait shipping which is a key issue because that's effectively the cost where we're seeking to address the freight cost disadvantage. Do you have a view on the competitiveness of Bass Strait shipping services that are being provided to Tasmania business today?

MR MARTIN (NSHC): I think that's a very complex question that really should be asked of industry. As a mayor, I've got a generic view on it and of course the more competitiveness we have across Bass Strait, the better it would be but in saying that, I do believe that it is a federal responsibility of having that, as I say, national highway of Bass Strait and under that the federal government in my view should be looking at how best to have that corridor run competitively or through a tender process.

MS CHESTER: So at the moment there are three shipping lines.

MR MARTIN (NSHC): Yes.

MS CHESTER: Two that are privately owned and one is owned by the state government, each of them providing freight container services but with TT-Line also providing passenger and passenger vehicle transportation services. When you talk

about a tender what do you have in mind?

MR MARTIN (NSHC): It comes back to the original statement that I believe that Bass Strait should be part of the national highway system. The national highway system I see is the responsibility of the federal government, so therefore, the federal government should be responsible for the highway system across Bass Strait and for that to be equitable and to be competitive, I would think that the federal government should go down the process of tendering for services to provide freight across that highway as equitable and in comparison to the highway distance similar across Bass Strait.

MS CHESTER: Just to make sure I understand what you're suggesting, we would remove the - we wouldn't have the Tasmania Freight Equalisation Scheme. We would instead have a government tender to try and arrange a lower cost shipping service?

MR MARTIN (NSHC): I'm saying that Bass Strait should be part of the national highway. The federal government's responsibility, if we're going to look at competitiveness across Bass Strait which is nothing to do with Tas Freight Equalisation Scheme as far as I'm concerned, it can be competitive just like any other trucking system or company operating on the national highway.

MS CHESTER: Thank you for your comments there. If we look at some of the broader policy issues that impact the cost of shipping for Tasmania and more broadly across Australia, our report touches on the issue of coastal shipping and we've received a lot of evidence in the submissions from businesses based in Tasmania that have talked about the increasing costs that they're facing for shipping services, especially for bulk or international shipping services with changes to the coastal trading regulations. Is that something that you have a view on?

MR MARTIN (NSHC): No, not offhand.

MR BAYLES (NSHC): No, ma'am.

MS CHESTER: Okay.

MR BAYLES (NSHC): Our main port is over (indistinct) we've only like dealt with Melbourne really.

MS CHESTER: Sorry?

MR BAYLES (NSHC): We've only dealt with Melbourne, yes, but I can understand why - I was talking to a vegetable processor here a while ago and he was saying international shipping is when they used to do coastal shipping on

international boats and it suited him down to the ground. He said it was a fantastic thing for their business but that's just been now, hasn't it?

MS CHESTER: No, that's exactly right, although there is one limited service coming to Bell Bay for businesses that will be presenting a bit later this afternoon, so we'll hear some more about that. Just going back a step for a moment, in your initial comments you talked about the broader needs of the Tasmania economy. One area that we do touch on in our report is stepping back for a moment from the two assisted schemes, the freight equalisation scheme and the passenger vehicle equalisation scheme, and just looking more broadly at what government can do with policy levers to improve the cost competitiveness of the Tasmania economy. Is that something that you have a view on in terms of what areas there could be potential inefficiencies or cost imposts where government policy could remove those?

MR MARTIN (NSHC): I still come back to the same original comment in regards to Bass Strait being part of the national highway. That would solve a lot of foundation problems and when you start talking about efficiencies in government policy, about dual lane highways up the Bass Strait to make it easier to get from paddock to port et cetera, it still doesn't make any - the efficiencies won't carry on because of the Bass Strait link, so until we actually get that sorted and accepted as part of the national highway, all these other government policies really don't have full effect on how competitive we could be in a national and international market.

MS CHESTER: Just so I make sure that I fully understand, what to you think would be required to in essence make the Bass Strait part of the national highway system? There's two policy areas. One is expanding the eligibility of the current Tasmania Freight Equalisation Scheme and then, secondly, the Government playing some sort of tendering role with shipping services to try to get lower shipping costs for business across the Bass Strait. Are they the two suggestions that you feel would go some way towards achieving that policy objective?

HARRISON (NSHC): Probably in a very simplistic way what we're looking at here is that on a per kilometre basis travelling on road on the Hume Highway it might be for a container on a truck, maybe a dollar per kilometre. It might be for a car 80 cents a kilometre, whatever it is. I think what Steve and what we are sort of trying to say is that would be very nice to get that in place on the same distance across Bass Strait from Melbourne to Devonport in Steve's case. Really that's the whole crux of this.

The point is the federal government would then take over the tendering process and when Rob takes his truck on the boat, he knows he is paying so much a kilometre and anything above that when the process is put out for tender, whether it be with Toll or whoever it may be then that is the difference, then subsidised by the federal government. So we are in effect on the same footing. It's just in effect

broadening the Albury Wodonga bridge from wherever it might be 200 metres. We're making it 400 kilometres.

I think that's really the crux of what we're trying to say here and then making certain that we have the capacity for the tourists coming into the state, for passengers as well as the freight, and having it both ways and getting rid of the complications that are there. I mean, Rob is a farmer. He spends all his time filling in paperwork now by the sound of it. That seems to be the case with everyone. I would suspect that's the same with Comalco and all these sorts of businesses that are here. We are spending far too much time filling in paper when there is a simplistic approach if the federal government took responsibility and thought of Bass Strait as a roadway. That's just the principle of what we're looking at I think, if I'm correct in saying.

MS CHESTER: Thank you very much. That's very helpful and I do feel I have a much better understanding of what you're suggesting. Are there any other comments that you wanted to make this afternoon?

MR MARTIN (NSHC): No, I'm hoping that we've made the point in regards to what we think of Bass Strait being part of the national highway, the complexity that Rob has told the Commission today that's involved with trying to claim back the funds, and that's a lot of time in regards to that where he could be out working the farm and producing more. As he mentioned in regards to the millions of dollars that are now being invested in the irrigation system, Tasmania being touted as a food bowl in one instance, that would be great but we're not going to be competitive until we've solved the issue of Bass Strait being recognised and tendered or funded as part of the national highway.

MS CHESTER: Thank you very much for appearing this afternoon and thanks very much for your evidence. That has been very helpful.

MR MARTIN (NSHC): Thank you for the opportunity.

MR BAYLES (NSHC): Thank you.

MS CHESTER: I'd like to call up our next hearing participants from Bell Bay Aluminium.

MR QUINLIVAN: Participant.

MS CHESTER: Participant. Thank you very much for appearing and attending this afternoon and thank you also very much for your initial submission to the inquiry and for your involvement in our earlier meetings in December at the roundtable, but if you could just state for the record your name, title and the organisation that you're representing today, that would be appreciated.

MR MOSTOGL (BBA): I can do. Ray Mostogl, general manager of Bell Bay Aluminium.

MS CHESTER: Thanks, Ray. Would you like to provide some opening comments before we get into a few follow-up questions that we have for you?

MR MOSTOGL (BBA): Yes, please. Look, seriously I'm very pleased to be able to contribute to this process, not only just for our own business but really on behalf of Tasmania industries. I think that it's great to see that the inquiry has included the socio-economic context of Tasmania because I don't think this is just a freight problem. I think this is an opportunity about resetting the Tasmanian economy and I think that's a really important consideration in all this because it's not just about trucks and ships. It's a lot bigger than that.

I'm also pleased to see at least in the draft report some of the more contentious issues are still in there which is great. They haven't been swept under the carpet. I really look forward to seeing those options worked through because I think at the end of the day it's what's right for Tasmania. It's not who is right. I think we've got to stay focused on that.

As per our submission and that of others, transporting freight across the Bass Strait continues to be disproportionately expensive for Bell Bay Aluminium. 80 per cent of our products end up in South East Asia so the sea leg off Tasmania is absolutely critical. We also have the benefit of having businesses around Australia and as part of Rio Tinto globally, so we understand what freight costs are around the world and within Australia, so we know where things could be or should be.

We certainly implore that the Productivity Commission do not lose sight of the outcome that's needed. It is easy to get caught up in which is the most elegant solution. I think it's the result really that counts and we need to make sure that this inquiry actually does result in a result for Tasmania, not just a whole new set of rules.

We would propose that the success for us would be seeing recommendations in the final report which would at least deliver a 25 per cent reduction in freight costs. I think that's the sort of order of magnitude that we would need to put Tasmania back on to at least comparable freight costs from the rest of the world and certainly from our experience. So I think that's the point that I would keep holding the Productivity Commission back to, to say, "Will your final report deliver that result?" I think that's what we need to keep sight of.

From Bell Bay's point of view, we produce a commodity that has a remarkable growth story, a 6 per cent year-on-year growth projection till 2050. The world needs aluminium and the Tasmanian economy has the opportunity to participate in that growth story. The other side of that is the world sets the price. It doesn't really matter where it comes from or how much it costs to produce, that's all you'll get for it, so any additional costs imposed on smelter in Tasmania is something that we have to absorb. We cannot pass the price on. It doesn't matter how good the aluminium is that we make, the transport is at our cost, so that's the producer's cost.

So that cost to transport either becomes an advantage or it becomes a barrier. If it becomes a barrier, it eventually leads to us being a reason why we need to close and that would effectively put 1500 Tasmanians on to the unemployment queue which I guess in Tasmania that queue is already pretty long and not a lot of prospects for that.

I guess the other thing is the manufacturing business which we're a part of does represent the lion share of the private wealth generation that goes on in Tasmania, so in terms of stimulating the economy it is only left to a few large businesses that really deliver that. So difficulties that we experience will have a cascade effect very quickly through the economy.

The other side of at least our business model is that we don't actually support having subsidies. Our business needs to be able to be on its own two feet. We don't sort of see any form of subsidies as the right way to do business, certainly not in a long-term sustainable way. So we would argue that the Productivity Commission needs to solve this problem by removing what's inflating the costs, not necessarily subsidising the high cost. We think that should be the primary piece of work: remove the causes which drive the costs up disproportionately high.

So in our submission in terms of recommendation number 1, certainly the Australian Coastal Shipping Review is a key feature of that. At the moment that legislation I believe, in my words, is designed to bring the cost of international shipping up to the Australian costs. The legislation should be about bringing the Australian costs down to the international rates. I think that's a very perverse outcome for Australia.

You've proposed in there to have that reviewed and as part of it I would also

suggest as an alternative, if there's some sympathy towards the Tasmanian economy, that Tasmania could be considered within that legislation almost an exclusion zone and allowing international shipping to trade in and out of Tasmania doing domestic of international runs which would certainly bring about a quick change to the economy.

We gained firsthand experience with that when we went through the tender process. We're on public record as saying that when we lost out international ship, our costs went up to the tune of \$4 million. When we were able to renegotiate a vessel with Swires, we were able to claw back a lot of that \$4 million but what was interesting was that the domestic ships almost matched the international price. I don't know whether people were buying the work but it almost matched the international price. The exclusion zone for Tasmania might bring about a very dramatic change in a very short time frame if resolving the coastal shipping legislation was too big an issue, given that it is a national exercise.

The other part of the coastal shipping is the transportation of bulk material into the state. In our case we transport alumina from Gladstone into Bell Bay. We would bring in 400,000 tonnes of alumina a year. Once that act was in force, the very first indication we got of a problem was when we saw our incoming freight bill go up potentially to the tune of \$4 million. I don't know why \$4 million seems to be the number. It doesn't matter whether you're shipping containers out or bulk alumina in but \$4 million seems to be the cost that we got hit with. That is subject to a legal challenge at the moment and at this stage we are still able to use international ships to bring alumina in so we are holding our own but obviously we have got that threat hanging over our head. Again that alone could tip us over the edge. We contribute around \$700 million a year to the gross state product in Tasmania. That is what is up for grabs should the freight costs get too high.

The other side of that I guess is that we use 25 to 30 per cent of Tasmania's electricity. If we are not here - you know, there's the phrase about who will turn the lights out - there will be plenty of electricity but I am not sure who will be able to access the light switch.

In terms of recommendation 5, I made reference earlier that our business model prefers not to use subsidies. Also given the current debate regarding subsidies of businesses, in particular competing globally, obviously I think the Australian Government is in the box seat here to demonstrate its commitment by actually removing what creates those artificial cost barriers. I certainly look forward to seeing how that plays out; but in the event that that is not able to be addressed, then there is a place for subsidies but to me that's actually not the primary solution. That is the secondary submission.

From our point of view and in terms of your proposal in there in terms of

northbound-southbound freight equalisation, the removal of the southbound support would only have a marginal impact on our business so from a Bell Bay point of view that is neither here nor there. Seeing a flat rate on all northbound freight would provide a significant benefit to Bell Bay in terms of getting product to market. That's it from our business point of view but obviously I think the modelling needs to show what is best for Tasmania but that is certainly the Bell Bay information.

In terms of another one of the recommendations, recommendation number 12 talks about the ports and our submission will show that we see some opportunities between what we are being charged here. I guess our experience in Tasmania is that it is a rare government business enterprise that can run an efficient business that is comparable to private enterprise. I would like to think that everybody has that opportunity to run an efficient business. We don't necessarily feel the evidence of that.

Our submission will show that bringing the same ship at the start of the journey - the Gladstone towage charges are about \$8000. To bring that same ship into Bell Bay is \$33,000. To park it on the wharf is about \$8300 in Gladstone and it is \$18,800 here in Bell Bay - the same ship, same load, same journey.

I understand asset utilisation might be a problem for Tasports but, quite frankly, the people who buy our aluminium don't care and they won't pay me for the extra problems or the remoteness. There is only one price for aluminium and it doesn't care that you are paying four times more for a tug than someone else.

At the end of the day those charges potentially make us less competitive but what is really frustrating is that we are not only not competitive with other international producers; we are actually not competitive against interstate producers. As I said, we have operations in the Hunter Valley and in Gladstone and over in New Zealand, so close to home I can see the differences and we are significantly disadvantaged.

I guess in summary the Tasmanian economy is arguably the most trade-exposed economy in Australia. Freight is everything in terms of generating wealth. We really need to have a freight system costed and efficient to be able to continue to grow that economy and avoid what potentially could be a very, very sad state of affairs. Thank you.

MS CHESTER: Thank you very much for those opening comments. That does segue into a number of following questions that we would very much like to run through with you. Firstly just turning to the insights that you are able to offer, given your own Australasian operations but also your parent company being a global business, in our draft report we reference some benchmarking that was done as part of the FLCT report by Aurecon. While we all accept that it is intrinsically difficult to

do benchmarking of shipping services, making sure that you are comparing like with like, it did suggest that there was about a 24 per cent cost disadvantage shipping across Bass Strait versus other comparable shipping tasks in Europe.

Based on your experience internationally for your company, what other sort of range of experience do you have with cost comparisons that would give us some insights?

MR MOSTOGL (BBA): As I said, our wholesale and marketing process runs out of a Singapore-based operation so it manages the global shipping task for Rio Tinto. In discussions with the people there, we are an outlier, just in terms of that freight leg. When we had the international ship, we were sort of sitting in the pack. I am pretty comfortable that that proportion as reported there is what we see reflected in our own cost comparison internally.

MS CHESTER: So when the AAA Service was operating you were in the pack.

MR MOSTOGL (BBA): In the pack, yes.

MS CHESTER: Just across the operations that you refer to in Australasia, how would it compare in terms of the shipping costs as a percentage of operating expenses for those different locations?

MR MOSTOGL (BBA): Shipping - - -

MS CHESTER: If you compare Bell Bay to Queensland.

MR MOSTOGL (BBA): We all provide products to different markets. The outbound freight is a little bit more difficult. I guess the inbound is a little bit easier to compare; but as a percentage - if I talk about our inbound as a percentage of our total operating cost, it would be in the order of 5 per cent of our total cost of running the business.

MS CHESTER: Thanks. That is helpful. It would be good if you could just talk us through the change to your freight path to market for Bell Bay when AAA was operating, post-AAA and now with Swire, if you could talk about it in terms of the volumes and how they are being shipped to market.

MR MOSTOGL (BBA): Over that time period, our volumes haven't changed. We have been fairly constant around 300 containers a month, so three and a half thousand containers per annum, almost all of those going international. We had the weekly service which was ideal for our customers and managed the production constraints on our site very effectively. The loss of that service or stretching that service out initially - there were some weeks that were missed and then we had to go

to the domestic run. It means that there is now an extra number of days that it spends in Melbourne. From a distribution point of view, I have got to be frank, there is some convenience of coming out of Melbourne.

There's a number of services that go to different locations, so instead of having to transship through Singapore, we can do a lot of the transshipping in Melbourne and put them on the boat that's going to India, that's going to China, that's going to Indonesia. So there are some advantages from a point of logistics in going through Melbourne, putting aside the cost impact.

To secure the vessel that we did took considerable negotiation and we put some of our business at risk because that metal now sits on a boat for 35 days. It's a monthly service effectively and it winds its way up through New Zealand and zigzags all its way up to China. So we've taken some commercial risk that our suppliers are not getting the product in the frequency that they used to.

Supply is everything and reliability of supply is everything for customers, so there is a risk that we could lose some business as a result of having to do that but it was the only way we could make that fit, so we had to be selective about which products went on that boat but it has effectively taken about half of our container freight. We've experimented with trying to move more material out of containers and put it into bulk. It has probably been negligible what we've been able to do there.

At the end of the day our customer says, "This is what I want. If you can't do it, I'll get it from somewhere else." So we're very much in their hands in terms of being able to change the options.

MS CHESTER: At the moment with the Swire service once a month, that's taking half of your container exports?

MR MOSTOGL (BBA): Yes.

MS CHESTER: And transshipping through where in - - -

MR MOSTOGL (BBA): It goes through Singapore but it goes to multiple ports. There's 18 different ports that it travels through.

MS CHESTER: Different - - -

MR MOSTOGL (BBA): So in some of those cases it drops that off, it goes and other stuff it transships.

MS CHESTER: And the other half is being transshipped through Port of

Melbourne?

MR MOSTOGL (BBA): Yes.

MS CHESTER: Who are providing those services to you at the moment?

MR MOSTOGL (BBA): It's Toll primarily but some go through SeaRoad just depending on timing and that but Toll is the primary transporter of that.

MS CHESTER: Just turning then to the economics of attracting a more regular and high volume, regular international shipping service to Tasmania, we touched on this in our draft report but it was really drawing on some work that had been prepared by GPS for the LCT report, where they talked about requiring volumes of (indistinct) 54,000,000 TEUs in here and when you look at the volumes coming in and out of Tasmania at about 37,000,000 you struggle to see where you're going to get something on a more regular basis and commercially sustainable.

You've obviously done a lot of analysis and spoken to a lot of shipping lines around this very issue. Are you able to share your views about the economics of all of that?

MR MOSTOGL (BBA): I think, and again we've looked at it through our lens so we've looked at "What could we get away with?" type of thing and we could live with a fortnightly service. A seven-day service would be better but a fortnightly service or even out to 18 days, somewhere in that sort of 12 to 18-day range would mean that we would put very little through Melbourne. There would still be some product that has to go there just from the point of view of logistics but that would fit for us.

I think the debate is still a bit muddy. It is the concept that you've got to have big ships and things like that. Tasmania can't fit a big ship in, so I think some of the volumes that are quoted from time to time misrepresent the argument. There are companies out there, like Swire and there's others, that specialise in ports like ours that aren't very big that can move it. Yes, you pay a bit more for that than you would if you had a massive container ship but there is actually a marketplace out there.

The difficulty, and this is where we've got some advantage because we have a significant volume to commit, is getting enough people at the same time available to make their containers available. We're all on contracts. They all expire at different times. There is a lot of work going on at the moment to try and lock businesses into five-year contracts, not two and three-year contracts. I'd probably be doing the same if I was in the shipping business, to try and lock out competition but there's a fair bit of tension in the marketplace at the moment.

So I think a fortnightly service, the right size vessel, yes, there'll be a premium, would address it but again that's only a small part of Tassie's freight equation and while as an exporter I'll say, "Yes, I'm happy to benefit from that or our business would," I think that some of the things we've talked about earlier actually will benefit a bigger part of the Tasmania economy and I don't think that should be overlooked.

MS CHESTER: From the discussions you've had today, what sort of minimum regular volumes would be required to attract - I'll deal with the smaller vessel as you rightly pointed out, that sort of fortnightly service?

MR MOSTOGL (BBA): I can only offer the numbers that we've spoken to you about. I don't know what else they're looking at but again, we've still got another 150 containers that are going to Melbourne at the moment that are potentially up for grabs, so that on an alternate to the 150 that go out once every 35 days with Swires has some merit but not on its own. Not on its own; not as a container ship. If there was another multipurpose vessel, we could potentially do that but not on that, and I don't know what those upper limits are that would have to sort of make those ships - I've heard too many numbers to give you something here. I think you'll get better numbers talking to some of the shippers, the actual shipping companies.

MS CHESTER: We would have liked to have been able to talk to a few more of them and we are talking to one or two, so we will definitely raise those issues with them. With respect to the current service with Swire then, as I understand it there are one or two other businesses that are going to be moving freight on that service. We heard from one this morning.

MR MOSTOGL (BBA): Yes, there have been businesses already using capacity. Swires are bringing in, it came in at the end of January, a brand new ship that they've put into commission. It has more container capacity than the one had when they started last year. I don't know what that number is but it's not huge. It may be another hundred containers on top of what they've been taking, so that does open the market a little bit more for other businesses but Swire would be the right people to ask that question.

MS CHESTER: Thanks, and we will. You raise an important point around coastal shipping. The Government has foreshadowed a review of coastal shipping regulations. In our draft report we call for that to be expedited, particularly given the greater exposure that the Tasmanian economy has to shipping costs and the impacts; that we've received much evidence on from businesses in Tasmania that the impact of those coastal shipping changes more recently but those that have been entrenched historically for a long period of time have had.

It then raises the issue of sequencing. We did have some commentary on this this morning and it comes to the point that you've really raised in your submission,

the balance between having an economically viable and sustainable regular international shipping service to Tasmania or extending the TFES scheme to exports. So one thing that would be good to get a sense of is in the discussions that you've had with the shipping lines, your sense of their appetite to provide those services to Tasmania if there were fundamental changes to the coastal shipping arrangements currently in place.

MR MOSTOGL (BBA): My dealings with shipping companies suggest that there is interest in an international service coming out of Tasmania. There's a view that there is going to be grown in that area and I think they're picking up on some of the comments from the earlier presentations around the agriculture and some of those other industries that are potentially going to grow. I think they see it as getting in early and an opportunity to do that, to at least secure the market, so I think it is genuine and as I said, these people are bringing brand new ships into service that are sized just to fit in here, so if people were using 20-year old vessels and we've seen the last of the old small boats being used, you might think that there's going to be an end point on that but if they're bringing brand new ships in that are state of the art, that are sized to come into the Tasmanian ports, we'd suggest - and that's a significant investment - that there's a market out there, not just in Tassie but globally.

So I do believe that there is interest and support for that. It needs to be competitive. At the end of the day it's not about what do I want, it's what my balance sheet shows is the best option for the business. Does that drive competition on the domestic service that isn't there now? Possibly. You know, through our tendering process we certainly saw some unusual indications that maybe there are better opportunities than what we're seeing at the moment. Logistically, coming out of Melbourne is probably still the best option for us just to go to multiple ports throughout Asia, but not at the cost that it currently is. So there's no clean answer here. It really comes down to the numbers.

MS CHESTER: So if I take your comments correctly, then even if we were to extend the TFES scheme to exports being transhipped through the Port of Melbourne, the economics of the service you've currently got with Swire is still more cost competitive?

MR MOSTOGL (BBA): Yes.

MS CHESTER: But it's more that the transhipping through Port of Melbourne is, for want of a better description, a logistical stocking filler for you in terms of meeting the services that Bell Bay Aluminium need today.

MR MOSTOGL (BBA): That's correct. That's correct.

MR QUINLIVAN: In talking about a 25 per cent cost reduction objective at the

start, you clearly had in mind coastal shipping reform as probably the first priority but I had the impression you had other policy measures in your mind but you didn't mention them so I'm curious to know if you had others.

MR MOSTOGL (BBA): No, look, it's really about driving what's inflating that cost.

MR QUINLIVAN: Yes.

MR MOSTOGL (BBA): But I think that's the end game here if that's possible and as I said, that 25 per cent brings us back into the pack and I think that's not an unreasonable expectation.

MS CHESTER: We've also had some evidence presented to us by the Tasmanian Exporters Group about a proposal from Swire to extend the current service by providing another once every 18 days regular container freight, international service hubbing somewhere through Asia. Is that a proposal that Bell Bay Aluminium has been involved in?

MR MOSTOGL (BBA): Yes, we've certainly provided our volumes and port locations into that and it's something that we'd certainly be very supportive of and again, if the numbers are right we would jump at that.

MS CHESTER: Okay. But just picking up on a comment that you made earlier about the position of your company when it comes to subsidies and assistance, with that proposal comes a \$33 million request for transitional assistance - - -

MR MOSTOGL (BBA): Transitional assistance.

MS CHESTER: - - - for a three-year time period.

MR MOSTOGL (BBA): Yes, and again with a view to that should be self-funding and commercially sustainable over time. So it's a process of how do you get people off existing contracts and grow the business. It is a complex beast and if we could all tomorrow turn around and say we're going to put all our freight on this one ship, that would be nice but that's not the real world. Our customers and our reliability of supply is so critical, because we actually get or certainly we see a reliable supply through Melbourne and with Toll through the local ports.

So the service is good, it's just it costs too much and we've got to make decisions about do we save a hundred thousand here on freight but potentially put at risk a customer that we've had for 20 years. So it's not just a simple decision. So to transition onto a service and get confidence that the service is going to be reliable, because that's one of the key things that all exporters need is that reliability and that

takes time, that takes a number of shipments before people are going to say I'm prepared to commit my volume; and I think there is a place for some support to get into that place but it's got to end, there's got to be an end point on there.

MS CHESTER: Okay. Just in terms of your involvement more broadly through the FLCT and other forums in Tasmania, one of the things that would be good for us to get some insight on is with that service of once every 18 days hubbing through somewhere in Asia, how much of the overall export freight task coming from Tasmania would that really meet the needs of?

MR MOSTOGL (BBA): I'm not privy to the detailed numbers of the other businesses, so those things have been sort of consolidated so I can't say. So is it three-quarters of that? I don't know. I don't know. I know from our point of view that we wouldn't necessarily commit everything that's left to go onto that 18-day service but I would see in time we would, but there would be a phasing in potentially.

MS CHESTER: Just returning to an issue that you raised around, you know, obviously with the exit of AAA, your greater and immediate exposure to Bass Strait shipping lines, we do have some commentary in the report around the competitiveness of Bass Strait shipping with the current three service providers and I think the language if I correctly recall from the ACCC was that it's inevitably a thin market but there are some elements of competition. It would be good to get your view on how you see the competitiveness of Bass Strait shipping across those three current shipping lines?

MR MOSTOGL (BBA): I think there is some competition but the competition is at the margins. We're talking about a step change that I don't see there's a driver for that and some of it is tied up with legislation and regulations. But when we go to tender we see movements on prices and there are options to move to different supplier providers at times and we see that, but we're only talking about the margins. So it's competition but not competition that meets the needs of the exporters and the businesses in Tasmania. The scale is wrong.

MS CHESTER: Do you have a sense as to whether or not TT-Line, as the only government-owned provider on that service, is injecting an element of meaningful competition?

MR MOSTOGL (BBA): No, I can't comment on that. I don't really have any information to be able to make a judgment about that effect on the other two providers.

MS CHESTER: Okay. Thank you, and fair enough. You touched on earlier the issue of port efficiencies and relative port costs that your company has experienced,

certainly across Australasian ports and if we were just to set aside the issue of port rationalisation given the fragmented ports currently in Tasmania, are there any areas from your experience with other port operations where you could see that there are obvious port efficiencies that could be secured?

MR MOSTOGL (BBA): No. No, and mainly because I haven't had exposure to any of the work in the other ports. I tend to look at it from a what does it cost me to do that service so no, I can't comment on that.

MS CHESTER: Okay, thank you for that. Thank you, that's the questions that we had today. Are there any other comments that you would like to make this afternoon?

MR MOSTOGL (BBA): No. No, I think I've probably had enough time here.

MS CHESTER: Was that you've had enough, or you've had enough time today?

MR MOSTOGL (BBA): No. It could take a lot longer if you want to talk about the Tasmanian economy, but we won't go there.

MS CHESTER: Okay, thank you very much for attending and for your participation in the inquiry.

MR MOSTOGL (BBA): Thank you.

MS CHESTER: Okay, I'd like to call up our participant, Mr Neil Armstrong from Harvest Moon to join us.

MR ARMSTRONG (HM): I'll get a water before I start.

MS CHESTER: Thank you very much for attending this afternoon and presenting, and thank you very much for your submission as well. Much appreciated. If you could just for the record state your name, title and the organisation that you're representing?

MR ARMSTRONG (HM): Neil Armstrong. I'm the manager director of Harvest Moon, which is a fresh vegetable-growing, packing and marketing company situated in Forth, Tasmania on the north-west coast.

MS CHESTER: Thank you. Would you like to make some opening comments before we've got a few questions we'd like to put to you this afternoon?

MR ARMSTRONG (HM): No, I haven't got opening comments, I've got a few but I've got comments that I addressed your report or your draft report and things like that.

MS CHESTER: By all means.

MR ARMSTRONG (HM): I can go through it. I also should add I was a member of the freight logistics coordination team that the state government put together about 18 months ago, which has been referred to a fair bit in the report. The TFES is an equalisation scheme and I notice quite often in your report you refer to it as a subsidy. I think this is wrong. It's there to balance the disparity between mainland freight and Tasmanian freight and is an equalisation scheme. It was based and it has been based from the Nimmo Report on equalising freight on a per-road measure from the mainland, I understand.

I've participated in all previous TFES reviews over the last 30 years. I should say at Harvest Moon we are a significant shipper of fresh freight and a significant recipient of TFES. We ship about - we grow about 50,000 tonnes of product in Tasmania of which we ship upwards of 35,000 tonnes across to the mainland. We are in the top 10 or it must be the top 11 because I think we were in the top 10 recipients of TFES.

Fresh vegetables out of Tasmania - vegetables but fresh vegetables in particular - is an increasingly important commodity of part of Tasmania's agriculture but it is a low-cost product. Vegetables per se, you know, very rarely you get above a thousand dollars a kilo; you know, some higher value ones do probably, maybe beans but generally vegetables compared to higher valuable perishables such as fruit and

seafood and meat, it's really at the lower end of the scale. It's worth approximately \$70 - the TFES is worth about \$70 per tonne as a subsidy to that cost of freight.

Figures we have done on a similar road distance from Melbourne to Bairnsdale - and I picked Bairnsdale because it's a similar area, there's a lot of produce grown in that area, so there's similar refrigerated road freight from there to Melbourne. From Melbourne to Bairnsdale it's \$54 a tonne and from Bairnsdale to Melbourne it's 64 which there's obviously, you know, more freight coming out of Bairnsdale, so the freight is a little bit higher, so they have got back-loading rates from Melbourne.

From Devonport to Melbourne - from Forth to Melbourne it costs Harvest Moon approximately 75 to 80 dollars a tonne, so that's a disparity of 15 to 20 dollars a tonne in favour of a Bairnsdale vegetable producer. Over the years and over the last 10 years, you know, that got out of proportion a little bit at the last review in - - -

MS CHESTER: 2006.

MR ARMSTRONG (HM): 2006. It was about right, it was set right, but over those six or seven years the difference has not kept up with the road freight. If the scheme was removed or materially wound back, it would have an adverse effect on our business. The fact that \$70 a tonne of the subsidy is probably - it is a lot more than the proper margin that growers get or we get out of shipping that produce. It's a pretty low value. It's a high volume, low value business. I mean, we just wouldn't be competitive in the marketplace or we would pay growers \$70 a tonne less for their product and \$70 a tonne on a three or four hundred dollar price is pretty significant. So we wouldn't be competitive, neither would our growers.

I daresay we would contract to, you know, maybe - if we were still in business, cut back to about 10,000 tonnes we'd ship out and that would be some of the high values which would really put us out of business. Okay. With your draft recommendations, going through your report, it's noted that your intention is to retain the schemes but you wish to change them in a few ways. We will get through that. You keep mentioning the socio-economic effects of changing Tasmania's economy by imposing a lot of new measures which it probably desperately needs but, as the previous speaker said, I think that's beyond the scope of a TFES review, it's a bigger picture and it's going to take years and years for those benefits to flow through. Even though it's a well placed intention, it's a pretty hard thing to do.

You mentioned also going through that the currently the TFES significantly overcompensates claimants for the notation of cost disadvantage. Evidence of that wasn't provided in the draft of the report. I find that difficult to believe. It doesn't to us but if there is - and that mightn't be to do with the basic one. You did mention (indistinct) maybe it's in that that you're referring to. You mentioned it quite a few times that there's disparities in the system that don't work. As far as we're concerned

the cost disadvantage is real and the current subsidy is not keeping up with that cost disadvantage.

Exports; on page 12 you have mentioned that the top 10 firms receive 80 per cent or something - the top 20 per cent - receive about half the total payments and you talked in the paper that maybe you will drop the smaller claimants because it's not economically suitable to administer those costs. All businesses start small. I think if you drop them out of - the fact that they can't get their goods to the mainland in a cost-effective way, you never know - we started very small and our claims were low and we're now significant. So I think that's dangerous to limit it just to the larger - knock out the smaller claimants.

You have recommended that all shipments to the Port of Melbourne should be eligible for TFES. We're strongly supportive of that. Previous speakers have opted that exports shouldn't be included for TFES. In our experience since the loss of the weekly AAA service our - and to put it in perspective, fresh vegetables do need a weekly service. Our customers require a weekly service and we ship significant numbers, you know, upwards of 250 to 300 TEUs a year overseas, to various ports, to Europe, south-east Asia and northern Asia.

The AAA service used to hub in Singapore and it was a fairly good service. A fortnightly service wouldn't suit our type of freight. At the moment the Port of Melbourne is an excellent hub. We can get to most areas weekly. We can link up ships. It's just the cost of doing business here that's fairly significant, as I mentioned in my submission. On page 14 you mentioned that a number of firms receive TFES subsidies on inputs - sorry, southbound and northbound components.

One of your draft recommendations is that you're looking at maybe giving - I should say subsidy - equalisation to export shippers but taking off the (indistinct). I think, you know, the cost of inputs in the manufacturing on the southbound leg is very significant. I think that would be a negative. In our case it would probably more balance out the export increase. It was mentioned before. Mr Bayles I think mentioned, you know, the fact that on equipment there's an anomaly in the system. On equipment that's manufactured in Australia you can get a subsidy southbound. If the equipment comes from overseas you can't. Well, there's not much manufacturing left in Australia, so most of it comes from overseas and it's still a pretty significant cost to get it across Bass Strait, especially the loss of a direct ship.

As I mention in my submission, another anomaly is that packaging is included or cardboard and fibre cardboard and polystyrenes and plastics are included in southbound freight. Our industry is going to returnable plastic crates, which are the things you see in Woolworths and Coles stores, those plastic crates. They are an environmental product that's reusable and they're eligible for southbound freight equalisation. Things like that to me just don't make sense, a very significant cost. I

go to page 25 now while (indistinct) is pretty good (indistinct) the fundamentals, your first paragraph is the three schemes are understandable popular with Tasmania. Well, it does keep Tasmania afloat to the tune of \$120 million a year. However, collectively, the schemes are not able to meaningfully promote Tasmania's economic growth, given the broader economic challenges the state faces. I just don't understand where a comment like that can come from. If you take \$120 million out of the community, it's a very meaningful (indistinct) to the community and to the fact that it would put a lot of businesses out of business if it wasn't in.

A lot of the productivity improvements you mention in infrastructure and things like that, these are totally out of the control of the businesses in Tasmania; a lot of them are political, both state and federal and local. It's a big ask to state your case on improving the productivity of Tasmania at the expense of the TFES. I think it's the wrong call. You also state that over the next 15 years \$2 billion, and it's a big call, \$2 billion, it's a headline story, but per year it's 120 million. If you maintain and have to build a 400 kilometre, 320, whatever it is, kilometre highway, it costs that over the 20-year period anyway. If that bit of road that done at the Brighton bypass is any indication of costs, you are probably better off doing that than building a road. If this is subsidy for a road, that sort of money is being spent on mainland roads for the equivalent distance, so it's an equalisation. It's not a big figure over 15 years in the context of what it does for Tasmania.

Even if all of these socio-economic reforms are made, they are still not going to address Tasmania's Bass Strait problems, unless you build a bridge. With your draft recommendations, if I can comment on them, you have asked for comments. One is on shipping, but the foreshadowed review of coastal shipping, that's not going to have an impact on the competitiveness of Bass Strait for many years. It's going to take a long time for it to happen. It's not an immediate problem, this is a long-term structural problem in Australia. Mind you, it was changed pretty quickly by one government. It's going to be hard to get it back.

Again, you have mentioned in your draft recommendations that you don't consider the TFES is the best way to promote Tasmania's economic development. As I said before, I disagree with that. The draft recommendation 2 regarding the Bureau of Infrastructure and Transport and Regional Economics preliminary reviews, I agree as long as the industry has a fairly strong input into the costs, I find it difficult to understand, and these figures are in the draft of the report on page 56 and 59 on the bureau's figures, I find that difficult to understand and correlate to. Mind you, they have done their land-based mileage or costs on B-doubles, which is the most efficient form, bigger than any of the B-triples, I think, on the mainland. They are very limited in their use in Tasmania and you can't ship them, so it's the wrong comparison, and there's also disparity between the refrigerated rates and the dry container rates, but if you have got a base and they're sensible and they're reasonable, that's okay, but you've got to be careful with some of these figures

because statistics lie. 3 I agree with, that's in.

Draft recommendation 4, where the Australian Government should respond publicly and in a timely manner to all freight equalisation scheme parameter reviews. I agree with this, but there needs to be some long-term certainty for shippers, producers, industry, on the longevity of the scheme. I think in the last review in place, I'm not sure, I think it was a three-year roll-out phase, or each year - was that correct?

MS CHESTER: So the parameter reviews at the moment are conducted every three years, but the governments have never adopted those reviews and adjusted - - -

MR ARMSTRONG (HM): Okay, it was recommended, not adopted. I mean, it takes a while to change the models, so you need some certainty going forward in your planning. I mean, if we want to know that freight equalisation was going to be there next year, I mean we would have to read the Euro model and probably not do much; so you need some certainty going forward. Recommendation 5, I don't disagree with a single rate that makes the system simpler. Recommendation 6, I agree with. Number 7, I agree with. I don't need to speak to them if I agree, do I? You just want to hear any - - -

MS CHESTER: If there's ones that you have got concerns or issues with, maybe you would like to focus on those ones.

MR ARMSTRONG (HM): Yes, okay.

MS CHESTER: Thank you.

MR ARMSTRONG (HM): I think I mentioned 8 where you want to maybe limit the claims to larger businesses. I think that's an incorrect recommendation. On 10 and 11, really I have - they don't concern me. I haven't a comment on that. 12, the Tasmania Government should articulate owning a shipping line. As a (indistinct) shipper of perishable produce, the TT-Line provides a service that wasn't available before the advent of the TT-Line, which goes back to 1985, I think, the old Abel Tasman. Since they have had two ships on the run, and they had three at one stage, our business and businesses like us, seafood businesses and perishable fruit business, the berry business, which is just in time, picked today, goes out tonight, it provides a better service than the other two shipping lines, because they are standard container lines, and that's in the type of ships they are, and their crossing times. They have a nine-hour crossing time, so we have a later departure time from Tasmania and earlier arrival time in Melbourne, and that four or five hours' difference is very significant.

On that, whether they should run it, that current model, and it was only because the TT-Line first brought these ships in in 1985 that they've upgraded in a sense the

two Spirits. That's a vital service to an industry such as ours. Now, if the product is non-perishable, bulk or frozen, it's not as big an issue. A lot of the growing industries are of a just-in-time fresh high value, berries, fruit, fish, meat, chilled meat. It's a vital service that it does. Now, whether it's state owned or federally owned or private owned I don't mind but the service is fantastic.

There's 15. Again, you know, that's to do with all the changes that you want to make in the state. I don't think it's relevant to TFES or 16. On the information requests, I don't know if you have any questions or - - -

MS CHESTER: Thank you very much for those opening comments and also for giving us feedback on the draft recommendations. That's very helpful. Just turning back, firstly from the perspective of Harvest Moon, the cost of transport to you pre and post the AAA service, which I understand Harvest Moon used to use.

MR ARMSTRONG (HM): Yes, we used to use.

MS CHESTER: Can you give us a sense of how the cost of shipping has moved for you pre and post that change?

MR ARMSTRONG (HM): The AAA service was one of the things we lost in the last couple of years. As I said, we ship approximately 220. We used to ship more when the AAA service was in. The fact that it's now costing another thousand dollars a TEU across Bass Strait to ship our export containers, we have lost export markets, so we are doing less. You know, it was probably up around three or four hundred TEUs a year. So it's cost us \$225,000 a year roughly on last year's figures.

MS CHESTER: In additional shipping costs.

MR ARMSTRONG (HM): Sorry?

MS CHESTER: In terms of additional shipping costs.

MR ARMSTRONG (HM): Additional shopping costs.

MS CHESTER: Thank you. Look, it was a bit remiss of me. There's probably a few little clarifications that I should make in response to your opening remarks. The first is with respect to the term "subsidy" that we use in the report and from our perspective, it's an economic term. It has no pejorative attached to it but we do appreciate that it has been portrayed differently in the media and the like, so we are very sensitive to it and so we are happy to use the term "equalisation scheme" in our discussions today and for the transcript.

On the issue of over-compensation, I think this comes back to the heart of the

intrinsic problem we have that the parameters that are used to inform the current calculation for the rate of assistance, as well framed as they were meant to be, cannot ever really offset the freight cost disadvantage in terms of the experience of each individual business. So they are parameters with different scaling factors and the like to try to come up with a median average figure to then apply.

When we were referring to the over-compensation, it was just merely a statement of fact that the scheme was designed so that every three years, the rate of assistance would be updated by the update by zero of those parameters and so the zero has been each three years loyally those parameters but the Government has never adopted those parameters. So therefore the rate of assistance has stayed as it was previously but it's really a statement of fact that the parameters as they have been updated now would suggest that if the parameters were adopted, which is in keeping with the scheme's original design, that it would suggest that what businesses are currently being paid is greater than what those parameters are. So that then raises the issue of whether the parameter design is right or wrong.

MR ARMSTRONG (HM): It's not the case in our position, ma'am. It's the other way around. We are not - seven years ago, we were comparable with mainland freight and now we're not, so it's going the other way, isn't it?

MS CHESTER: I think the parameters are informed by what's the relative cost and the movement in the cost of roads versus shipping and even though shipping costs have gone up, road costs have gone up more during that period of time and if it's meant to be offsetting the relative freight cost disadvantage, then the freight cost disadvantage is reduced over time but I just wanted to explain the comment around over-compensation is not about for any individual recipient.

MR ARMSTRONG (HM): That's why I believe it's very important that the bureau now puts these figures out. You really need to get below the figures to see what's being calculated because, you know, I find that hard to believe.

MS CHESTER: That's why we do recommend that if the Government chooses to retain the parameter based calculations for the scheme, it will have a new process involved, the involvement and participation of interested parties like yourself as the bureau frames those parameter reviews for a biannual based review, so there's little volatility and hopefully more certainty for the businesses. So I'm hoping that if the parameters are retained, that would then perhaps address the issue that you are raising about the way the parameters are being calculated and what data is being used is the best data but those parameters have been publicly available whenever they are updated and provided in the public domain by the bureau.

I think it's fair to say that because the Government has never adopted them, I don't think people have been focused on them during the course of the scheme. I

appreciate the point you have made, as have others, around the smaller claimant and whether or not a threshold but just to clarify, from the perspective of Harvest Moon, if we were to put in place a minimum threshold, would that impact your business?

MR ARMSTRONG (HM): Minimal threshold per claim?

MS CHESTER: Per line item claimed, yes.

MR ARMSTRONG (HM): What does a line item mean then?

MR QUINLIVAN: An individual claim, effectively.

MR ARMSTRONG (HM): No, no, we claim what we owe and I don't think that would effect it. It depends what you put the limit at.

MR QUINLIVAN: Yes, but it's also worth noting that the proposal isn't to exclude small claimants. It's to exclude small claims. So, yes, the same point might apply about small businesses and start-ups and so on and we have heard that but it's not addressed to small businesses but the claims themselves because many of them are tiny.

MR ARMSTRONG (HM): Okay. So a smaller business has small claims. If they consolidate them into once every three months, that overcomes that, does it, or - I'm not sure what you mean by that.

MR QUINLIVAN: It may be, depending on how it's applied, yes.

MS CHESTER: We have got some other participants that are appearing who will give us some insight from the perspective of small business. Just two other things briefly: I appreciate your view of the commentary we had about the schemes, whether or not they could easily address - - -

MR ARMSTRONG (HM): Sorry?

MS CHESTER: The commentary that we had in the report that I think you had some concern about, where we said that we didn't feel that the scheme would meaningfully address the economic challenges facing Tasmania, and perhaps just to explain our thinking there, it's not to suggest that the schemes aren't meaningful to the recipients and aren't meaningful in terms of offsetting the freight cost disadvantage that Tasmanian businesses face. It more just stepping back from it and looking at more the broader and the depth of the economic challenges facing the Tasmanian economy and suggesting that it was important to look at some more important policy matters to address those issues. So we are not suggesting - - -

MR ARMSTRONG (HM): Well, what's that got to do with equalising freight across Bass Strait which is what this scheme was put in for? I mean, that well and truly does different things but unless you build a bridge, that doesn't alter that fact.

MS CHESTER: So you are exactly right that the primary objective of our review is to focus on the schemes that are being provided. Are they working as effectively as possible and that's what most of our report addresses but our focus and terms of reference are a little bit broader and so what we were suggesting was that there are other policy levels available to the Government in addition to the scheme that could also help improve the competitiveness of the Tasmanian economy. So it's not suggesting a sudden change.

MR ARMSTRONG (HM): Look, it could be the ports. It could be the rail. It could be all these other things but we shouldn't have to ship. Now, if shipping becomes more competitive, well, therefore in the reviews, the equalisation will get less.

MS CHESTER: Yes.

MR ARMSTRONG (HM): But you will still need it.

MS CHESTER: We don't disagree with that. I think the point was or one example would be coastal shipping as perhaps one of policy matters that the federal government can avail itself of, reviewing the current arrangement, which could result in a reduction in the cost of shipping services to Tasmanian businesses and indeed, we have received evidence, including this morning, from some businesses that have been in discussions with international shipping lines that suggest that if such changes were made it would increase the likelihood of them resuming a regular international service. So I just wanted to explain a little bit more of our thinking behind some of those comments given that they did give rise to some concern for you.

MR ARMSTRONG (HM): Yes. Well, I don't disagree with any of that but again, if the equalisation in fact was reviewed every two years, and it will take two to three years for these changes to filter through, that will be picked up there and the equalisation amount will be less won't it, so it will drop down.

MS CHESTER: Yes.

MR ARMSTRONG (HM): But it won't drop out. It may do, which is, you know - - -

MS CHESTER: In an ideal world?

MR ARMSTRONG (HM): It would be fantastic if we could have the same across

Bass Strait freight costs as on-road on the mainland and it might be that other on-freight costs on the mainland rise. But that's okay, as long as we're equal.

MS CHESTER: Just then going back to Harvest Moon's business and the experience that you've had with shipping services, so previously when the AAA service was operating, how much of your exports were being shipped through the AAA service?

MR ARMSTRONG (HM): A hundred per cent.

MS CHESTER: Okay, so that's now all transhipped through Port of Melbourne?

MR ARMSTRONG (HM): Yes.

MS CHESTER: Who were those service - - -

MR ARMSTRONG (HM): It was a hundred per cent while it was a weekly service. The last year or 18 months it was becoming a little bit less regular and, you know, they'd pull a ship out on you every now and then because obviously it wasn't worth their while or something and so then we had to ship through Melbourne. But like some things are less time sensitive than other products. If it's onions, yes, they'll store and you can store them up for a couple of weeks and ship them on the AAA service. If it's fresh carrots to a customer in Hong Kong that wants them weekly, they've got to go weekly.

MS CHESTER: We received evidence that the Tasmanian Exporters Group has been in discussions with Swire Shipping services for a potential service that would be once every 18 days.

MR ARMSTRONG (HM): Yes, the Tasmanian exporting group doesn't (indistinct) - there's no Tasmanian exporters, I should mention that and I think that's here. I mean, they're a northern group.

MS CHESTER: Yes, and I did clarify that when they presented.

MR ARMSTRONG (HM): Sorry? They clarified that?

MS CHESTER: We did clarify that when they presented.

MR ARMSTRONG (HM): Yes. I don't know how they can call themselves that group anyway, but that's all right.

MS CHESTER: I just wanted to confirm with you whether or not that proposed service, given it would be once every 18 days into one hub in Asia, whether that

would be - - -

MR ARMSTRONG (HM): Won't suit. Well, we might use it. We use Melbourne every second week and that the third week. We would still use it if it's more economic, but it depends where it goes to. See, the AAA service used to hub in Singapore and from Singapore you can get it anywhere in the world. If this hub's in - or it doesn't, it goes to some place and it goes to Korea or some place in China it's not the same. Then we want product in Singapore or Malaysia, it's not the right place.

So international shipping service, they're not all the same; I mean, you've got different destinations. Just because you export it doesn't mean it goes on an export ship and it gets to where you want it to go, whereas out of Melbourne we can get to anywhere in the world weekly. That's a much better service. Now, the AAA used to hub in Singapore which is a major hub and you can also get it anywhere in the world, yes.

MS CHESTER: For Harvest Moon today for the produce that you have leaving Tasmania, what percentage is for export destinations and what percentage is for mainland Australia?

MR ARMSTRONG (HM): I have mentioned that. Yes, it would be under 10 per cent would be export. Most of it goes to the mainland Australia.

MS CHESTER: Most to the mainland?

MR ARMSTRONG (HM): Yes.

MS CHESTER: So in terms of the nature of your current - - -

MR ARMSTRONG (HM): But that's currently. In the future that can change very quickly. If you go back 10 years ago when we had good services and the dollar was a bit better it was probably 60 per cent mainland and 40 per cent export.

MS CHESTER: Okay.

MR ARMSTRONG (HM): Yes.

MS CHESTER: So with access to a lower cost international shipping service you would expect that you would respond by increasing volumes and exporting more or - - -

MR ARMSTRONG (HM): As I said, with the loss of the AAA service we've exported less because the costs of shipping would go - as I said, we're in a low-value, low-profit business and a thousand a container, you know, we're lucky to make that

on a container of carrots so if you're not going to make it you don't send it. So yes, if it's a lower cost, as it would be if we got freight equalisation across to Melbourne, we would export more. Okay, coupled with that the dollar is dropping and other things are happening and the world might need food. But the future of Tasmania is it will always produce a lot more than it can consume itself and as has been said previously, there's a lot of infrastructure going in to produce more food and really that needs to be exported; exported overseas, not interstate.

MS CHESTER: In terms of the profile of the current assistance you get through the TFES, are you able to just talk us through that in terms of northbound business, southbound, although I'm assuming most of it would be northbound?

MR ARMSTRONG (HM): Yes, I think roughly it would be 95 per cent northbound.

MS CHESTER: Does your company process those claims themselves?

MR ARMSTRONG (HM): Yes. Yes, we do.

MS CHESTER: So you don't have an agent involved?

MR ARMSTRONG (HM): No.

MS CHESTER: Okay. Just to clarify and make sure that I fully understood your comments before: our draft recommendation to move to a single flat rate of assistance you were comfortable with that, assuming the quantum - - -

MR ARMSTRONG (HM): As soon as the quantum is right. Yes, it makes it a lot simpler - and fairer I believe. That's been mooted many times but we get into these in previous inquiries and it seems to get convoluted by economics or economists and bureaus. Yes, it seems to be the fairest.

MS CHESTER: Okay. I didn't have any other questions to ask this afternoon. Are there any other comments that you would like to make?

MR ARMSTRONG (HM): Yes. It's been mentioned in the other committee report, we're on that report. I mean, the system isn't broken. We've got a pretty efficient service, which is competitive. We've got three active shipping services across Bass Strait; they do compete. Okay, we're not in the league of the aluminium people that can command tenders. I mean, we're happy to get our product out and at times of the year, you know, that's a critical thing. There probably needs to be more - you know, we're not far away from not having enough (indistinct) so if export ships take some of that, that's probably handy.

But, you know, the parameters of the legal and moral and social framework we work in Australia where costs are high in some areas, you know, wharves, they're pretty good pay if you get a wharf job, I mean, costs are high but we're very vulnerable to a shipping failure. If a ship for whatever misfortune or stopped sailing for two or three days, in our industry that would be critical, it would kill us. I mean, we've developed our industry from being, you know, vegetables were dirty potatoes and onions that would have some storage ability, they're not time sensitive, to a very time-sensitive and highly perishable.

We're picking beans today and we're processing them, hydro-cooling them, putting them in crates and they'll be on a ship tonight and they'll be in the market tomorrow. If they sit around for two days they're no good, as against a frozen vegetable or a canned vegetable, something like that. So we are very, very dependent on the system we have now and our industry has evolved to make the use of that service.

MS CHESTER: Okay.

MR ARMSTRONG (HM): And we do the same with carrots and broccoli and lots of other things.

MS CHESTER: Thank you very much for appearing this afternoon and again thank you very much for your submission.

MR ARMSTRONG (HM): Okay. Thank you.

MS CHESTER: So ladies and gentlemen, we'll just take a short adjournment to stretch our legs and have another top-up of caffeine. It's 3 o'clock now. If we could resume at 3.15 that would be appreciated, thanks.

MS CHESTER: Ladies and gentleman, we might get under way and resume the afternoon's proceedings. I'd like to welcome now Stephen Henty and Brian East from Net Sea Freight Tasmania. Thank you very much for attending this afternoon and thank you also very much for your submission. We do appreciate that given the nature of your business, you are effectively representing and understanding the shipping needs and the freight logistic needs of a large number of Tasmanian businesses. So thank you for being here but just at the outset, could I get you to each state your name, title and the organisation you representing?

MR HENTY (NSFT): Yes. I'm Steve Henty. I'm the finance and communications manager for Net Sea Freight. My colleague here is Brian East. He is our economics consultant.

MS CHESTER: Would you like to make some opening comments to begin with?

MR HENTY (NSFT): Yes, thanks and thanks for the opportunity to be able to speak today. We thought it might be helpful to explain what and who Net Sea Freight are and how we fit into the landscape, and then address specifically some draft recommendations, more specifically two, five and eight and provide some information regarding the information requests 1, 2 and 4.

Net Sea Freight Tasmania specialises in assisting firms in accessing the Tasmania Freight Equalisation Scheme or TFES. We also provide bespoke logistics IT support services and consultancy and advocacy services on a broad range of freight and logistic issues. We work on a fee for service basis, whether that service is providing cash flow advantages by offering a net rate which is essentially removing the delay from lodging a claim to receiving the freight assistance or providing consultative assistance for TFES or other freight matters or simply offering an efficient way of lodging claims through the economies of scales that we provide.

We are also not an agent in respect to the ministerial directions that govern the scheme. In this sense we are no different from any other administrative support service. We are for the same easing of the administrative burden that tax accountants, lawyers, IT support, freight and many other functions that a business would choose to outsource. As Mr Rockefeller said yesterday, and I'm probably paraphrasing but smart businesses outsource non-core operations where there are economies of scales that create deficiencies.

In terms of where we sit with a number of clients and how we are involved with the TFES, we have over 300 clients which represents about 20 per cent of the TFES, the claimants. Customers range from sole traders and family businesses to multinationals. We're the largest claimant in respect to the number of submitted claims. We generate more than 30 per cent of the TFES's total claims and that's more than 100,000 consignment lines per year.

In the 2011-2012 financial year which was the last year there was open statistics around the TFES we were the second-largest claims in terms of assistance paid, generating over \$10 million in assistance directly to our clients. It's worth pointing out that we're not a freight forwarder; we're not a shipper; we don't own any freight assets. We form a role in assisting organisations in the administrative side of freight logistics.

Before we move to some of the specific recommendations and information requests, we would like to address what we feel are some general presumptions and assumptions that are touched on within the draft report. A number of the initial submissions to the Productivity Commission indicated that the TFES does not fully address the freight cost disadvantage imposed by shipping across Bass Strait. We agree with these submissions.

However, it is asserted in the report that the Tasmania shippers are overcompensated for their freight cost disadvantage. This assumption appears to be drawn from data collected by the Bureau of Infrastructure Transport Regional Economics or BITRE. Whilst I won't probe too deeply into the specifics of the data in the BITRE report, it does concern us that such reliance is held on a report that holds a view that is counter to the reality faced by Tasmania shippers.

One example is indicating that real sea freight costs have reduced in the past eight years. However, this is not supported by the real sea freight costs evidenced by our customers. We also found it difficult to correlate to the road freight equivalent costs in comparison to the real cost examples that our clients experience. If the BITRE are reviewing the road freight equivalent then other parameters such as the cap of \$855 should also be reviewed.

If, as I first asserted, that the TFES isn't addressing the freight cost disadvantage then we question the overarching suggestion that TFES payments should be reduced by \$90 million over a two-year period. This prima facie is a contradiction to the air of the scheme. The report asserts that the scheme removes the incentive to find the lowest freight cost. No evidence has been provided that we can find for this assertion and again, as many submissions, including ours, have stated the scheme in its current form does not completely address the freight cost disadvantage. Therefore, shippers will always have an incentive to minimise their net freight costs.

There also seems to be a presumption that the scheme should not cost more than \$100 million a year. The preamble to the information request 1 on page 33 of the report refers to maintaining the expenditure within current funding levels. Previous comments provided in public hearings have suggested that the Productivity Commission wish to provide a response in preparedness of a federal

government request to maintain the current funding levels. This could also suggest that this has been pre-empted. We note that the current TFES funding is currently uncapped. Finally, any suggested transition period needs to extend well beyond the suggested two to three years.

If we move on to draft recommendation 2 - - -

MR QUINLIVAN: Before we do that, there was one point you made earlier and I wonder if you could explain it a little bit more. You said you're not an agent. You were explaining your role which I think we understood most of it but you said you're not an agent. Could you just explain that a little more?

MR HENTY (NSFT): Yes, absolutely. Under the ministerial directions, the agency is classed as a specific type of product and deals with agriculture, so an agent, for example, might be - - -

MR QUINLIVAN: I see.

MR HENTY (NSFT): - - - Websters who brings in fertiliser, sells it and then the invoice will indicate on that what the TFES and the agent - - -

MR QUINLIVAN: Sorry, I understand what you mean now, yes.

MR HENTY (NSFT): So to draft recommendation 2 which is essentially around ensuring that payment rates are based on the finding of BITRE. Net Sea Freight agrees with the principles proposed in this recommendation. We believe a set of well-defined parameters regularly updated will ensure that the scheme will meet its objective. However, the derivation of the values chosen for these parameters as well as the values actually proposed deserve inspection.

I've already made comment on the road freight equivalent, so I'd like to touch on the intermodal allowance. We have long felt that the intermodal allowance of \$100 per voyage is too low. It is agreed that the costs are incurred as a result of a shipping exercise which would not apply to a purely land-based task. A comment on page 26 of the BITRE report that two large shippers pointed to significantly higher intermodal charges should have prompted an updating similar to that propose to the road freight equivalent value in order for the intermodal allowance to be reflected of actuality.

We agree that the task is complex, however, in that there is likely to be a series of almost unique intermodal costs associated with each freighting exercise. Nevertheless, the fact that one size fits all value has been in existence since 1998 and this should be considered for review. Our original submission to the Productivity Commission outlined a scenario where there are clearly two quite

different intermodal costs for moving the same volume of timber from the same sawmill to the same area in Melbourne.

I won't redetail that but essentially in this example, and it happens to be 24 cubic metres of timber via one method of shipping it to a destination about 35 kilometres out of Port Melbourne. The sawmill can place the timber straight onto a flat deck and that flat deck goes straight to port. It is relatively simply unloaded onto bases on deck, transported to the Port of Melbourne, quite simply put back on a flat tray and then moved to the customer.

Using a different freight forwarder, using the very same amount of timber, because this freight forwarder prefers to utilise containerisation for their efficiency, the same amount of timber from the same sawmill will have to be transported via flat tray back to a depot, recontainerised, transported then back to port, moved to the Port of Melbourne, uncontainerised via and moved on flat tray to the final destination. So not only is there additional road costs involved there which wouldn't be covered under a wharf-to-wharf cost, there are other expenses such as container hire, the cross-docking and storage of the timber at the depot.

They are obviously very difficult parameters to quantify, including the issue of less than economical short haul costs from businesses close to the ports, the fact that the freight must meet specific schedules to meet loading times of the ships which might possibly involve loading during less than ideal times for businesses, specific requirements for perishable goods, specific requirements for flammable or explosive goods on ships - the list goes on.

Again, we agree that it is difficult to formulise a figure that would represent a fair intermodal allowance but a periodic review with consultation involving shippers might provide a more realistic figure.

On to draft recommendation 5. The first part is in relation to a flat rate applying to per TEU and then if not applying a flat rate, moving to evidence of actual wharf-to-wharf costs. Net Sea Freight does not agree with this proposal. We believe that the flat rate has negatives for all but the high volume shippers. The report on page 88 suggests that this could be the case. Also, on page 88 the report argues that moving to a flat rate of assistance would remain the main source of scheme complexity, the parameters used to calculate the claimant's notional wharf-to-wharf freight cost disadvantage.

Our response to that is that the complexity of the scheme in terms of how the disadvantage is calculated doesn't translate into complexity for claimants or to the administration of the scheme. Shipment details required for a claim which is outlined on page 90 or box 3.5 includes things like the name of the freight forwarder, the destination, the point of pick-up, the weight, the cubes, the cost, the description

of the goods that already appear on standard shipping invoice and consignment documentation. It is relatively straightforward to transfer these values from the existing invoice on to a spreadsheet or into existing assessment software programs.

Should a flat rate be adopted, we assume that the claimant will still be required to provide at least some detail of information and some documentation to lodge a claim. We, therefore, think that there would be no reduction to the amount of supporting documentation required or a reduction really in the complexity for a claimant or to be assessed.

As pointed out in the report, larger or more frequent shippers currently have the greater capacity to negotiate a more favourable rate than their smaller counterparts. We don't believe this capacity will be reduced by changing to a flat rate assistance. We estimate that 99 per cent of the approximate 1600 TFES claimants would be worse off under a flat rate regime, even if the set rate were as high as \$750 per TEU. A flat rate could also possibly be interpreted as something other than a mechanism to address a freight rate cost disadvantage, as the disadvantage is not fixed for all users.

In reference to the second part of this recommendation, requiring the claimants to provide a breakdown of the wharf-to-wharf costs from their freight forwarder creates a more onerous task than actually reducing complexity. This detail does not appear on standard shipper documentation. Shippers pay for an integrated service from door to door and in most cases freight forwarders provide an invoice for the door-to-door movement.

The provision of a breakdown of the individual costs attributed to this door-to-door movement would require additional information. In many cases this will be difficult to provide, particularly for less than full container size movements. It's difficult to determine the cost of stevedoring, container hire and wharfage for such a shipping exercise.

We then move on to information request 1 which is in regards to extension of the northbound component of the scheme to include export and to include export while removing the southbound component. Net Sea Freight, like many others, believe that extending the scheme to include export is now appropriate due to the cessation of the international service in 2011.

In some cases it could also have the benefit of eliminating the practice of changing and exporter's business model that facilitates processing on the mainland to access the current assistance available. We would envisage that it would be a positive effect on economic activity in Tasmania.

There would also be obviated complexities for those customers who split ship full containers with both export and domestic product. In this case it's probably best

to provide a real life example to explain what I mean there. If you take one of our shippers, but I won't mention their name, who currently move goods that are bound for both domestic consumption and export in the same container, on the same type of pallet.

At the point of export from Tasmania - it gets confusing with that term but from the destination in Tasmania, at that point they don't know what percentage of that container will be for domestic consumption or will be for export. So under the current administration of the scheme that customer loses freight equalisation on the entire container unless they can before the time of the shipment identify what will stay for domestic use and what will go for export.

By extending the scheme to include exports, then previously eligible product that can't be claimed because of the administration will be eligible for freight equalisation. The trade-off of extending the scheme to exports but removing the southbound component of the scheme would severely negatively impact a number of industries in Tasmania. Mining operations such as BCD Resources, Grange Resources and Unity Mining all face high input costs in comparison to their mainland counterparts due to the freight cost issue disadvantage of Bass Strait.

These mines export in bulk and this form of freight would still remain ineligible even under this proposal. These firms lose out entirely. Similarly large shipbuilders such as Incat and Richardson Devine Marine do not freight the finished product, it would also be disadvantaged. Also firms that have predominantly domestic sales would not receive the trade-off offered under this proposal. High value agriculture, aquiculture, viticulture such as Houston's Farm, Burlington Berries, Christmas Hills Raspberry Farm, Tassal, Freycinet Wines and Winemaking Tasmania are specific firms which have indicated to Net Sea Freight that their operations would be seriously affected with the removal of the southbound component of the scheme, including those we believe are involved in the poppy and the pyrethrum industries.

There has been a lot of discussion, not only at these public hearings but more widely that the Tasmanian economy is undergoing a structural change. High value agriculture such as pyrethrum, poppies and berries, viticulture, aquiculture, mining and high scale manufacturing are significant industries that underpin that structural change. These industries would suffer a severe negative impact with the removal of a southbound component of the TFES at a time that Tasmania is looking at them to lead an economic change.

Forget some understanding of the prevalence of this scheme. We estimate that 90 per cent of our over 300 clients have some involvement with southbound assistance. Whilst there is some complexity around the eligibility criteria for the southbound component of the scheme, we note that the parameters that surround this

scheme have not been addressed in the draft report. Net Sea Freight provided a number of examples where there are administrative abnormalities which don't appear to address the original intent of the scheme. Again it's probably easier if I use real world examples to help explain this.

If we take the example that Houston's Farm provided you yesterday, I believe, at the hearing, Houston's Farm has a vertically integrated vegetable growing and salad for consumption manufacturing industry. Under the current administration of the scheme whereby claimants are assessed as eligible under an ANZSIC which is the Australian and New Zealand Standard Industry Classification which incidentally was not created to assess TFES eligibility - eligibility is restricted to the primary activity as stated in your Australian Business Register. Again not a register that has been created to assist in TFES eligibility.

So under this example as Houston's Farm are predominantly classified as a vegetable grower and they're able to claim for their vegetable inputs, any manufacturer of ready-to-eat products are not eligible for southbound assistance. We believe this encourages disaggregation of business and removes the benefits of economic integration should they choose to separate their business to get the benefits of the southbound component of the scheme.

Another great example, particularly as we're very tourism based in Tasmania at the moment, is the example of the Moorilla Estate, a multimillion dollar wine estate in the south. Currently they are ineligible to claim for the southbound assistance of the scheme like other vineyards because they trade under the ABN of their parent company which happens to be MONA which is a museum. So Moorilla Estate is considered a tourism or entertainment venue and so ineligible for the southbound component of the scheme.

Whilst we agree that there needs to be robustness to the parameters that the scheme is assessed under, these should not encourage perverse disadvantages to organisations that should be eligible. We believe one such thing would be removal of the need to claim under your predominate ANZSIC code and just proving that your industry falls under agriculture, mining or manufacture and proving that the input into that is utilised under that component regardless of whether you fall into one or two of those categories. Whilst we believe the complexity will always be inherent regardless of any moves to simplify the southbound component. We don't see complexity as a good reason to remove this component of the scheme.

On to information request 2 which is to do with the minimum claim value per line to assist in administration costs. Whilst we acknowledge that the value of the claim should ideally exceed the marginal cost to both the claimant and the department administering the claim, if a potential claimant decides that he is entitled to a claim however small, it ought to be the decision of the claimant whether to

pursue the claim.

It should be the responsibility of the department administering the claim to determine the most efficient way to process this claim. We would suggest efficiency improvements like aggregation of small claims, using of the sample to test a larger number of similar type claims or pay in small numbers of line claims with small values on a good faith basis. To reject a claim based on its value being too small when the claimant has already incurred a cost in submitting it could involve appeals and substantial increase in both administrative time and cost to address those appeals.

That said, Net Sea Freight does advise its clients from time to time that particular consignments of such a value that the claimant's cost in obtaining the information would outweigh the value to the business in processing that claim. To information Request 4; with this information request we are actually seeking some clarification because we believe that the interpretation that we have may be different. It's to do with the potential impacts and efficacy of an alternative approach to the current TFES and Bass Strait Passenger Vehicle Model. We essentially interpreted this as asking whether it would be better to subsidise one operator presumably with multiple ships from an existing port location to manage the freight and passenger tasks between Tasmania and the mainland. However, on discussion with other participants they have taken it a different way. So we would seek clarification on the intent of that request.

That being said, either way our one comment that would be valid on any other way that you take that is that the report on page 3 observes that there's a pervasive involvement of government in many aspects of the Tasmania economy and cites the government activity in freight industry owning and operating infrastructure assets such as shipping, port, road and rail. The report raises the issue of whether the setting stifles innovation in private involvement and so it appears that this proposal is counter-intuitive to the Commission's implicit aim of promoting innovation, increased private sector involvement and enhanced competitive environment.

MR QUINLIVAN: We are alert to that irony.

MR HENTY (NSFT): At this point we welcome any questions.

MS CHESTER: Thank you very much for what were some very comprehensive opening comments and we do appreciate that where you were able to, you provided some evidence or real life examples. That's very helpful for us. Just clarifying a couple of points: firstly, in terms of our information requests and the one relating to cost neutrality for the schemes, what our approach there has been is that - the core task we have before us is the Government has said that they will continue to support the retention of the schemes in their current form, being the TFES and the Bass Strait Passenger Vehicle Equalisation Scheme, but have asked the Commission through

this inquiry process to provide commentary on design and whether or not there's any ways to get greater efficiency or are there any anomalies and the like.

The way that we have approached that is to step back and look at it firstly in terms of is the scheme delivering on its objectives, once those objectives are clearly understood, and if not, what we can do within the current design of the scheme to make some improvements, knowing that there will always be winners and losers as you arbitrarily move boundaries of eligibility and parameters and such.

We're also very mindful, given the current circumstances of the Government, that there could be a desire to make any of those changes cost neutral, particularly given that we were looking at the option of extending eligibility for the northbound to exports, which is a very expensive design change to the system. Mindful of that, we thought it was incumbent upon us to put to participants what some design trade-offs might be to get a better understanding of what the distributional and efficiency impacts of those changes would be, effectively just so we can inform good government decision making more than anything else.

It's not like the Commission's overriding objective here is cost neutrality. More it's if the Government decides that that is a policy objective here in reframing the schemes, we wanted to ensure that the distributional and efficiency impacts of any of those design trade-offs were fully understood, so that was what really motivated our question there and as such it was an information request and not a draft recommendation.

On your information request 4 that you sought some clarification on, you may be aware that some submissions that we have received have actually suggested this sort of model as a way of getting down the cost of shipping services, because at the end of the day cost disadvantage equalisation can occur by either getting down the cost of shipping or offsetting that cost relative to road through the scheme as it's currently in place.

We wanted to explore with a broader group of participants the relative merit of that idea and that model, given that we saw that there were some potential issues or concerns as to its efficacy and whether or not it would actually result in lower shipping costs across the Bass Strait. I hope that helps clarify what that information request is about.

MR HENTY (NSFT): Yes, absolutely.

MS CHESTER: Okay, so maybe if we could turn to better understanding the role that Net Sea Freight plays, and your business model - and thank you very much for your introductory comments because that was my first question and you went right to the heart of it. It would be good for us to understand with your current business

model, how much of the business is sort of based around assisting customers with the TFES versus assisting customers more broadly ex-TFES on freight matters.

MR HENTY (NSFT): Primarily we're involved in helping our customers engage with the TFES. Obviously we run advocacy side of things, being involved with the freight logistics coordination team. I also chair the Tasmanian Logistics Committee. The question is probably two-pronged. The question could be how much of our business is us directly helping people submit claims by filling in the forms and presenting them or how much of our business is through other additional benefits they get by utilising its sea freight services.

That could probably be answered in two ways, whether by the number of claimants or customers or what percentage of our business revenue is derived from each. I would say they're completely different numbers and, like all business, we work probably on a 20:80 rule where 20 per cent of our customers make the predominant impact to our business. That being said, from the dollar figures that are being brought into - that we assist for our clients, it would be predominantly northbound that we bring in under the TFES for our clients. That would be quite easily the predominant area where we work.

For those clients, they tend to be the larger type of client where they can quite easily claim the freight equalisation on their own. They prefer to use us and they choose to use Net Sea Freight because of the essential debt of finance arrangement that we offer by giving them a net rate on that claim, which I outlined but essentially instead of large business paying their freight rate in full, getting around to lodging a claim, then waiting for the TFES assistance to come back, they essentially as soon as they pay their freight bill get the TFES up-front. That would make a large proportion of what we do.

There would be 200 customers and it's probably not going outside that we assist on a cost neutrality basis. We feel that it's our role to help us through efficiencies. They are not customers that we would make a lot of money. We assess them because they choose to outsource the administrative function of freight equalisation to us. You may note there's also 900 claimants that don't use us as well. I don't know if I have answered your question or you want to ask another specific question around that.

MS CHESTER: No, that's a very helpful start. Thank you. So of the profile of the assistance that you're providing to your clients, the majority is northbound versus southbound, and when you're talking majority it's sort of upwards of 75 per cent?

MR HENTY (NSFT): If you're talking about the amount of freight equalisation that we get for our clients, the majority is definitely northbound. I couldn't give you the exact figure without running some reports but I would say, off the cuff and based

on last year's reports, maybe 70 per cent would be northbound.

MS CHESTER: That's fine. I wouldn't want you to generate any additional work. Just getting an order of magnitude is very helpful. I do appreciate the insight that you have given that of your 300 clients, 200 clients are sort of low margin, you're sort of covering your costs and helping them out, and 100 are higher margin clients and I'm assuming with a higher level of services that you're providing them. Of the 200 clients, would they be predominantly represented in the southbound?

MR HENTY (NSFT): Yes, mostly. Well, predominantly southbound. We have a lot of smaller shippers who move LCL-type movements, you know, pallet-type deliveries, which are northbound but they fall under the 200 that are not high margin customers.

MS CHESTER: When you look across the spectrum of looking at it from the customers' perspective of the rationale of them coming to Net Sea Freight for your services, there's a couple of buckets that sort of came to mind for me but there obviously are others, and apologies in advance if this is an unsophisticated lens that I'm about to lend to this, but the first one is kind of outsourcing; if it's not core business, they would rather somebody else do it for them.

The second is a potential cash flow advantage at the margin that you're giving them a net rate up-front, although I'm sure there's a fee there, advice on eligibility under the scheme to ensure that your customers are getting the full benefit of the scheme that they're entitled to, and then for some clients that really can't cope with the administrative complexity of the scheme. Does that sort of cover the spectrum of reasons that customers would come to you, Steve?

MR HENTY (NSFT): That would be correct, although I would say the overarching reason that people use us is that much like most firms would not have their own tax accountant and they would outsource to Deloitte or KPMG, most firms won't have their own IT department unless they're huge. Farmers don't own their own trucks because it's more efficient. Basically because of our stats, because we process 100,000 claims, they see us more efficiently.

We have eight full-time equivalent staff that process 100,000 lines of claim a year. That alone equates - you know, if a business is employing someone even on a part-time basis at, say, data entry start levels of \$23 an hour, the efficiency you get by processing through an organisation like us means that cost reduction in doing it - even if they would choose to do it themselves, and I must admit there are a number of people that we have approached who already claim themselves and have just thought that much like any other of these non-core business operations, they have decided to outsource that function because it's cheaper and more efficient.

MS CHESTER: Sure.

MR HENTY (NSFT): There's certainly an aspect of claimants who would prefer us to assess the eligibility of their claims - and we don't assess eligibility, of course; the freight equalisation do that - but I wouldn't say that's because they can't do it. They just choose not to. If your predominant activity is providing metal fabrication and you get someone else to do your freight, someone else to do your tax and somebody else to move the goods, it makes perfect sense to get somebody else to get your benefits within terms of what you can get.

I must admit a lot of our customers that we approached particularly early on - and it's acknowledged in the Australian National Audit paper around a 17 per cent increase in claimants after we started assisting people with the southbound component particularly that they weren't aware that existed. That doesn't stem to the complexity of the scheme. That stems to the awareness of an existing - - -

MS CHESTER: And obviously a very valuable service to your customer base that you would help them to identify that. That raises just two thoughts. Firstly, we have had evidence from some participants where they get some of their claims through you and they do some of them themselves. Is that sort of like a northbound-southbound thing or is that just them maturing over time?

MR HENTY (NSFT): It can be northbound-southbound. It could be partial southbound because they already claim what they know and we have approached them and said, "There might be other things that you're eligible for," and they have said, "Yes, we know, but we don't see the value in it. The claim lines are too small." You know, there's a number of reasons but it wouldn't be many of our clients that choose not to use our services for them. It would be less than 5 per cent that utilise us for only one component.

MS CHESTER: It's fair to say that you have obviously played a very important role in terms of making sure that Tasmanian businesses that are eligible for the scheme as it's currently framed are getting their full entitlement. It's helpful for us to know whether or not there's any other low-hanging fruit, for want of a better description, in terms of are there other businesses out there that you feel you haven't tapped into yet that are eligible for the scheme, or do you feel - - -

MR HENTY (NSFT): That's a very difficult answer. We employ someone at extraordinarily expensive rates to go and find people so hopefully he is doing his job, but I don't think he comes across many people these days that have never heard of the scheme before, no, so I wouldn't suggest there are many claimants out there now in many industries or industry categories that don't know about the scheme. There would be small start-ups that may not know the ins and outs of the scheme but, you know, I wouldn't have thought there's a lot more than 1600 claimants available to

claim the scheme. I guess you could assess that against the number of businesses that are registered in Tasmania. There would be ways of finding that out.

MS CHESTER: Thank you. That's helpful. Then in terms of the line item, the threshold issue, it would be helpful if you could give some examples from your clients, without naming the clients, of where you have line items such that, you know, they're getting a \$1.92 subsidy benefit. What sort of northbound product are we looking at?

MR HENTY (NSFT): A good example is if you take, for example, a standard mail Australia Post box, which are prepaid \$20, which is, say, 40 centimetres by 20 centimetres by 30 centimetres, about that big. It will cost you \$20 and you will get 34 cents back. For that type of claim there's not a lot of - the cost of providing the information required would override the fact - the postage stamp would cost more than sending the claim down.

Certainly for people that are moving pallet size it's worthwhile, the standard sort of pallet space, depending on its height and depending on the type of product that is being sent, and of course it's quite complex in the Tasmanian market because we send such a variety and so the cost factors are very different, but if you take a standard sort of pallet moved from Hobart to Melbourne your price could be anywhere from 150 to 250 and the maximum you can get if you're fitting 20 pallets to a container is about \$55. That's certainly worthwhile for a claimant to be putting in.

We find that the TFES for less than a full container load can represent anywhere between 25 per cent and 40 per cent of your actual freight costs. This by no means - and as Neil pointed out in the previous presentation - offsets the disadvantage of putting that pallet on a flat tray and getting it 420 K's on the mainland, but it's certainly a big help to the smaller customers.

There's other sort of systems in the way that we pay for freight as well that also makes it difficult to say what size box does it come in. For example, steel comes in in a free into store basis. That's still eligible for freight equalisation but that will be huge invoice levels, for example, but only per tonne is the value of the freight.

Is the question how small does it get before it becomes ineligible? It's a difficult question and also if you have our systems where we try and be as efficient as we can and we can process a large number of claims quicker, then that offsets if you have got plenty of it.

MS CHESTER: It would be really helpful if you could give us - and it doesn't need to be today, but in the next 48 hours - some tangible examples of the sort of commodities that you're helping your clients arrange to ship northbound that would

be picked up but would no longer be eligible if we had the \$250 threshold, just so we can get - - -

MR HENTY (NSFT): Is that \$250 of freight? Is that the freight cost of \$250 or the rebate would be \$250?

MS CHESTER: Sorry, I think it's the line item cost.

MR QUINLIVAN: Yes.

MR HENTY (NSFT): So the freight task on the line would be if it was less than \$250. That would be a significant number of people, but I can give you some real numbers.

MR QUINLIVAN: When you spoke earlier on this you proposed a slightly different approach to this with consolidation of claims and so on. If you could give us that in writing as well, that would be very helpful.

MR HENTY (NSFT): Yes, certainly. I think we went into that type of thing in our original submission but, yes, certainly - - -

MR QUINLIVAN: You might have a look at what you have provided us previously and see whether you think it's sufficiently adequate in view of our treatment of it here in the draft.

MR HENTY (NSFT): Yes, okay.

MR QUINLIVAN: That would be helpful.

MS CHESTER: Turning then to your comments on the intermodal allowance and you made some suggestions that it was inappropriate and we have received some evidence from other claimants to suggest that was the case. Are you able to give us some definitive evidence on that based on your experience on behalf of your customers?

MR HENTY (NSFT): I guess the problem with having 300 clients is that it's different for everyone. That definitive evidence - for example, for the one example that I gave you there, the difference between putting it on a flat tray and getting it to Melbourne via one type of shipping where it's quite simplistic to move it back and forth, or having to containerise it - I mean, even using quite conservative numbers of \$2.50 a kilometre, having to drive it back from (indistinct) and into Launceston - you know, the doubling up of that road usage would be at least \$125, not to mention the fact that there would be a container component in there, the fact that it sits down in their yard for a while, that there's cross-docking because it's being moved off the flat

tray into a container.

The report outlines - and the BITRE report clearly - that it's actually incredibly difficult, so I think the best way to do it would be for shippers to provide examples of what they estimate. I know that Norske Skog made the comment that they think it's \$145 for them and they're not including their short-haul amount at the end of the run which they think is probably another 150 and that type of arrangement. It's a very difficult number to come up with and I wouldn't be able to give you any specific dollar figures because a lot of it - a great example is explosives.

It costs significantly more for a mining company to bring a container of explosives into Tasmania than it would be because you have to isolate that container. I don't know the bearings to it and there are people who know more about this than I do, but it's easy to isolate a container on one truck and drive it somewhere than it is to isolate a container on a vessel with 400 containers on it, so they pay quite extensive rates which are certainly not met by the freight equalisation or intermodal costs, for example. The numbers are various. It can be a thousand dollars for explosives as opposed to somebody who has quite a simplistic freight task.

MS CHESTER: Thank you for that. In terms of the parameters, the bureau's parameters, which haven't informed the rates of assistance in the scheme to date but it is one of our draft recommendations - and there are alternatives here that we have in our draft recommendations as you have noted. One of our other draft recommendations suggests that if the Government were to decide to retain the parameter basis for calculating the form of assistance under the scheme, the process involved in reviewing and coming up with that calculation would be more open and involve the participation of parties like yourselves. Does that address your concerns around the parameters going forward if that process were to be put in place?

MR HENTY (NSFT): It does. Our concern was that we felt that the parameters were incorrect perhaps in the BITRE report and that may have then flavoured the tone of the report. If you start a report with a set of numbers that say that we are significantly under-equalised, then that in itself will change the tone of how an entire Productivity Commission report might come out. Our issue wasn't around using those numbers. As we said, there should be a robust set of numbers that are transparent. People like Norske Skog did a lot of work in what they did around those numbers. It is open for Tasmanian freight costs. It should also include rail. It is 420 kilometres from Hobart to somewhere - to Albury. Without perishable goods you might choose to do that, so we figured that rail should factor in there somewhere, but certainly we would have no problem and we in fact encourage you to make those rates, so long as whatever comes out a significant number of claimants to the TFES aren't disadvantaged by whatever number comes out.

MS CHESTER: To be fair to the bureau, they have been very open and transparent

with their parameter reviews and calculations on a triennial basis. Just because it hasn't informed the rates of assistance, I don't think too many folk are focused on it.

MR HENTY (NSFT): No.

MS CHESTER: But it is now obviously up for focus and all we are suggesting is taking the openness and the transparency one step further and having a process wrapped around that. That involves participants like yourselves.

Turning then to your concerns around the flat rate of assistance options that we have recommended, we have heard comments like yourselves from some other parties. We have received anecdotal reporting and a suggestion, particularly given the limited competition with shipping across Bass Strait, that the way the scheme is currently designed doesn't create the right incentives to ensure that shippers are getting the lowest cost. That is not just their own incentives. It is also when you look at the incentive structure around the shipping lines themselves.

The commentary in our report does touch on this issue. When you have limited competition and only some providers and then you have a subsidy, there is an issue of the incidence of the subsidy and where that then falls. It was really that, coupled with - we have had a lot of feedback and evidence from participants that they still find the scheme and the parameters administratively complex. If we were assuming that we could get the right rate in the flat rate of assistance, what were the concerns which you have?

MR HENTY (NSFT): We don't agree with a flat rate because we don't think the disadvantage is fixed for every user. Every user is going to have a different disadvantage. If we were talking about parameters, for some of our clients you would have to include - the flat rate would have to be a thousand dollars more. We use an example where a number of years ago moving a container via the Port of Melbourne to Western Australia was on par with a Victorian firm doing so, even with TFES. Net of the TFES it is now a thousand dollars more. They are disadvantaged moving it that distance. Again looking at the cost of moving it - and they use a transshipment method; they use a new-fashioned ship to take it around to Fremantle - based on our calculations, there is still something going wrong there.

A flat rate, we believe, would be fine for large volume shippers that can negotiate the best rate. At the moment there are not many of our clients who have not already reached the cap of the TFES of \$855 and so for every dollar of extra freight rate, they are not being met; the disadvantage is not being met. We can't envisage a flat rate that would be fair to low volume shippers that wouldn't be paying for half of the high volume shippers' freight costs. That is why we have a large problem with flat rate incentives.

MS CHESTER: If I understand your concern, it is more about a potential generic disparity, noting that low volume shippers can't negotiate the great rates that high volume shippers can negotiate which isn't addressed if you have a single flat rate; but you are not suggesting that we are seeking through the scheme to offset the individual freight cost disadvantage for every individual business that is claiming under the scheme, given I think that we kind of all accept that that is intrinsically difficult.

MR HENTY (NSFT): Don't we already do that with the scaled version?

MS CHESTER: I think we are trying to come up with a notional freight cost disadvantage which on average, given the cost for that individual shipper, would offset - but I think we all agree, and certainly all the submissions overwhelmingly agree on one point: they feel they are not being compensated for their actual freight cost disadvantage today. If we are in the world of averages - and just stepping back for a moment, is your primary concern the distinction between the high volume and the low volume shippers having a flat rate of assistance?

MR HENTY (NSFT): Our concerns with a flat rate are all the concerns I raised previously. It doesn't change incentives to find better shipping rates. It significantly benefits high volume shippers over low volume shippers. A scaled scheme that addresses the fact that there is a different disadvantage for every type of shipper is a more appropriate scheme, we feel, than having a flat rate. We don't actually think it is going to reduce any complexities. That comes up quite a bit, that with a flat rate of assistance, complexities will be reduced. To whom? We ask that question.

At the moment every time you submit a claim, you don't care about the parameters. You write down who your freight provider was, the information on the freight invoice and how much you paid for that freight. You then submit it to the TFES who put those details into a computer. It provides them a number. Those complexities around the parameters, I would argue, don't factor into most people's claiming of the TFES. By making it a flat rate, you still have to provide some sort of information that you shipped it from point A to point B and how much it was. You would still have to indicate whether it was a full or a not full container.

There would still have to be therefore a breakdown of the cubics and the weight of that container, so you are still essentially putting the same amount of information on a claim with the same amount of supporting documentation, particularly northbound, so you are not making the claim process any less complex. The complexity that gets talked about around the parameters and finding the median cost disadvantage and all of those factors applies to the Government and the economists who will come up with that rate, so we don't see that complexity - I mean, we have a department that is coming up with mean freight rates and shipping rates and all those things. The complexity lies with them. It doesn't lie with the

average person who is attempting to get a freight rate subsidy or freight rate assistance or disadvantage alleviated. We don't think a flat rate actually does anything to address complexity in the scheme.

Likewise on the southbound component all you are doing is doing the same thing. You are saying that the rate is the same. As this document hasn't addressed, you still are being assessed under an ANZSIC code. You still need to provide some evidence of where it came from, where it went to and how big it was because it might not be a full container load. The actual claims process for the average shipper, particularly on the northbound, isn't as complex as I think the BITRE report makes out. It is the parameters that people find confusing but that doesn't stop someone from putting a claim in. I don't think a fixed rate addresses that.

MS CHESTER: Coming back to perhaps that is the primary motivation in our thinking for a flat rate of assistance, and it is this incentive at the margins, let me just talk you through what our thinking is there. We have had some feedback and anecdotal reporting on this from other participants. If a participant is below the current cap of assistance and if the shipping line ups their rate by \$20 a tonne, at the moment they're not really incentivised to get that shipping rate back down again because effectively that difference will be met by the subsidy just going up, so - - -

MR HENTY (NSFT): In that scenario, though, I would argue that if your assistance, particularly now with freight rates - you know, we saw them go up 15 per cent for a lot of our customers last year. If your assistance is below the cap, then you've got some negotiation that you can do. If your assistance is above the cap, then offering a flat rate doesn't provide you any more incentive to - you have already got the incentive to change if your freight rates go up by \$20. You're already capped out and so instead of having - that might be a 3 per cent on mill increase. It turns out to be a 7 per cent increase because there's no longer a disadvantage alleviated and so you're still going to shop out.

Competition in our market - whilst it is restrained there is a little bit of competition and we do see evidence of claimants even at their capped rate and below the capped rate looking between whenever the negotiations come in to change their rate by a little bit. We don't have any real life experience of a customer of ours that is below the capped rate saying, "The freight rate has gone up. We will just wear it because the TFES will fix that." It doesn't offset the cost because it already doesn't offset the actual disadvantage so they're still going to say, "You're putting my freight rates up. Well, I'll tender out or I'll quote out."

I would suggest that the people that aren't at their capped rate still have that ability and still have that business motivation because it doesn't alleviate the full disadvantage so you're still paying more even though your TFES is going up a little bit. It's only offsetting a third of your freight cost so you have still got another two-

thirds of it to be arguing to say, "Why is the freight going up? I might go and look elsewhere for competition."

MS CHESTER: I think where we're coming from and our thinking is informed by doing the analysis at the margin, so if you have someone today who is below the cap, the rate goes up \$20 per tonne, the calculation if they're below the cap would then just go up \$20 per tonne, so it's just the incentive at the margin is what's informing our calculation, our view of this. It would be helpful then to understand of your customer base at the moment, Steve, what percentage both in terms of revenue and number are below the cap.

MR HENTY (NSFT): Well, capped out on an LCL basis - we don't deal with - our 300 clients don't move full container loads so we don't see - you know, we see partial for small amounts and it's not even pallet loads so you can't even times it by an amount to get whatever that full container rate would be, so it's very difficult but I can say that at least 250 clients of ours are well above the cap - small shippers, the small people that move the - do less frequent movements.

It's very difficult to say how many people without actually, I guess, providing commercial in confidence information about what we do because much like most businesses in Tasmania, most people know who we deal with and so if we start saying, "Well, this percentage of people" - I mean, we could probably provide you that information in a more confidential setting but I wouldn't be comfortable talking about the percentage of our clients and a percentage of revenue of people that are below and above the 855.

MS CHESTER: Thank you. We're more than happy to receive the information on that basis so thank you for your help there. One of the quotes in your submission that we did appreciate was that shippers must be able to choose the preferred carrier. If we just turn then to the issue of the needs of your client that are international exporters, it would be good if you could sort of elaborate on the thinking behind that statement and then we thought it would be worthwhile talking a little bit more now about international shipping services in Tasmania.

MR HENTY (NSFT): Sure. You don't happen to have more context around that comment that I made?

MS CHESTER: That's all I wrote down late last night when I was reading it again.

MR HENTY (NSFT): Thanks.

MS CHESTER: No, that's okay. Just at a high level your views in terms of the needs of your customers in terms of accessing preferred shipping lines and services.

MR HENTY (NSFT): Sure. As we deal with predominantly domestic shipping because we deal with goods that are currently eligible under the Freight Equalisation Scheme, it's difficult to comment on what the export needs are for the clients that we know that export. A lot of that information is quarantined for us - you know, where we charge a fee for processing invoices that gain them no freight advantage and so they see no benefit out of providing those invoices to us, so it's difficult.

In regards to the context of - unless Brian can remember what we were talking about in regards to shippers should be able to choose their own shippers. I'm assuming that I was talking in regards to competition and the complexity of the market that we have; for example, to do with some shippers must use the TT-Line because of the restraints on time, other shippers have got the benefit of being able to choose whatever shipping provider they want, but I guess without knowing the context I can't give more information so it's probably just as easy to move onto export shipping (indistinct).

MS CHESTER: Assuming that some of your current clients are shipping to the mainland for domestic consumption but also some of their products are going offshore, so we thought you might have a sense of their international shipping needs as well, but why don't we move to that part then.

MR HENTY (NSFT): Yes, sure, and again as we currently deal with what is eligible for them for most of our clients, we're quarantined for seeing what their export reliance is. They would have two accounts for their freight forwarder, for example. One would be one for their domestic only or domestic and split shipping, and one would be for 100 per cent exports so we don't see those.

That being said, we could probably provide some information at a later date because we have assisted - what we do outside of just claiming - we have assisted one of our clients in regards to the Government's assistance, the \$20 million export assistance package. We helped one of our clients in regards to that so we might be able to provide some information around what we saw there.

What I can say with one of our clients that I was mentioning in regards to split shipments where none of the freight is eligible even though some would be domestic, I would assess that they're missing out on probably \$10,000 a month at this stage of actual claims. If it was half that, then be extending it to exports it would be 10,000. Again it's difficult and without giving away too much commercial in confidence information and without knowing - you know, with a number of customers I don't spend a lot of time counting how many containers they move. I just help them with their freight administration. We could find some of that information out quite quickly through our systems but I couldn't provide it today.

MS CHESTER: That would be very helpful and we are very happy to take - and I

do appreciate that that information would be commercially sensitive. What we're trying to get a handle on is of your existing customer base, if we were to extend the scheme to exports what you would see as the increase in volumes for existing customers, but then also - having such a good business model, I'm sure you have got in mind other customers out there that currently aren't eligible given their primary focus might be exporting that could be customers of yours in the near future if we were to extend the scheme.

MR HENTY (NSFT): That could well be. However, at this stage since it's not on our focus, it's in a long-term business plan and transition is never quickly, so we will come to that when we see it. I can think of a handful of customers but I don't know what their volumes are.

MS CHESTER: Okay.

MR HENTY (NSFT): I know that there's plenty of agriculture in Tasmania that 95 per cent of what they do is export, but I don't know whether they send 300 containers a week or one container a week so I can't give you volumes, not until we have knocked on their door and said, "Would you like some assistance?"

MS CHESTER: All right, but anything you can give us on your current customer client base would be very much appreciated. I think that sort of covers the questions that we were hoping to run through with you with afternoon. Are there any other comments that you would like to make?

MR HENTY (NSFT): I guess a couple of comments. Regardless of how easy or complex the scheme, businesses are always going to look to outsource non core administration functions if they can see cost savings, greater efficiency and benefits in doing so, and so - and I make that comment in relation to - our name comes up in a number of submissions that are made around, you know, whether we're providing a necessary service or there's a leakage to the TFES to us. In saying that, I would say 100 per cent of the TFES that we generate goes to our clients. We don't claim, we claim on behalf of our clients; so on that basis I will leave it at that.

We would also like to congratulate the Commission on an extremely extensive body of work. Whilst we only focused on what issues we had, the recommendations that we had issues with. There are a number of recommendations that we wholeheartedly support. Without reading through them, they are 1, 6, 7, 9, 10, 14, 15 and 16.

MS CHESTER: Thank you, and we do appreciate your succinct presentation.

MR HENTY (NSFT): Thanks very much. Thank you.

MS CHESTER: I would like to welcome our next participant joining us from the Launceston Chamber of Commerce, Maree Tetlow. Thank you very much for coming this afternoon and for joining us - - -

MS TETLOW (LCOC): Thank you for the opportunity.

MS CHESTER: - - - and for the submission you provided after our draft report. I much appreciate that. If you wouldn't mind just initially stating for the record your name, title and the organisation you are representing.

MS TETLOW (LCOC): Thank you. Maree Tetlow, executive officer of the Launceston Chamber of Commerce.

MS CHESTER: Maree, did you want to make some opening comments to begin with?

MS TETLOW (LCOC): Yes, I think I would like to do so. Thank you. I just thought I'd just give you a bit of an outline of what the chamber is about. The Launceston Chamber of Commerce is an incorporated association that represents about 230 businesses in northern Tasmania, so we look after Launceston and most of the Tamar Valley, and even up to Scottsdale; so it's more of a northern Tasmania focus.

Our businesses are small businesses through to larger businesses in industry and manufacturing, so we have a wide variety of different sectors located in the Launceston central area, but we do have some bigger players at Bell Bay, at Westbury with Tas Alkaloids and those sort of businesses, so fairly broad.

I thought it might be just useful if I could, because we do represent northern Tasmania, all of Tasmania is not the same in regard to - and I suppose that's our agenda. I would like to present to you just a little bit of some of the differences that are occurring in northern Tasmania. Last year there was some work done by our council with Remplan, who are an organisation based interstate, on some industry sector performance here in northern Tasmania, considering the 2006 census versus the 2011 census.

I thought I would just quickly outline what that told us, and that was that between 2006 and 2011, which were those two points in time, northern Tasmania wages decreased by nearly \$100 million. That was based on 08, 09 prices, so that there was comparability between the two figures. In addition to that, the industry sector, the value add of industry sector's declined between those two years by 116 million.

In addition, I thought it would be interesting also just to highlight that regional

exports, for example in manufacturing, decreased by 300 million. Obviously, there are aspects that relate to things beyond freight that are the reasons for this, but it has come to our notice that - an important underpinning was, if you like, that the loss of the AAA ship, the export ship, and also business confidence that went with that, and then of course there has been a lot of other factors, including forestry, et cetera, that I'm sure you are aware of.

Just to give you another outline of the differences, we just recently did some analysis of the labour force data, comparing northern Tasmania with southern Tasmania, including Hobart. The reason we do this is a lot of our politicians and policy makers are based in Hobart. There's a large bureaucracy that's housed in Hobart. Launceston tends to be, as is the rest of regional Tasmania, commercially focused, private sector focused. To give you an example, total employment numbers between 2012 and 2013, Hobart lost 2700 jobs during that 12-month period, or employed people, versus northern Tasmania that lost 4200 jobs. We are a smaller community, take that into account, and that number would be very reflective of what the north west has experienced as well.

Unemployed people, the greatest jump in unemployment occurred in Hobart in 2010/11, but Hobart's unemployment is now decreasing, whilst northern Tasmania experienced its worst increase in the past 12 months, so we are sort of still accelerating, if you like, this current issue that we have. Over the past three years, Hobart lost 11 hundred jobs, while northern Tasmania lost 15 hundred jobs, again from a smaller base of population. I think that's the main comment I just wanted to make, just to show this focus, the differences there.

As a result, my chamber and my board have taken a very active interest in the freight issue, because we see it as being one of their underlying fundamentals that are right, which impacts on business confidence and impacts on future business investment. Our argument is there is a lot of technical focus on volumes in and out and so forth. Unfortunately, what is very difficult to determine is what forecast of future potential and what investment opportunity lost we are currently experiencing. I think our friend earlier today indicated how he had moved his business from that export opportunity to interstate. If you are able to measure that on a broader basis, I'm sure we will find a lot of that, as well as new investment opportunities, particularly around agri-business.

As a result, the chamber developed a position about - our first priority was about reducing export freight charges and time to market, which I think is another important aspect that has been already raised, with regular frequency to and from Bell Bay that would link with major international shipping lines. We have been fairly careful not to harp on the Port of Melbourne. Obviously, Melbourne is an ideal location because of its vicinity to us. However, there has been various stakeholders, or one in particular, that has come to us with an opportunity to look at another east

coast port as a port of transmodal sort of shipping, so to change their - for an international feeder to then feed onto international shipping lines. Also, I suppose, our focus being on it's hard to choose when as in regard to an international shipping, one international shipping line, and how do we capture the opportunity, which AAA did, obviously to a large extent, where you had at least three companies that were cooperating with that feeder. Obviously, having a feeder like that would be to the benefit of exporters, because you could consolidate more of the freight volumes.

The other aspect to our objective is ensuring competitive interstate domestic freight charges from Launceston, which I guess is quite evident. In regard to our specific draft recommendations, I would just like to highlight what the key aspects of that are. The coastal shipping regulation, in particular, we were interested in, that to us - we had specific information that part of the AAA's decision was to do with the change of that law, or that's what we were advised, the regulations around the coastal shipping; so we very much support what you are suggesting, and the quicker that could happen, the better, and even if Tasmania is considered as an isolated case for testing anything that could come up in the future.

In regard to the TFES, we don't pretend to understand all the technicalities of that. I guess from our point of view we're looking for this underlying fundamental issue to be addressed in the most simple and transparent way so that it allows business to invest and understand the rules and not have them change constantly, and allow them to get on and do that.

We fully understand that there's comments made about potentially the TFES is not necessarily the best way of promoting Tasmanian economic development and sometimes it does have unintended consequences and I think you point that out in your report, but from a pure business promotional point of view - and business confidence, which is one of the key issues that we're addressing at the moment. Surveys of our members indicate business confidence is one of the top priority issues - is just having transparency around that and understanding that so they can make their investments accordingly. If that fundamental is addressed, then I think a lot of the other problems that we have will improve over time.

Finally, just on improving the competitiveness of Tasmanian freight, you raised a very interesting point that I guess we have been struggling with and that is the future of Bell Bay Port - in the past where it has been quite effective and what it has provided to our local businesses and businesses of Northern Tasmania in particular, the export facility that it did provide.

I suppose what has frustrated us is that we understand there's a special volume discount that was offered and Tasports inherited that from Burnie Port and there is a sense that - and we have no evidence of this, but that arrangement - it has got another 10 years to run and we understand, you know, there probably is cross-subsidisation

of ports. I have one board member who used to be on the Port of Launceston board and she informs me that the Bell Bay Port operated profitably.

Obviously profits were determined on how much debt or how much you're including in your balance sheet, but we are frustrated by the fact that it's not clear what is going to happen to Bell Bay Port. The fact that it's disadvantaging - or the fact that there's not really an attractive option for potential vessels in there at the moment, or someone doing a lot of work in that area, and we would be very interested in investigating and potentially assisting privatisation of Bell Bay Port if there was some opportunity for a public-private partnership type arrangement. We would at least like to investigate that as an opportunity because, like I say, at this point there's this sense of cross-subsidisation to the disadvantage to our businesses in this region. That's my comment, thank you.

MS CHESTER: Thank you very much for those opening remarks. Just a couple of follow-up questions if I may. As you have noted in your submission, our draft report does question whether schemes like the TFES are best in terms of meaningfully impacting the overall competitiveness of the Tasmanian economy, and that's not to detract from the scheme's importance to its current recipients because it is offsetting the freight cost disadvantage and nobody is disputing that. It's just a lot of the focus has been on the schemes and their design and some could suggest, as some indeed have, that has been at the expense of broader reform and other policy levers being used to result in a more fundamental improvement of the competitiveness of the Tasmanian economy.

Indeed there has been quite a bit of international work and case studies by the OECD that suggest that policies that are just targeted at a cost disadvantage as opposed to policies that might be targeted at overall improvement of the competitiveness of economy (indistinct) to the latter is preferred. So it would be good to get your views and your thoughts. If we just step away from the schemes for a moment and just think about some of the broader policy levers either at the federal or the state level that could from your experience benefit or improve the competitiveness of the Tasmanian or the North Tasmanian economy.

MS TETLOW (LCOC): I suppose, you know, we're involved in various economic development groups and reference groups so I get exposure to a lot of what has been developed with the Northern Tasmanian business community and, look, a lot of those industry sectors and everything else that have been identified - they're the future, you know, whether it be agribusiness and the redevelopment of forestry at some point, et cetera. So I think a lot of those areas have been addressed.

I think it's more that whether it's a subsidy or whatever it is - and I suppose it gets into technical terminology there, but looking for future investment in those sectors in particular are looking to reduce the impost or at least have clearly

understood what the freight issues are. I mean, agribusiness is a prime example of that where obviously some of it is quite high volume. Hopefully in the future there will be more value-adding to that, but at some point we're going to have to get it off the island.

So I understand what you're saying about, "Well, isn't there other levers that you could improve the economy with," but then the other alternative to that is, well, if we could just ensure that the playing field is as level as it could be. We're just really happy to let the business community get on and do the business in their own way and there's no point - innovation is considered to be quite high in the Tasmanian private sector so I have no doubt that they will pick up where those opportunities lie assuming that they're working in a fairly level playing field, which is a bad cliché, I know.

MS CHESTER: No, no. We have had a lot of evidence from parties that have presented to us that demonstrated the nimbleness and innovativeness of the trade-exposed sector of the Tasmanian economy.

MR QUINLIVAN: I guess that's partly what you were getting at earlier when you were describing the differences between the northern and the southern economy and the prevalence of the public sector in the two. That's the point you were making?

MS TETLOW (LCOC): Yes, absolutely, and what we're looking for is further investment. Some of it will be about expansion of our current business sector and they're ready to do that under the right circumstances, but it's also about importing new investment and the reality is, you know, decisions are made all the time based on - you know, located-based, so they're looking at somewhere in Bairnsdale or wherever it might be and Tasmania and if we're in a position where, "Oh, plus add another 20 per cent," whatever the cost is of depending on what we're talking about, then we're going to be disadvantaged and we can have as much economic policy initiatives as we like, but that's a fundamental that needs to be considered because we are part of the same county and we will be considered in that location-specific comparison.

MS CHESTER: One of the levers that we did point to and made a draft recommendation on - and thank you for your feedback on it in relation to expediting the Government's foreshadowed review of coastal shipping regulations, which does then segue into the issue of a regular international container shipping service returning to Tasmania.

We have heard some evidence this morning from some of the larger business members of your community that they have had some discussions with international shipping lines to suggest that if there was meaningful progress on reforms of coastal shipping regulations as they currently stand, then that would increase the prospect of

a regular international shipping line service returning to Tasmania, which leads me to my next question - just to ask, has your chamber had any involvement in the Tasmanian Exporters Group, which we understand represents Northern Tasmania, with respect to the mooted option of a once every 18 days service from Swire Shipping out of Bell Bay and the assistance that would be required for that? Is that something that your chamber has been involved in?

MS TETLOW (LCOC): Not specifically with the Exporters Group. We tend to focus specifically on our membership and those we have interacted with. Obviously we have looked at and considered and spoken to stakeholders around what we would need for an export service and I suppose my comment would be there will be pros and cons to choosing one or having one shipping line versus, like I said, like a AAA where it was a cooperative or an international feeder line. I am aware of one stakeholder that we were in discussion with who was looking at establishing an international feeder that would then feed in to eight or nine different shipping lines. It is just I suppose not nervousness, but just take into account that one shipping line will only supply certain aspects of the market, whilst potentially if, for example, Government were to go to tender, then at least you would be able to assess the level of potential distribution to other international shipping lines and how that might be done.

MS CHESTER: You raise a very fundamental point there; that is, for container services to resume with Tasmania we would all welcome but when it gets to an issue of providing transitional assistance in the order of magnitude that is being suggested, \$33 million, and then providing a service that doesn't address all of the needs of Tasmania exporters, that could be at the expense of those exporters getting assistance under the TFES if it were to be extended. It is balancing those needs and interests, but do you have a sense from your membership about the range of their needs in terms of an international regular shipping service, Maree?

MS TETLOW (LCC): Not in regard to volume. We have sort of spoken to honey producer, for example, so we do provide certificates of origin for exporters through our chamber. We do deal with honey producers, usually not huge quantities, but they are exporting the product. I know increases in their containers went up significantly, which you have already heard through evidence. I am aware of the honey exporters, who would be fairly small producers, if you like - quantities.

MS CHESTER: But in terms of, say, the broader discussions across your membership, if an international shipping service were to resume, how frequently would they need that service to be? Do you have a sense of the range?

MS TETLOW (LCC): I get a sense that weekly would be fantastic but potentially may not be sustainable. As far as the volumes, I couldn't say because it is sort of a volume-driven issue but there is a time to market issue, isn't there? I would imagine

that will be more sensitive as we move forward, if we are able to value-add more in the future. It is just something that we have to weigh up - but fortnightly or weekly I think seems to be the area that people seem to be landing on.

MS CHESTER: Thank you for that. That is helpful. We didn't have any other questions. Thank you very much for appearing this afternoon. Are there any other comments you want to make on behalf of - - -

MS TETLOW (LCC): No, not at all. Thank you for your time.

MS CHESTER: Thank you for coming.

MS CHESTER: Ladies and gentlemen, that concludes the official component of our proceedings today but I am happy to open it up if there is anybody else here who would like to make a short, informal presentation. We are happy to - - -

MR CHARLTON (AL): Can I make a couple of comments?

MS CHESTER: Yes, if you wouldn't mind just joining us at the table. Thank you. If you would mind just for the record stating your name, title and the organisation you are representing.

MR CHARLTON (AL): Yes. My name is Brett Charlton. I am the general manager for Tasmania for Agility Logistics which is an international freight company. We have over 550 offices around the world - a multinational. We look after import and export movements in the agricultural and manufacturing division. We also do customs clearance. We have a Launceston office and a Hobart office.

I have a couple of little comments from just what I have been hearing. I should have made a submission but time hasn't been able to do this. I have also sat in the past on the Tasmanian Freight Logistics Council. I also write an article in the Tasmanian Business Review - sorry; a monthly report. There is some commentary in that that says my views on international shipping.

I haven't heard this said in any depth so I would just like to quickly state about the AAA Service that was here in the past. That comprised four shipping lines which were AACL, PIL, NRL and NISC who are no longer down here any more. Those shipping lines gave a capacity for Tasmanian exporters to reach the entire world, with the exception of New Zealand. At the time we had direct shipping lines, be it MSC or ANL on various occasions, that also called in to Tasmania that allowed us to access that market as well.

We also had to do some shipping over Melbourne outside of that regular weekly service. What we are talking about now with no international ships calling in to Tasmania and looking to try and entice a new international ship - and the word "Swire" has been mentioned a few times. We use that service. We know them well. We speak to them regularly.

One thing that I would like to raise, just as a flag, is that if we are going to be enticing an international ship here, it is going to help some people but it is not going to be able to help everybody with their international shipping. I believe that we have to also recognise that there may be a detrimental effect in bringing an international ship. I don't want this to be a negative comment but it is just something that is in my periphery vision. If you have a ship that is coming in here and is going to be taking the majority of the volume on an 18-day service from here through to Asia, and then you have other shipping lines that are currently servicing this state via Melbourne,

the viability of those shipping lines to service Tasmania with their equipment and their container flows may be detrimentally affected in my opinion. That is one thing I wanted to raise.

MR QUINLIVAN: Could you just be a little bit more - what kind of services are you talking about there? Are you talking about the main service providers or - - -

MR CHARLTON (AL): I will give an example. It is a hypothetical example. Say Swires managed to bring a vessel in here on an 18-day service which comes in every 18 days and they pick up Rio and they pick up the majority of containers that are going out of here to their Pacific regions but they are not transshipping through to Europe or through to America. There is a balance down here in Tasmania where you have equipment coming in and going out. If those particular shipping lines have that proportion of trade that is already shared going via Melbourne at the moment or in a triple A model - and this is my other point: the models we have been hearing about haven't been a shared service; they haven't been a triple A model. They have been one specific shipping line with either a point to point or a possible transshipment service in a location. I have heard Singapore mentioned but I haven't seen Singapore as a model yet.

I guess if we have one shipping line taking a big chunk of that freight out and then we have other shipping lines that are currently based here with some of that market share already, the viability of those shipping lines staying here may not be something that they would consider and they may pull out of the Tasmanian market. If that direct shipping in the future failed or if the subsidy was after three years taken out and the volumes weren't reached, then we may be in a position where we are back to a worse position where we don't have this number of shipping lines that are currently servicing Tasmania. I can count on one hand the shipping lines that we can use.

MR QUINLIVAN: The shipping companies you are talking about are currently using the Toll and SeaRoad services to Melbourne and then their own services beyond there.

MR CHARLTON (AL): This is correct.

MR QUINLIVAN: That is what you are talking about.

MR CHARLTON (AL): Yes. We really only have a very small circle of shipping lines that are down here that we can use. There are shipping lines that say they can service Tasmania but when you look at their costing model, the costs to reposition the equipment down here are significantly higher than some of the other shipping lines. Some of the shipping lines that currently do service here do have a component where they have a repositioning fee of their containers here.

I do have a second point which segues nicely into that actually. I haven't heard it said today; it may have been said in Hobart and it may be in some of your submissions. I must admit I haven't read them all. There is a strange equipment imbalance here in Tasmania. We tend to be a 40-foot heavy importing state; some would say 40-foot container equipment coming inwards. A lot of our equipment that comes into this state is 40-foot containers, whereas a lot of the export goods are heavy and are 20-foot containers. Again we have always got the problem of trying to find the right balance of equipment. We see 40 foot as being repositioned empty back out of here, where we see 20-foot containers being repositioned empty in here. I am sure you would have seen that in your statistics. That is just something I haven't heard today. From my own viewpoint as an international logistics provider here in Tasmania, those are two things that I just wanted to say that I thought had some importance.

MS CHESTER: Thank you very much. This highlights that it is good to open it to the floor to see if there are some folk like yourself who haven't had time to put in a formal submission but clearly have experience and expertise in the sector. The issues that you raise are very important in terms of what are the flow-on impacts of providing assistance to a single international shipping line service coming in to Bell Bay and how does that flow on to other exporters who aren't able to use that service and the competitiveness of the whole Bass Strait shipping equation. We do need to think those issues through in our final report.

Given that you obviously have a breadth of understanding of the Tasmanian freight task, do you have a sense of - we have had different numbers bandied around about what the international containerised component is across the Bass Strait. We have had numbers. I think one number bandied around is around 37,000 TEU but we have had others suggest that the number could be higher. Do you have a sense of what the volumes of international container trade are in and out of Tasmania?

MR CHARLTON (AL): I wish. In fact I can tell you that about eight years ago with the Department of Foreign Affairs down here the then director came to us and asked us, "Is there anything we can do to help in Tasmania?" The then director Phillip - I can't pronounce his last name. We said to him that we cannot get a grip on the export statistics in Tasmania. We are not quite sure what is being reported out of Melbourne and what has been reported here as the export trade predominantly, the export and import trade. We had round tables. We had the Bureau of Statistics fly down from Canberra. We had DFAT. We had Economic Development and Austrade. We had Tasmanian Ports, customs, quarantine and a plethora of others.

I reckon we had about five or six round tables and at the end of it everyone went, "Don't know". I still could not to this day - and would wish to have accurate reporting figures so I can generate more investment into this state definitely. No, I

wouldn't give you a figure. Sorry.

MS CHESTER: Thank you. I just thought I would ask. Thank you very much.

MR CHARLTON (AL): Thank you for hearing me.

MS CHESTER: Ladies and gentlemen, we will now adjourn our hearings for this afternoon and we will resume tomorrow morning. Thank you very much.

AT 4.52 PM THE INQUIRY WAS ADJOURNED UNTIL
FRIDAY, 7 FEBRUARY 2014