



Australian Government
Productivity Commission

PRODUCTIVITY COMMISSION

INQUIRY INTO TASMANIAN SHIPPING AND FREIGHT

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

TRANSCRIPT OF PROCEEDINGS

AT CANBERRA ON MONDAY, 10 FEBRUARY 2014

Continued from 7/2/14 in Launceston

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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 the head of office of the Productivity Commission.

At the outset, and for the record, I would like to thank the inquiry participants for both the timeliness and the overall quality of the submissions that we have received, which number about 61 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 which was released on 24 January.

We commenced our public hearings last Monday in Melbourne, followed by two days of public hearings in Hobart and then another two days of public hearings in Launceston. Today is our final day of public hearings here in Canberra. We will then be working towards completing a final report to Government to be delivered by 7 March, having considered all the evidence presented at the hearings and in submissions as well as other informal discussions and evidence that we receive. The final report will be available once released by Government which may be up to 25 parliamentary sitting days after completion.

We like to conduct our hearings in a reasonably informal manner but I do remind participants that a full transcript is being taken and for this reason comments cannot be taken from the floor, but at the end of today's proceedings I will provide an opportunity for any interested persons wishing to make a brief presentation to do so.

Participants are not required to take an oath but should be truthful in their remarks and participants are welcome to comment on the submissions or evidence from other parties. The transcript will be made available to participants and will be available from the commission's web site following the hearings. Public submissions, as many of you would be aware, are already available on our web site and subsequent submissions that we receive and have received will be made available on our web site as well.

To comply with the requirements of Commonwealth Occupational Health and Safety legislation and a little bit of commonsense, you are advised that in the unlikely event of an emergency requiring the evacuation of this building you should follow the green exit signs to the nearest stairwell. Lifts are not to be used, and please follow the instructions of floor wardens at all times. If you believe you are unable to walk down the stairs, it is important that you advise the wardens who will make alternative arrangements for you. That covers the logistics for today's hearing.

I would now like to welcome to the hearings our first participants this morning who are representatives from the Department of Infrastructure and Regional Development and the Bureau of Infrastructure, Transport and Regional Economics. Welcome. Thank you for the very considered and comprehensive submission that we did receive from the department, with input from the bureau. If you could just each state your name, title and organisation you're representing for our transcript recorder.

DR DOLMAN (BITRE): Dr Gary Dolman. I am the head of bureau from the Bureau of Infrastructure, Transport and Regional Economics within the Department of Infrastructure and Regional Development.

MS ZIELKE (DIRD): Judy Zielke, executive director of surface transport policy within the Department of Infrastructure and Regional Development.

MR JAMES (DIRD): Marcus James, general manager of the road safety and transport access branch in the Department of Infrastructure and Regional Development.

MR RISBEY (BITRE): And Tim Risbey. I am research manager in the Bureau of Infrastructure, Transport and Regional Economics.

MS CHESTER: Thank you very much. Just to let you know, the microphones that we have here are for the benefit of our transcript recording but aren't for the benefit of the rest of the audience, so if people could just keep that in mind when they are speaking. First off, I would like to open it up to any opening remarks you may have or comments on our draft report before we head into some questions.

MS ZIELKE (DIRD): Thanks. We have acknowledged that we are both here from the surface transport policy division that has policy responsibility for the programs, as well as BITRE in that regard. The department's submission is what I would like to cover and some of the responses in relation to what we have seen in the draft report so far.

Our submission provides an outline of our role in the administration of Tasmanian transport schemes, in addition to some more general information on Tasmanian shipping arrangements and the 2012 coastal shipping regulatory changes. The submission provides a policy history of each of the schemes which demonstrates how they have evolved over the decade since their initiation, noting that a version of the wheat scheme has been in place since 1959.

Policy developments over the years are well covered in the submission but I will talk about the role and the administration of the current schemes. For most of their existence, the policy responsibility and administration of the schemes has rested

with the infrastructure and regional development portfolios. The three schemes are not based on legislation but are administered through ministerial directions specific to each scheme.

The department is able to make minor changes to the ministerial directions. However, major amendments must be referred to the minister for consideration. The day-to-day administration of the schemes is run by the Department of Human Services under a head of agreement with our department.

Our submission details a number of recent inquiries and reviews held into the operation of the schemes including the 2006 Productivity Commission review. The terms of this inquiry though go beyond an examination of the schemes to cover broader shipping and freight issues.

The draft report identifies freight disadvantage as one of a number of economic and social challenges being faced by Tasmania. It also makes the suggestion that Tasmania's issues could be best addressed through an integrated economic development strategy. However, the Government has committed to continuing to support the schemes. Our submission raises issues regarding the complexity of the administration of TFES and the potential this provides for administrative errors, perverse incentives and additional cost to claimants. I note, therefore, that the report identifies some deficiencies in the design and operation of the schemes and offers some recommendations to address them.

We recognise that any changes to the scheme are likely to impact on Tasmania businesses and the department will give careful consideration to this in providing advice to Government in response to those recommendations. We have examined the proposal raised in the inquiry and in the 2006 PC review that the introduction of a flat rate of assistance may reduce administrative complexity and provide a better incentive structure for the shippers to seek out the best shipping rates.

We do note though that further work would be required to find a level of support that achieves these aims while still providing reasonable assistance to most shippers. We also consider that the simplification of the ministerial directions would serve to reduce uncertainty amongst claimants and clarify eligibility to reduce the number of requests for review, saving shippers and DHS significant time..

Another issue considered in our submission is the presence of third party brokers as a party to claims made through TFES. The southbound component of the scheme can be accessed through registered agents. However, claimants of northbound assistance do not have access to registered agents. Third party brokers have emerged to fulfil this role, as well as providing assistance with some of the more complex southbound claims.

There appears to be a genuine demand for the services provided by these third party brokers and this may be in part due to the complexity of the schemes. However, it is of concern that the benefits of the scheme may be being diluted by the need for companies to pay for such services. The department also considers that reducing complexity would lessen the need for such services and ensure that the benefits are flown directly to Tasmanian businesses producing goods for shipment.

We see merit in the Productivity Commission's submission of a more open process during the parameter review to be conducted by BITRE. However, we question I suppose anything other than a comfort level and information level that actually comes out of being involved.

In relation to Australia's coastal shipping regime, the department is not aware of any strong evidence linking the 2012 coastal trading legislation with increased freight costs, but we do recognise that Australian flagged ships are faced with a more expensive cost structure than foreign flagged counterparts, primarily due to higher wage rates, insurance costs and fuel prices. That is my opening statement and I am happy to take any questions that the PC has.

MS CHESTER: Thank you very much. That is very helpful. Perhaps if we turn first to one of the broader issues. As you intimated, our scope and terms of inquiry are much broader than just a focus on the schemes themselves. If we look at the competitiveness of Bass Strait shipping, it would be good to get your views on evidence that the department is aware of movement in the costs of Bass Strait shipping pre and post the AAA service being available and following the legislative changes in 2009 and 2012. If you want to sort of give us your sense of the competitiveness of Bass Strait shipping more broadly - - -

DR DOLMAN (DIRD): I'm not sure that we have actually got a huge amount to add there. We haven't got data. The problem with all of the information that we have on freight rates is getting accurate data. We rely heavily for our parameter review on data that comes from the claims from the scheme, the Tasmanian Freight Equalisation Scheme. There is a significant delay between getting that data and sort of elapsed time. I think it is 18 months that people have to be able to submit their claims, so we don't really have any reliable information on that.

You have seen that we have commissioned SKM in the past to provide us with detailed freight data but again that is historic data, so we don't really have any information that is up to date and particularly no information that has been collected since the introduction of the shipping reports.

MS CHESTER: So we would effectively be relying on the evidence that we are receiving from participants and submissions to this inquiry where we have from

some of the shippers suggestions of material changes in Bass Strait shipping freights pre and post the demise of the AAA service.

MS ZIELKE (DIRD): In relation to the commercial arrangements that they have in place, which we are not necessarily privy to, yes, that is exactly right, noting that we have not noticed significant changes in that regard but as Dr Dolman says, our ability to actually give good evidence in that regard is limited.

MS CHESTER: What's I guess the department's sense of the competitive dynamic of Bass Strait shipping, I think there's some commentary in our report referring to the ACCC that it's inevitably a thin market given the volumes, but there are some elements of competition with the three current incumbent shipping lines that are providing containerised services across the Bass Strait.

MS ZIELKE (DIRD): We'd support that comment that you have competition because you have three available in that regard, and noting the comments in relation to the state owned TT-Line in that regard. But yes, it's a very limited and very narrow market in that regard, as is the case for other ports around Australia who are also suffering in relation to trying to raise interest for international lines. I'm sure you've heard of Adelaide's arrangements in trying to continue to improve its international lines as well.

MS CHESTER: I think for us that sort of raises the inevitable issue of with limited competition across the Bass Strait with the shipping lines that we're obviously facing an inevitable leakage of the benefit of the subsidy, it will ultimately sort of be shared between the shipping lines and the shippers. Does the department have any views of ways that we could sort of seek to mitigate that going forward?

MS ZIELKE (DIRD): Do you have some suggestions?

MS CHESTER: So I guess if you look at the way that the current scheme is structured, whether or not the flat rate may play a factor there and I guess the issue is that nobody is really collecting or collating information on what's happening to those rates over time and with other changes that we're looking at with respect to the potential entrance of a new regular international shipping service to Tasmania and the Government's foreshadowed review of coastal shipping. So I guess just getting a sense of are there other sort of levers Government can use to try to minimise that, that risk of subsidy leakage?

MS ZIELKE (DIRD): I suppose the key issue there is actually about simplification and the complexity, which leads to gaming I suppose in relation to those issues, or potential for gaming in relation to the schemes in that regard. So yes, there are a number of things that have been outlined in not only this review but several previous reviews in relation to what can actually be done. In relation to the coastal shipping

review, though, the issues that relate to Tasmania from coastal trading appear to be the same as relate to the rest of the country in relation to that so there's no evidence from our perspective in relation to exactly what the implications of that have been for Tasmania, other than noting the same issues that are raised by all, both shippers and Australian ships around the country in relation to the legislation.

So the issues there in relation to whether there should be a coastal trading regime or not are for consideration by Government under a review of the coastal trading legislation. There are a range of options that Government could consider in that regard, whether to make amendments to the legislation or to actually go so far as to open the coast. They're all again being covered in a large number of reviews and I think are well documented. In reading the Hansard from some of your previous sessions I can see how much of that has actually been the topic of conversation. In relation to changes to TFES, though, Marcus, was there anything else you wanted to say in that regard?

MR JAMES (DIRD): No, not at this particular point. We'd need to consider our position on things like implications (indistinct) to things like flat rates and we can't get too far ahead at this point.

MS CHESTER: Okay. We'll get into some more details about the scheme a little bit further along.

MS ZIELKE (DIRD): Your comments about the limited information is the key issue there, being able to use what we have reliably is a significant issue for us.

MR QUINLIVAN: Can I just follow that up and ask Gary what's the typical time delay between the commercial transactions and you being able to assemble the data to understand that story? What's the - - -

DR DOLMAN (BITRE): I might get Tim to answer that.

MR QUINLIVAN: - - - elapsed time?

MR RISBEY (BITRE): Sure. It's varied a bit over the years. From what I can tell, the rate at which claimants put in claims or have claims put in for them on their behalf by agents, within about - when we (indistinct) we typically get the data about three months after the end of the financial year, so three to four months and I think the last time we ended up getting about estimated about 85 per cent of the actual - for that period of time where freight has been shipped within a financial year. So three or four months later, approximately 80 per cent of the - by volume and perhaps by value.

MR QUINLIVAN: So for 13 - sorry.

MR JAMES (DIRD): And just to clarify, the claimants have up to two years to put their claims in.

MR QUINLIVAN: Yes. So for the 13-14 year, three or four months later you'd expect to be able to make estimates at least, 85 per cent possibly of the transactions and understand what happened over that year?

MR RISBEY (BITRE): The problem has been, I think, that things have been getting - there's been an incentive I guess for people to claim earlier and I think perhaps I suspect that that actually the time is reduced possibly. I can't tell you exactly, it's a guesstimate. When we looked at this for 11-12 we said there could be anywhere between 10 and 20 per cent for that 11-12 data and I think 12 months later we took on more data, I think we picked up about 15 per cent extra; 10 to 15, 12 to 15 per cent extra claims by value and volume. So clearly people have still got another year, up to another year for that, to claim, so perhaps we're looking at a couple per cent.

MS ZIELKE (DIRD): But I'm assuming your key point is at what period of time can you have some certainty in relation to the data. I'd argue - - -

MR RISBEY (BITRE): About two, three years down the track.

MS ZIELKE (DIRD): For true certainty but I get your point, that you're looking for whether it's a year before you'll get the majority of information that you're going to get out of the data. Is that the sort of approach you're looking for?

MR QUINLIVAN: I'm interested in what data will be available in the second half of the year when the Government is considering the recommendations from this inquiry. That's the kind of time frame I'm interested in.

MS CHESTER: So there is a very important figure in your submission, I think it's figure 18 from memory which I think had 2008-2009 data so it would be good to get a sense from the department and the bureau as to if we were to look at a sort of reasonable competence factor of say 85 per cent of claimants by value, how far can we get that updated and if you don't know the answer to that today that's fine, but it would be good to know sooner than later.

MR RISBEY (BITRE): I think in terms of the information we've already provided to you, we provided to you up to 11-12. That is probably reliable now, the data we provided you as at the end of November last year. So it is about 15 to 18 months after the end of the 11-12 financial year, so I would consider that pretty reliable. Many of the small claims that do come in are actually - there might be a thousand claims and they might be worth some of them 20 cents each in terms of payment; so

they're very small in value if you follow what I mean, many of the claims that dribble in over the years.

So I would expect the 11-12 data to be reliable. Our analysis of last year's data, the 12-13 data, it showed that there was something seriously wrong with the data that we were provided so it's not reliable, there's a lot of claims missing. It was only about \$65 million, it was clear.

DR DOLMAN (BITRE): I think it's probably worth pointing out that that date is only around freight that's eligible for the scheme.

MR RISBEY (BITRE): That's right, yes.

DR DOLMAN (BITRE): So there's a much broader set of shipping tasks that is more likely I would expect to be impacted by the broader shipping reforms that you originally asked about and where we don't really have any reliable freight rate.

MS CHESTER: I think the two information issues we're sort of addressing here is firstly I guess the more fundamental is what's the experience of shippers more broadly across the Bass Strait with what's happening with freight rates and how they're moving over time and concerning reasons why movements may be occurring or not or whether it's just commercially based and that might give us some insights into what is truly the underlying competitiveness of Bass Strait shipping; and secondly the issue is how we can better understand if we were contemplating any design changes to the scheme, what are the implications that would have both for claimants but also from the Government in a cost sense.

MS ZIELKE (DIRD): Some of the considerations there are as we were just saying, knowing how the whole market operates, but in addition to that the changes that are made to the scheme, understanding what that might mean in relation to the viability of opening up some products to export that haven't previously been considered or even to just moving them over to the mainland when they haven't previously been productive in that way and the same in relation to southbound as well, it's that sort of issue that we won't know enough about, as well as just knowing freight rates in relation to the broader group.

I know in relation to coastal shipping we've on a number of occasions asked industry or welcomed any submissions from them that actually provide evidence in relation to what the increase in values have been or costs have been, and whilst they're prepared to provide estimates of what the proportion of costs are in relation to their breakdown, actually getting details in relation to commercial arrangements they consider to be their private information. It's that sort of detail that you need to have to actually be able to make some of their - or using various assumptions in which to base some of the calculations.

MS CHESTER: Before we turn to the foreshadowed coastal shipping review which it would be good to talk a little bit about, one other area where we received some evidence and a lot of feedback from participants was with respect to the Port of Melbourne licensing which has had an impact on the cost of Bass Strait shipping and I guess one way of looking at it is to think that if the quantum is 75 million per annum and indexed and if Tasmanian business and trade accounts for 28 per cent of container throughfare in the Port of Melbourne, then you're kind of looking at I guess a subsidy dilution in the order of actually about \$20 million per annum.

Then if you sort of think there's three parties here, there's the Federal Government who's making the payment ideally to get to the claimants and now we have the Victorian Government so we have another stream of perhaps dilution or leakage and some could even be portrayed as a transfer of funds from the Commonwealth to the Victorian state government at the expense of Tasmanian shippers and businesses and it's certainly something that we received a lot of submissions and evidence from and a lot of commentary in the public hearings that we held in Tasmania.

It would be good to get the department's understanding of as we understand it that is a levy that's not related to any services provided or any of the costs of Port of Melbourne, it's purely a revenue raising mechanism and it did seem strange to the commission that there was no regulator oversight in terms of the ESC Victoria having an oversight of that decision but it would be good to get the view of the Department in terms of what work you've been able to do around this issue. Are there any levers at the federal government level or is it purely a matter of regulator non-oversight in Victoria and a decision the Victorian Government is able to make?

MS ZIELKE (DIRD): I think you've just answered the question for us actually in relation to that. I don't know that we have a great deal that we can add to your comments in that regard. Gary, we've not done any additional?

DR DOLMAN (BITRE): No.

MS ZIELKE (DIRD): No. So yes, I'm afraid I'm not able to be more helpful than to point you back at the Victorian Government in relation to their decisions in that regard.

MS CHESTER: Has the department sought any legal advice on whether there were any avenues available to the Commonwealth Government to challenge - - -

MS ZIELKE (DIRD): Not that I'm aware of.

MR JAMES (DIRD): I think there was some consideration at the time. I don't know whether it was in relation to a challenge but that was actually prior to (indistinct) actually been involved in that at this stage or with the scheme at that point but it's something we could come back to you on as to what was discussed at that particular time when that process occurred.

MS CHESTER: Okay. It would be good if you could confirm for us whether there was any sort of legal review or legal advice that was sought or obtained. That would be really helpful.

MR QUINLIVAN: I take it from your response that you do accept, at least at an in principle level that this could be or is or could be a dilution of the impact of the Commonwealth's payments under the scheme?

MS ZIELKE (DIRD): Yes, although noting that it can also just be seen as an additional cost to business as well; but yes, you'd have to see it that way I think.

MS CHESTER: I think it's fair to say the commission wouldn't describe it as a dilution or a leakage of the subsidy if it were based on a fee for service and that was then a legitimate cost increase for the Bass Strait shipping but I think given that this and the Victorian Government has been very clear that it is purely revenue raising and of no benefit to Tasmanian shippers and shipping lines.

MS ZIELKE (DIRD): Yes, I agree. Industry has always commented to us that should it be for receipt of services that they will be benefiting from, then to a certain extent that removes any issues in relation to it. It will be an additional cost but they'd actually see a need for it.

MS CHESTER: Okay, thank you for that. So then turning to the foreshadowed review of coastal shipping which the minister and Deputy Prime Minister Warren Truss has foreshadowed and I have to say out of all of the draft recommendations in our draft report, this was the most popular. 59 out of 61 submissions or participants did support our call to expedite that coastal shipping review and I appreciate the timing of it is a matter for the minister and how it will be conducted is a matter for the minister but it would be good to get your understanding, if you're able to today, of what's being envisaged for the scope of that review and the reason I ask around the scope is that overwhelmingly evidence that we did receive from shippers was suggesting that given the material changes in the economics of international shipping, globally over the last five to seven years with larger vessels and the implications that has for an island state economy the size of Tasmania with their low and volatile volumes, but if the review is just looking at the changes in 2009 and 2012 and not going further than that, there was a sense that the changes did need to be broader in terms of making a dent, for want of a better description, in the cost disadvantage faced by the Tasmanian economy.

MS ZIELKE (DIRD): The Government during the 2012 election was on the record during that time talking about a need to streamline or its wish to streamline the coastal trading legislation, so that was the first announcement made by the coalition whilst it was still in opposition. Since coming into Government the deputy prime minister is on the record in relation to continuing to want to look at the legislation and improve its efficiency and effectiveness. However, more recently the DPM is also noting the benefits to the broader Australian industry as a result of possible changes to the legislation as well.

I note though that at this stage the discussion has been about reviewing the legislation, not about reviewing the Australian shipping industry in that regard. At this stage though, as you point out, the deputy prime minister is still considering I suppose the breadth of the review and whether it will or will not go beyond the limits of the legislation itself. As I noted earlier, this is an area that has been reviewed significantly over the last three to four years in particular, but over the last decade the Australian shipping industry has received reviews literally every 18 months to 24 months on an ongoing basis. So there is to a certain extent a level of information that has been gathered, but you'd need to see whether you could glean anything more from the further reviews. I'm sure that's also a consideration for Government at the moment as well.

I note that several of the submissions that you've received also note that that's an area for consideration as well. We don't have a time frame at this stage in relation to the review as well in that regard. I will note that the review of coastal shipping has been raised in the context also of the deregulation agenda of Government at the moment and I do think that they are two different things. Looking at the efficiency of a piece of legislation or a regulation is one aspect that Government should always be doing in relation to continuous improvement of any activity. That is separate then to the issue of the Coastal Trading Act and its amendment or streamlining et cetera in relation to the policy arrangement of the legislation.

So I'm just conscious that it frequently comes up in the context of deregulation, as does the Tasmanian programs as well, and they are not necessarily the same question in relation to both of them, but they seem to be opportunities I suppose in relation to the dereg agenda. I am just conscious of making sure that we are responding in the right environment in relation to it.

MS CHESTER: And hopefully some of the evidence and submissions that we did receive will help inform what is envisaged for the scope of that review, particularly in relation to evidence that we received last week from some of the larger shippers and discussions that they have been having with international shipping lines in the context of the foreshadowed review, suggesting that the economics of the return of a regular international shipping service without assistance would be very different pre

or post any fundamental changes to the coastal shipping policies and regulations of the Federal Government.

MS ZIELKE (DIRD): Can I just add something there? One of the key points that we have had some industry is the issue of lack of certainty. We have received advice from a number of the large players that basically given the 30 to 40 year investment cycle in the shipping industry, the lack of certainty and the need for change every three to six years has been their most significant issue and for that reason a number of the large shipping firms have a foot in both camps, to so speak. They have both foreign flagged and Australian flagged ships as part of their business structure, with the strategy of being able to respond to that change as quickly as they possibly can. I am conscious that certainty is the key issue for them in the long run and important to their ongoing investment, whether it be Australian or foreign.

MS CHESTER: That certainly did come through as a key thing of concern, particularly for the shipping lines that are looking at making \$700 million of investment in new vessels, but I guess perhaps from the shippers' perspective, there might be two strings to the uncertainty, the uncertainty that has resulted in an increase in their costs or the required rate of return; for example, if you are competing against a government-owned shipping line. They don't know what commercial decisions are going to be made about their freight services, versus uncertainty going forward that actually might result in a reduction in their costs. I think they might sort of view them as two different streams of uncertainty.

We did receive some evidence, and you may not have the answers today but we are keen to get it from you sooner rather than later, that suggested that some of the numbers that we cited in our draft report around the temporary licences by foreign flagged vessels pre and post the changes in 2012 were refuted by one of the participants in their evidence at public hearings last week. I guess it is important for the commission to understand. Are we just dealing with different and creatively chosen time horizons, resulting in us comparing different periods of time, or is there something wrong with the data? Are we talking apples and oranges, or has there been an increase or a decrease post the 2012 changes? I am not sure if the department or the bureau has a view on that today.

MS ZIELKE (DIRD): I am happy to take on board though reviewing that and coming back to the commission with that information. I don't recall having read that particular part of Hansard from last week. I know we would have comments and suggested amendments to appendix C, I think it is, of the report. We are happy to provide those to assist in relation to that attachment; but otherwise that's probably the most I can do at this stage. I also hear your comments in relation to the creative use of numbers, depending on the changes before and after the introduction of the new legislation. We don't see that as being a significant change in any way in that regard, as to who is participating versus who was prior to the changes in 2012.

MS CHESTER: That will be very helpful because we propose to come to a firm landing on that, given that the data set should be the same. We are happy to help you in terms of which transcript to have a look at and which submission.

MS ZIELKE (DIRD): Thank you. That would help.

MS CHESTER: One other matter that we did touch on in our public hearings last week was certainly trying to glean a better understanding of the compact with the Maritime Unions of Australia, given that that was an important part of the suite of changes made in 2012. I think it is fair to say that we did receive evidence in the public hearings that the compact hadn't been finalised before the regulatory impact statement was finalised. I think we also learned that the compact really didn't have any specific productivity enhancements that were envisaged or any quantum, so it would be good for us to get a better understanding if the department does understand what sort of productivity improvements or efficiency improvements were envisaged that informed the calculations that fed into the regulatory impact statement.

MS ZIELKE (DIRD): It is probably best to say that the compact had remained the responsibility of the unions and the industry. The department has not had any involvement in the discussions in relation to its design and creation in the first instance, or received any reporting in relation to the outcomes from the compact since it was created. It is available on the Internet for people to reference, as is the associated one in relation to bluewater as well. I know that the MUA, both in their submission and in Hansard last week, listed various improvements and gave some examples in relation to how that has been of benefit.

Other than anecdotal comments that I have heard in meetings, we have not received anything else in relation to the outcomes from the compact. We have put a request previously for reporting that might have been undertaken and not received anything in response. There was a commitment that there would be public reporting to industry in relation to the outcomes of the compact, but I am not aware of anything having been provided as yet.

MS CHESTER: What were the expectations of efficiency or productivity improvements that then informed the preparation of the regulatory impact statement for those changes?

MS ZIELKE (DIRD): I am happy to go back and review that. As Mr James noted, neither he nor I was part of the department at that stage.

DR DOLMAN (BITRE): The bureau did some of those calculations in terms of the expected benefits. From memory, I think they were documented in the regulatory impact statement. From memory, I think the biggest benefits were expected to come

from the way maintenance was done on vessels. The compact allowed foreign maintenance crews to come onboard and do maintenance. I think there were also some changes to accommodation standards and some of the conditions relating to crewing, which in turn reduced costs of Australian flagged vessels.

MS CHESTER: I am just trying to get an understanding. The quantum was based on assuming that there would be improvements in those three streams.

DR DOLMAN (BITRE): I can, on notice, give you details. I thought it was spelt out in the regulatory impact statement but we can give some more detail about the assumptions that underpinned those expected cost reductions.

MS CHESTER: That would be helpful. I think the key point from our perspective is now trying to get a handle on - are those benefits likely to arise? I know it is still early days but we have only had some qualitative statements, not quantitative statements, in terms of what the improvements have been since the compact was agreed and put in place.

MR QUINLIVAN: One issue that did arise last week was crewing levels and what expectations were in the RIS about adjustment or further reductions in crewing levels. There was a little bit of uncertainty about exactly what was assumed but evidence from the MUA was that currently crewing levels were minimum levels necessary to meet the IMO standards, so it would be good if we could get some confirmation from you whether that is in fact true that current bluewater crewing levels are the minimum necessary to comply with IMO rules.

DR DOLMAN (BITRE): I would have to take that matter - we can - - -

MS ZIELKE (DIRD): I will note though that that goes back to the comment that was made about the compact being completed after the RIS was completed. There were a number of assumptions made that subsequently the compact actually reviewed various areas. I think people know things now that weren't known at the time the RIS was actually undertaken. I feel that there was probably an expectation that there was some greater savings (indistinct) but that hasn't been realised at all. Whether that be based on the review work that's been done and the assumptions that have subsequently been taken or whether that was the expectation before, and also we're not able to comment on largely in that regard. I also note ASA's comments last week in that regard also.

MS CHESTER: Thanks, that would be helpful. Turning then to the issue of international shipping and I think it's fair to say that there have been some developments, including last week. We had the Tasmanian minister for infrastructure present to our public hearings and make some comments around the discussions that the Tasmanian Government has had with a potential international

shipping line to provide the return of a regular international containerised shipping service to one northern port in Tasmania, that being Bell Bay, and the international shipping line is Swire. I'm sure the department and the bureau are also aware that there had been some other parties that were in negotiations with Swire for the resumption of such a service.

In our report we step back and go a little bit more broadly and with the benefit of the work that had been undertaken by Freight Logistics Coordination Team on Tasmanian freight and shipping last year and looking at what really are the economics of commercially sustainable return of a regular international service to Tasmania for containerised freight and some work there by GPS that fed into that report suggested that it needs sort of regular statement of volumes of between sort of 39 and 54 thousand per annum TEU and that would effectively have to come from one port.

The sort of volumes that are being looked at for the potential return of service through Swire, which is just one shipping line, whereas the AAA service as I understand it was three or four shipping lines providing a disparate service, would be anywhere between 17 to 25,000 TEU based on some of the initial evidence that received on that last week. It would be good to get the departments and the bureau's view on the economics of the viability of the return of an international container or a shipping service to Tasmania, and from the perspective of the exporting task from Tasmania, whether one service, as has been currently mooted, once every 18 days from Bell Bay to one hub in Asia, how much of the export task that might be seen to be assisting. Sorry, a double-barrelled question there. We can come back to some of these issues a bit later on when we talk about the scheme and sequencing with some of these other announcements, but it will be good to get the department's views.

MR JAMES (DIRD): Well, insofar as we know the detail of what's proposed and there have been various proposals in recent years, as you are probably aware, the service that's proposed doesn't look like it would fill what was there pre April 2011, and what we have seen to date, though we haven't seen what was discussed on Friday or announced on Friday, it was going to take a number of years to stage up to the sorts of loadings you are talking about. I think there had been talk about a three-year lead in, certainly, the last proposal we saw of that nature, so it's difficult to see that it would fill the service that was there before without further capacity, serious capacity increases, but that's without knowing any detail of the nature of their proposal, the sorts of routes they're going to use and, obviously, the capacity of the vessels that might be involved.

Tasmania remains challenging in terms of the shipping task. The cessation was largely because, as far as we can see it, because of the very thin nature of the volumes coming from Tasmania and international operators just didn't see there was a lot of value in that, going down there to pick up the extra containers. The nature of

the international shipping (indistinct) means that that challenge will continue for the market, a lot of the Tasmania market, so it's more difficult still, which is not to say that some service of that nature, however subsidised, might not meet some need that's there.

MS CHESTER: We did receive evidence that the shipping line concerned was quite motivated to ensure that it is commercially viable over the longer term and the assistance only related to the initial three or four-year ramp-up period in the volumes. The quantum of assistance that was suggested by - the two respective groups that were obviously having discussions with Swire were the Tasmanian Exporters Group, which represent a group of businesses in the north, and they were looking at \$33 million over a three-year period, but the announcement by the Tasmania minister for infrastructure last Friday, whilst not in the evidence that we received, but we do understand it was in the public domain, was in the order of magnitude of \$20 million over a period of time which will be mixed between dealing with empty containers, empty boxes, and maybe some infrastructure (indistinct) Again, not a lot of detail, as you rightly point out in terms of, apart from the service being once every 18 days, and directly shipping to one hub in Asia, which we understood would not be Singapore.

MR JAMES (DIRD): Which wasn't the proposal before, but nevertheless, yes. I don't know whether - sorry.

MS CHESTER: No, go ahead.

MR JAMES (DIRD): I don't know whether you want to comment on international shipping, knowledge of market.

DR DOLMAN (BITRE): No, not at this point. I might just say, I mean the next smallest container port in Australia is Adelaide, which has throughput of about 320,000 TEU per year. That has been growing slightly, but it occasionally struggles to attract vessels to come in a way that the larger ports don't, so I guess I'm just pointing out that's somewhat of a guide that Tasmania's volumes are just so much lower again; it just makes it very challenging.

MS CHESTER: Yes, exactly, so you have got 450,000 TEU across three ports, and then 37,000, as we understand it, but we will come to that data a little bit later on when it's for international - but I guess this is a smaller ship and, as we understand it, it's not the sort of service that's available with AAA. There would be quite a few stops, so it's really for that extra for that extra - - -

DR DOLMAN (BITRE): A sort of sweeper service, yes.

MS CHESTER: - - - that don't have any sense of urgency of getting freight to

market; it could take a week or two.

MR JAMES (DIRD): Can I say, it was interesting to hear in Launceston on Thursday at the hearings a number of people involved, a number of shippers, saying that there are quite a lot of positives for the Port of Melbourne arrangement in terms of access to the sheer number of international lines that go out of there and the logistics and so on that they can benefit from there as well; so cost seemed to be the major issue, even if the service was better in that sense; so - - -

MS CHESTER: I think it raises several issues for the Commission to try to work through before we finalise our report. The first thing is that when we envisaged extending the scheme to exports it was in the context of no regular international containerised freight service was available. That now looks like that may no longer be the case going forward. Indeed, the current Swire service negotiated by BBA is taking some boxes from Cuthbertsons going forward, so it then raises I guess a sequencing issue in terms of if we extend the scheme to all commodities being shipped to the Port of Melbourne, including those that may be transhipped to international destinations. If we extend the subsidy there, are we effectively, for want of a better description, cannibalising or undermining the economics of an international freight service getting up and running a direct service. It would be good if the departments have a chance to think through that sort of sequencing issue, and if you have any views on that?

MS ZIELKE (DIRD): I think that's something that we might need to come back to you on. I don't think we have actually made anything out in relation to that, but it has been an area that I know we have been trying to have a think about, what the figures would be, et cetera, in relation to it. I fully agree there is an international service, then it questions why you would open up to all things moving between Tasmania and the mainland, so the same thinking is in both in that regard. Then also the recommendations that you have suggested in relation to southbound, there's a number of impacts that you need to consider all together to be able to get the outcome. I suppose that just shows the complexity, just make a recommendation without actually thinking about how they all fit together as a result of that.

It does lead you, though, to the question of not knowing about what the viability of an international service is even if it is established in the short term. It's quite difficult to be able to suggest that it could become commercially viable quickly, although I note your comments about them taking it on that basis. So that's a significant issue to be considering in the first place before you then flow to the other recommendations. Another example is if the southbound trade was to be stopped in relation to the subsidy, it's not necessarily - noting the argument that if you are supporting everything going northbound that it will be a swings and roundabouts kind of outcome in relation to it.

We noted that there's not necessarily an alignment between those that are bringing up items into Tasmania and then sending them to Melbourne one way or the other. So there's very little alignment actually from what we've seen to date in that regard, so it's not necessarily a strong argument that companies will be better off in one hand to offset the reduction on the other. Maybe we should just take on notice that and come back to you with the sequencing, as you put it, the figures issues.

MS CHESTER: I think the two key information points that we're trying to get a better understanding of ourselves is this issue of creating a competition or preventing market share that would otherwise go to the international direct service, so the pricing points and the economics between the two - we did receive some evidence from, I think it was, Cuthbertsons that even with the direct international service at the prices that were being proposed to them, it would still make sense for them to still ship a large proportion of their exports through the Port of Melbourne, simply because of where they understood the hub and the onfreight task - - -

MS ZIELKE (DIRD): That they get better options in relation to other international shipping.

MS CHESTER: Right, yes. So I think that's one thing around the price points, preimposed to subsidy being extended to the northbound, and the other issue is we don't step back and really look at the export task for Tasmanian businesses and appreciate there's an element of perhaps judgment here and not hard data or facts, what sense of how many the current - what percentage of the exporting task would be achieved through the direct service that's being proposed, albeit I think the only thing we have any certainty around is that it's once every 18 days and to one hub in Asia. That's about the level of detail, but we're hoping to get some more detail and if we do get more detail we will definitely issue that to the department. I think they are the two sort of main information points that we would appreciate getting feedback on sooner rather than later.

MS ZIELKE (DIRD): The other consideration I think is the amount of investment that's been made in infrastructure to move containers away from Bell Bay to the other ports. It's still very early days in relation to that but I'm just conscious that from a local perspective you would also be focussing on whether you have already been able to enter into a better arrangement by going through one of the other ports and going to Melbourne than what you could in replacing it with an international shipper as well. I don't know that we've done much in that regard as well.

MS CHESTER: Thanks; that would be very helpful. It's probably timely now if we turn to the schemes themselves, and if we turn first to the Tasmanian Freight Equalisation Scheme. Perhaps it's best if we kind of work our way through the key draft recommendations and the key areas where we sought information one by one. If the parameters are to be retained and subject to, as we suggested, a biannual

review with a different process around that, and that's not to say that the process to date has been open and transparent in terms of the methodology as known, and the parameters have been available in the public domain. I think it's fair to say that the parameters and the methodology are probably under greater focus given the nature of our draft recommendations, so the attention the bureau is receiving, we understand, on these issues is probably more a recent manifestation but we have received substantive evidence to suggest there is no overcompensation, and it would be good to try to get a better understanding of an attribution of the disparity.

I appreciate that we are dealing with the claims of individuals and each individual will have their own circumstances and their own freight shipping costs, but there seemed to be a suggestion that there was some fundamental difference between the rate of increase in road versus sea and the Bass Street shipping costs, whether or not the bureau is using the correct data to inform that parameter review. Most of the claims that we have received evidence from all of the hearings suggest that indeed the level of undercompensation has widened over time. It would be good just to get a sense - and I'm looking at the bureau, Gary - of how you can explain this disparity in view.

DR DOLMAN (BITRE): I guess I'm not sure that we can't all be right is my initial starting point. The scheme itself was never intended to fully compensate exporters, so the basis of the scheme is the level of disadvantage between the cost of shipping across a short sea journey and an equivalent road freight journey. Over time both of those have been going up. I guess the experience of shippers from Tasmania is that their freight rates have been increasing, and I guess we see that in the claims that are - what we are seeing though is that the shipping rates are going up much more slowly than the rates for the land freight equivalent, which is what we are comparing.

I guess most Tasmanian shippers aren't necessarily aware of what's happening with land freight rates on the mainland, though some of them clearly are and have some experience of that. I think also there's a misunderstanding that the scheme itself is not intended to fully compensate for that difference, so there's deliberately in the design of the scheme as the disadvantage gets larger - there's a greater level of gap that's left deliberately in the scheme to encourage shippers to look for lower freight rates, so it's a design element of the scheme. I guess the other thing we're seeing is, as you say, that even people who have some experience of land freight rates on the mainland, their experience is not necessarily representative of what we expect, and what we're trying to do is give a representative benchmark, so a number of the submissions have suggested much lower rates. However, they seem to be based on spot rates; I think they've actually admitted they're only really covering the marginal costs of providing those services whereas our benchmark is looking to try and look at a broader range of provisions of road freight services, so not just large providers who might be able to take advantage of backloading opportunities to get very cheap rates, which seems to be what some people are quoting back to you; but

we're looking to get a representative rate that represents an equivalent cost on the mainland.

I'm happy to sort of talk about it in more detail if you've got more detailed questions. I think as an opening statement their experience is not contradictory to what we're doing. We're trying to find a representative benchmark, and the fact that shipping rates have been going up is consistent with them seeing an increase in costs. Potentially it might even be pushing them into different categories of payment so that they're getting a lower level of compensation. However, that's not to say that overall on average our median estimates, which is the basis of the parameters, aren't showing a narrowing level of disadvantage because the road freight rates are going up faster than the sea freight rates.

MS CHESTER: Thank you. That's helpful I guess in an overall sense. Based on the submissions that raise this disparity and these concerns around the parameters, Gary, which the bureau has obviously had a chance to review and reflect upon, there's nothing in those submissions that suggest that there is an issue around the data sets that you're using or the methodology that you're using?

DR DOLMAN (BITRE): No. We have gone back and looked at them in quite a lot of detail and we believe - as you say, we publish the underlying methodology that we use, which is largely based on the original definition of the parameters. I have forgotten the group that did that. Sorry, the TFES Review Authority in 1998 sort of originally defined the parameters and indicated that we should be using median charges, so we have basically done things according to their set of rules.

The biggest difficulty is getting the road freight equivalent because that isn't something that's generated out of the scheme and we commissioned SKM to do that. They have a database of road freight quotes that they're aware of, any studies that they're aware of that involve collecting road freight information. They put all of that into a database, so they have got the best data that we have been able to find that consistently provides a set of road freight equivalents. We also make that available on our web site, so we try and be as transparent as we can in terms of how we do it and the data that we're using to do it.

I guess what we're saying is that that doesn't mean that what you're hearing in submissions is inaccurate; that it is possible for large shippers in particular - at particular times will get much lower quotes for road freight equivalents, but there will also be people who obviously won't come and talk to you but who are paying much higher road freight rates because they're small shippers or have very specialised cargoes, live animals and the like, or are going on routes that are sort of opposite to the empty containers or empty trucks that have been moved around on the Australian mainland.

MS CHESTER: And on the data that's being used for the shipping costs?

DR DOLMAN (BITRE): The shipping cost comes directly from the claims data, so essentially we're just looking at the data that all of the people who are using the scheme are providing us. Again that varies quite enormously, so some of the large shippers who have routine shipments can negotiate quite good rates with the providers, whereas people who ship one container every two years or something will pay quite a different rate.

Essentially the data that we're getting comes straight out of that database so we know that is one thing we would have some quite good data on, what it's costing people. There is an issue around the - usually they're quoting us sort of door-to-door prices, but they have to provide a wharf-to-wharf equivalent as part of their claim and we use that data.

I think some of the people have been suggesting there's sort of a 10 per cent increase in those costs recently. We're not seeing that in the claims data. We're actually seeing that the claims data is showing that shipping costs, while increasing slightly for some shippers, on average has been quite flat for quite a long time.

MR QUINLIVAN: Might the time frames affect those perceptions? Yours is some time ago, but claims of 10 per cent - more contemporary estimate?

DR DOLMAN (BITRE): We did look back at the same period, I think the last five years of data that we have. It's possible that sort of very recent experience is flavouring people's submissions and there may have been very recent increases that we're not yet seeing in the claims data because of the delay that we spoke about before.

MR QUINLIVAN: It was put to us that 10 per cent was more consistent with your broader findings about shipping costs around the coast generally.

DR DOLMAN (BITRE): I guess we weren't quite sure what those broader findings were. It wasn't clear from the submission what they were referring to. Is that the SKM study, which does show that for some - - -

MR QUINLIVAN: It was a critique of an SKM study, yes.

DR DOLMAN (BITRE): Sorry, I did have it open a minute ago.

MR QUINLIVAN: I think the general proposition was that it could be inferred from your latest review that there had been a reduction, I think 5 per cent was the number, in shipping costs, whereas this company's actual experience was a 10 per cent increase and they thought that was more consistent with your broader

observations or your broader findings about shipping costs on the Australian trades.

DR DOLMAN (BITRE): As I say, the SKM data that we looked at does show some increases on some routes, but more on the Perth-Melbourne than the other routes, so there are some other routes that have been quite flat for quite a long time and there obviously was a drop in freight rates during the global financial crisis. Our data is the median, so we're looking at the median of claims and it's quite possible that any single claimant will have experienced a different sort of experience from that, but we do see - we looked at the period 2007-8 to 2011-12 and we do see a slight decline in the median, so there hasn't been an increase in the median. That's not to say, as I say, that some people won't be experiencing increases.

MR QUINLIVAN: Sure. We understand that.

DR DOLMAN (BITRE): We don't really see, though, a 10 per cent increase even in some of the larger shippers' claims.

MR QUINLIVAN: This same submission had a number of other critiques of the SKM work and what you have made of it, including assumptions about empty running on road and so on, so we might put a number of those to you and ask for your comments if that's okay.

DR DOLMAN (BITRE): Yes, that would be fine. We have looked at that and essentially the work that SKM did clearly says that it doesn't include empty running. We did have a discussion at the time with SKM about adjustments and the adjustment was made on the basis of weigh-in-motion data that shows that there is, on average, 30 per cent empty running. We're quite comfortable about the basis for that but we're happy to take questions - - -

MR QUINLIVAN: The issue wasn't so much whether there was 30 per cent but whether that 30 per cent was already in the price structure, not whether it was actually happening.

DR DOLMAN (BITRE): Yes, and we can have a look at that again in more detail but, as I said, our understanding from our initial discussions with SKM when we first introduced that discount was that it wasn't included in the price structure.

MS CHESTER: That would be really helpful, but I think it's also fair to say that of our recommendations, the other one that did receive overwhelming support from the shippers and business was an enhancement to the process. I'm not at all suggesting it hasn't been open and transparent - it has, and we certainly kept making that point in Tasmania - but allowing a means of consultation and involvement of key parties so these sorts of issues can sort of be addressed and any concerns that they have can be allayed or, if they have got better data, that that can feed into the bureau's process.

In that sense - and appreciate this was a draft recommendation of the commission's - it would be good if we could get an initial sense from the department and the bureau in terms of if the Government were to retain the parameter base system, how you would envisage that sort of consultation occurring and what time frames.

DR DOLMAN (BITRE): I think we would be quite comfortable with that recommendation. The way we work at the moment is to be open and transparent about the process. A number of the bureau's other pieces of work is subject to peer review and we wouldn't have any concerns, I think, with having a draft report that was made available and providing an opportunity for comment.

The only issue that we can foresee, I guess, with that sort of process is that, as in your submissions, a number of the people who are likely to raise issues with us have a vested interest in pushing the parameters one way or another and I guess it then becomes quite challenging to be able to get to the bottom of those issues. However, we would welcome the opportunity to talk to people who are using the scheme and try and understand the cost pressures they face, and particularly where they've got better information than we might have access to.

MS CHESTER: Thank you; that's helpful.

MR QUINLIVAN: Is that what you were referring to in your opening remarks when you said you thought this would offer comfort only?

MS ZIELKE (DIRD): Education is always a good thing. I don't necessarily know what we will get out of it to change the current arrangement.

DR DOLMAN (BITRE): It still needs to be evidence driven.

MS ZIELKE (DIRD) : Yes.

MS CHESTER: Absolutely, and that's how we try to work as well. If we then turn from the parameters to our draft recommendation on a flat rate, I think your submission notes that further work would really be required to assess the dollar flat rate that would provide reasonable assistance and avoid any disincentives, perverse disincentives, to secure the lowest cost shipping cost - are you able to provide us with an update in terms of any work that the department and/or the bureau has done in terms of what might be an appropriate flat rate or a reasonable flat rate, or perhaps more meaningful, what sort of principles or factors are sort of driving or framing deliberations around getting to an appropriate flat rate?

MS ZIELKE (DIRD): Gary, are you able to? Otherwise we will just say no.

DR DOLMAN (DIRD): I guess we see that there's significant benefits in moving to a flat rate simply to reduce some of the complexity in the scheme. As we've been discussing, the idea that there's a simple disadvantage level that can be calculated between road freight rates on the mainland and sea freight rates across Bass Street - life isn't that simple. It's much more complex, and the more complexity you add to the system, I think the harder it becomes. I think there would be benefits in shifting to a flat rate, and I'm sure we could work out a way of calculating that, particularly with help from stakeholders through a consultation process.

I think we could do it but we haven't actually given a great deal of thought to how we do it. I guess we've seen similar recommendations in the past and really we wait for a firm decision that this is the way we're going to do things before we go to fully develop a methodology.

MS ZIELKE (DIRD): I suppose the key point being that it would be good and highly beneficial to do that with stakeholders involved, not just based on our own work.

MS CHESTER: If you were to do a consultation process like that with stakeholders, what time frame would you envisage that would take?

MR JAMES (DIRD): We would have to consider that once we're through the process of your review and when the Government has considered - we have to think about it in that context. Obviously we would have to allow enough time for some sensible discussions about how it is monitored.

MS ZIELKE (DIRD): Also, consideration as well to what transition arrangements might be put in place, but, you know, a standard period in relation to reviewing and then making changes I would have seen being, you know, around about a six-month period in that regard. That depends of course on the decision of the Government.

MS CHESTER: Gary, just touching an important point that you made and probably have more of a history on this than others do, when the scheme and the parameters were originally designed you referenced the fact that it was never intended to be a full 100 per cent compensation for whatever is the notional freight cost disadvantage of shipping versus a 420 kilometre road freight task on the mainland. From your knowledge and history, was there an order of magnitude of the quantum of compensation that was envisaged on average across the spectrum of shippers when the parameters were originally derived?

DR DOLMAN (BITRE): I might get Tim to talk about the detail. My recollection is there is a sliding scale of four different points built into the scheme where - maybe I'll get Tim to describe it.

MR RISBEY (BITRE): It's generally referred to as the incentive structure, and it was a (indistinct) review authority and four classes of shippers. I can't tell you each one but only - the median was chosen to be the middle claimant, the middle freight rate or median freight rate. Only the bottom 25 per cent of shippers actually received their full disadvantage and then phased out. I think the next category up received 75 per cent, then 50, then basically it was capped at the top, so people had a very high level of disadvantage. They don't receive any additional disadvantage. Things like live fish or some very high cost shippers would fall into that category. It's only the bottom 25 per cent as classified, in terms of numbers, who receive the full disadvantage.

MS CHESTER: Even then that was kind of based on broadly available data and not the owners of individual circumstances for those recipients.

MR RISBEY (BITRE): That's right.

MS CHESTER: In a notional sense that bottom 25 per cent were getting the full compensation.

MR RISBEY (BITRE): That's correct, yes. Based upon what they say was the freight rate they paid.

MR QUINLIVAN: Your point, Gary, is that this structure was embodied in the scheme right from the outset. It was an explicit Government policy and it hasn't been varied since then.

DR DOLMAN (BITRE): That's correct, yes.

MR RISBEY (BITRE): None of the parameters have been changed in terms of the main scheme.

MS CHESTER: I think it's fair to say that a lot of the recipients have viewed it for other reasons as effectively equating not the objective being a form of compensation, and I think that's behind a lot of the feedback and commentary that we've - - -

DR DOLMAN (BITRE): Yes, I would agree. There seems to be a misunderstanding about the way the scheme is meant to work, was designed to work.

MS CHESTER: Which is why I guess it's important from the commission's perspective then, if we're looking at framing a flat rate going forward, to be very clear about articulating what are the principles underpinning the derivation of that flat rate in terms of what form of compensation is being envisaged and then what sort of different categories of recipients we're looking at in terms of relative disadvantage,

so the four categories were basically based on what their shipping costs were in terms of where they resided, and that was a reflection of the freight task.

DR DOLMAN (BITRE): Yes. So people who were achieving the lowest shipping costs were getting the full compensation, the full subsidy; I guess rewarding them for seeking out lower shipping costs, whereas people who were paying the very high costs were only getting, is it, 75 per cent of their costs returned as payment; basically to encourage them to set lower shipping costs.

MS CHESTER: Yes. I guess that then raises the issue for some of those shippers: to what extent can they access a lower cost of shipping? In particular (indistinct) some of the submission evidence that we received from King Island and the Furneaux group of islands where there are no alternative sources and indeed even listening to evidence from King Island, having gone through a tortuous tender process to try to get some more competitive rates across the freight task, a better understanding of the difficulties that they face, which then raises the issue of appreciating that the rates of assistance - well, I guess the percentage of compensation that is embedded in the scheme depends on the cost sliding scales that you were referring to, but whether or not you had given any thought to zones of disadvantage, relative freight cost disadvantage, in terms of informing a flat rate.

DR DOLMAN (BITRE): No, we hadn't thought about that but, as you say, clearly some of the smaller islands have had less choice and higher costs.

MS CHESTER: Then in terms of I guess the other issue around administrative simplicity, we did receive quite a bit of commentary during the public hearings to suggest that moving to a flat rate doesn't really present the sort of administrative simplicity that would make a difference to how claimants go about claiming their entitlements under the scheme; that effectively most of the information you would need from a claimant in terms of, you know, the cost of their shipping to legitimise a claim under a scheme moving to a flat rate wouldn't be any different and really the complexities around the parameter calculations that the bureau undertakes - and not the recipients themselves. It would be good to get your views on that suggestion.

MS ZIELKE (DIRD): Is that a comment in relation to the information they need to provide on their eligibility, you know, proof of manufacturing et cetera, those sorts of things, do you think?

MR QUINLIVAN: In part, yes.

MS ZIELKE (DIRD): Because I'm happy to come back in more detail but the calculation basis is probably not the most difficult part of the application process. Assessment is a different matter but the application process in companies trying to put forward their claims for why they are eligible would still remain an issue even

with a flat rate. If that's the point then, yes, shippers articulating why they are eligible or why a new product, for example, that they're trying to ship might be eligible still would remain an administrative burden for them.

That being said, if you're going to exclude areas of product, there will always be difficulty in relation to how you assess the grey areas in that regard, particularly when we're focusing on areas such as agriculture and manufacturing. They will always be difficult to give clear guidance around the edges and it's always open to a business to want to test those boundaries as much as possible to their benefit, as you would expect of I suppose any business person.

MS CHESTER: I think that was the key issue; that a lot of the complexity around the scheme is around eligibility and particularly around the southbound component. Moving to a flat rate really doesn't address that but I guess from our perspective and certainly in our draft report, the overriding objective of moving to a flat rate comes back to the point that you were making before, Gary, about seeking to create the right incentives to seek where possible the lowest cost shipping option which the current framework with the parameters doesn't really achieve.

MR JAMES (DIRD): Also, it's interesting to see that there's quite a large industry developed around processing or assisting with getting claims in in terms of third party agents, so you'd certainly have to wonder whether, you know - obviously the complexity of the process is an issue for a large number of people shipping, if they're happy enough to pay a third party, or they may have other priorities of course but - - -

MS CHESTER: We did receive some very helpful evidence on that issue to understand whether or not that service was a manifestation of complexity enshrined in the scheme or whether it was a good business practice for businesses of different sizes to outsource that work. So we did actually receive very thoughtful and articulate presentation from one of those providers which did give the commission a much better understanding of the range of services that are being provided and we'd suggest, particularly from some of the recipients that are large businesses that are still choosing to use an agent like that, that it's not just a function of complexity but it is a business decision to look at utilising those services in a cost efficient way.

It does obviously raise the issue of how much of the subsidy goes through to the claimant but the breadth of services that are being provided and I guess the different fees, we're still waiting to hear a little more evidence on that, does suggest that it's not just a function of the complexity of the scheme but it does inevitably raise the issue that there will be some dilution of the benefit of the subsidy to that other party, but is it just outsourcing of costs that they would have realised themselves internally.

DR DOLMAN (DIRD): Would have internally anyway, yes.

MS CHESTER: So therefore, it's not a dilution of the subsidy itself.

DR DOLMAN (DIRD): Indeed, yes.

MS ZIELKE (DIRD): If they don't have to train their staff up or themselves to be able to complete that, noting that most small businesses are very time poor anyway, it could just be a simple business decision to pass that to somebody else, as a lot of small businesses do with some of their BAS statement work or definitely in relation to their tax returns. It's not a case that they can't do it themselves. Often it's the case that they haven't got the time. They also want the certainty that comes with having somebody who does that on an ongoing basis, actually completing it for them.

MS CHESTER: Very consistent with the evidence that we received. Are there any other thoughts or comments that you wanted to share on the flat rate before we talked to some of the other mooted changes to the scheme? Okay. Perhaps then if we move to - and it wasn't a draft recommendation; it was more an area where we sought information. We saw that there could be potential merit in this design change to the scheme but wanted to better understand the benefits and costs of doing so before finalising the commission's view. That's the extension to all goods transhipped through the Port of Melbourne.

It would be good if there's any update that the department or the bureau have in terms of what sort of volumes do you think would be impacted or take up eligibility for the scheme, if that extension were to be made, but also cognisant that with any change to a subsidy you also get behavioural changes, and what are some of the risks around encouraging further containerisation of commodities or produce that without the advent of the subsidy would be bulk trade and not containerised.

MS ZIELKE (DIRD): I'm happy to talk about behaviours but did you want to talk about fitness first?

MR JAMES (DIRD): Do you want to do this?

MR RISBEY (BITRE): In terms of exports, we have looked at the question of how much might end up going. Obviously even if a small quantity of bulk product currently shipped were shipped into a non-bulk form, whether that be containerised or on the back of trucks basically, then that would have a big impact upon potentially the number of 20-foot equivalent units and, therefore, the amount of subsidy we might be doing. I think it's in our reports and it's on the public record that in terms of wheat, and there's general trends within the wheat industry to shift towards containers, that's simply what has happened in the case of wheat actually going to Tasmania.

So the amount of subsidy I think when you looked at this is several million dollars, going towards containerised wheat in the scheme each year and that compares with claimants who have chosen to send it by container, not to ship it in bulk any more, and obviously the amount of subsidy per tonne of wheat is increased. That has just been a consequence of the choices by claimants and people shipping wheat. So there's clearly that risk. In terms of perhaps wood products there's very large quantities. It's not just woodchips. There's other forms of wood products whether strip logs or some of the more processed product.

Even domestically within the TFES, I think when I looked at this a couple of years ago, there'd been a 150,000 tonnes increase at the time in wood products being claimed under the TFES. Obviously it's non-bulk but there was a decrease in bulk in the same year, so that's a large volume of wood products in that case where they'd been shipped. So whether or not that has got anything to do with subsidy, just looking at the data and saying there's something here, clearly there's a risk in terms of exports. If there are, as you'd be aware, the export data itself doesn't tell you whether the product gets shipped in bulk or non-bulk.

We've looked at that. Clearly types of products like fresh fruit and veg are not going in bulk. When you get to things like some of the metal concentrates and some of the other products and they're going in in thousands of tonnes, it's unclear whether they're actually going in small bulk shipment or in containers in terms of the export markets. If they're going in small bulk shipments, it's actually possible that some of that was shipped into a containerised form. It's just we don't know. Until the scheme is implemented, we won't know what the behavioural change is in terms of the way the product is being exported.

I think you're aware that in terms of information sheet 48, our best guess at the time based upon available data and trying to drill down and have a look at what might be exported in on bulk we put a number around 75,000 TEU equivalent. That obviously depends upon - we've used a conversion factor from tonnes, because the data we've got is in tonnes, to try to estimate the containers and I looked at it again. It's around 11.3 tonnes I think it was a container as a conversion. That's quite low. In actual containers in the scheme 15 tonnes might be the right number for a containerised product on average under the scheme.

So there's lost of assumptions that drive trying to estimate that and you'd be aware that TFES looks at the 20-foot equivalent units. It doesn't really care about the tonnes. Some of the products are very heavy, would fit around 23 tonnes of wheat in a container. There's a lot of assumptions that drive the estimates, so we've made some assumptions. We've estimated TEUs we thought might be going in exports between for 2011-12. It's very difficult. That number fluctuates. The dollar goes down. Exporters respond. There can be a big increase in exports in the any one year

and I think you're aware of some of the numbers.

11-12 seems to be quite a low year in terms of total export volumes from Tassie, so there's a lot of risk and uncertainty about the export volumes, and I understand from the hearings, my colleagues have said to me that quite a lot of participants don't know how much export tonnage might get picked up.

MS ZIELKE (DIRD): I think also we don't know what the behaviour change would be in companies who previously have only sold product in Tasmania who might have been able to access a higher payment rate on the mainland but haven't done so because of the cost of shipping it across Bass Strait and whether this would make a significant change in that regard. In some ways it almost makes you wonder if it could present a significant opportunity for a lot of businesses in Tasmania, but then in turn, what's the impact of that in relation to the local economy too or rather than the economy, the local market and whether things therefore raise in value in Tasmania as well as a result.

MS CHESTER: Yes.

MS ZIELKE (DIRD): There are just so many different changes that you need to consider in that regard.

MS CHESTER: I think there are three key issues that we're hoping to try to get some informed judgment calls made about. One of them is probably a less informed judgment call but knowing what data there is actually at the moment around the actual volumes of international exports from Tasmania being transhipped through the Port of Melbourne. We've heard different numbers on that, so it would be good to know what data the bureau was using and the source of that data and how much sort of confidence you have around that. We did receive some evidence to suggest one year there were containerised apples that were exported from Tasmania but according to the statistics there were no apples exported from Tasmania that year, rather they thought that it was being picked up the Victorian numbers.

MS ZIELKE (DIRD): So where we have clarity and where we don't is what you're looking for.

MS CHESTER: And what sort of confidence we can attach to those numbers. Then what sort of conservative estimate we might want to frame around that in terms of directional - and then rightly coming to your point, it's not just relying on any one year but having a sense over a time horizon with the different Australian dollar values and other different factors in terms of getting a sense of what we think a longer term average might be.

The second issue then is which commodities at the margin might lend

themselves, if a subsidy were in place from shifting from bulk to containerised and what volumes of exports those commodities have at the moment from Tasmania. Then thirdly, and this is probably what I think it would be fair to say Tasmanians would say is a good problem is any behavioural change, ie, commodities that aren't being exported today because of the freight cost disadvantage which may with the subsidy in place then be exported.

So I guess the first one is a bit more factual and getting an understanding of the bureau's view of the source of that data and what sort of confidence we can attach to it and the other two we agree are sort of intuitive judgment calls but obviously based on the bureau's sense of the different commodity groups and the relative economics of shipping. To the extent the bureau has a view on those, that would be very helpful.

DR DOLMAN (BITRE): Just very briefly responding to that, we have published that information sheet 48, Tasmania Passenger and Freight Movement, which tried to broadly summarise the freight movements, including material that's exported and I think we've been providing more detailed information to you as well but we can on those provide some more detail, including some time series, the year on year variations and variations with exchange rates et cetera.

It's very difficult to predict I think which commodities might either become viable for export or shipped from bulk to containerised export with a subsidy but I guess we can continue to talk about those issues, but there are some data problems with this data. As you say, it's not unusual I guess the example you gave where people might know that there's apples coming from Tasmania but it being counted as an export out of Melbourne, so we're aware that there are issues in both the ABS, and Ports Australia also collect data. We spend a lot of time trying to reconcile those different sets of data, so we can at least give you a view about the reliability of some of that data.

MS CHESTER: Gary, where are you sourcing the data today in terms of the export volumes from Tasmania?

MR RISBEY (BITRE): Isn't it Tas exports. In terms of valuation sheet 48, it's stated in there we reconciled or tried to reconcile coastal TFES claims data and the international ABS sourced international cargo stats as a source which also I think you have now. Clearly they overlap and we tried to do how much - I did ask the answer the question how much of the coastal does TFES cover and I think we estimated that, but beyond that we were interested in, well, how much of the total trade if we can work it out, and it's not clear. The international cargo stats - I think there might be some information which we looked at in terms of the transshipment issue but I don't know how reliable we can say that is. I'm not able to put a number on that. I'm not able to say that there's an X portion or whatever. I don't think - - -

DR DOLMAN (BITRE): We can have a look at it again and there is a third set of data that we have looked at, yes, which is that available through Ports Australia. We know there are some reconciliation issues with some of that data but working through the process actually gives you some understanding about where the errors arise.

MR RISBEY (BITRE): We did look at the totals because obviously they've got gross tonnes, so we tried to say, well, obviously gross tonnes have got a line somehow and broadly they realigned our work with what they did. We took onboard there the numbers and we looked at it and said, "Okay. Yes, if we added in" - we worked out there were iron ore exports that weren't included in Tasports' numbers, for example, so a lot of millions of tonnes of those. We went through that and we tried to broadly align the tonnes but then converting those into TEUs is another question, so we had a go at that as well based upon the TFES claims though in the TEU which is all we had really. So it's our best estimate. It says on the table it's an estimate. It may include some bulk. It may be an underestimate of the actual number in terms of exports. So it could be either way.

MS CHESTER: I think it also comes back to the point, Judith, that you made rightly before that business does want some certainty but if we were to recommend that the Government were to consider broadening the eligibility under the current scheme, whether or not the Government would feel comfortable leaving it as an open-ended scheme from a costs perspective or whether you'd need to cap the scheme and, therefore, if we did have all these behavioural changes then the level of overall assistance for each claim we would need to decline.

DR DOLMAN (BITRE): Indeed.

MS CHESTER: So we're just trying to get as much of a handle on those issues as well. Turning then to southbound, it would be good to firstly get an understanding of, when the scheme was originally designed a lot of lines were obviously drawn in the sand for eligibility around the southbound, what was sort of the policy underpinning to that or was it really, for want of a better description, trying to have an effective sort of fiscal cap on the southbound scheme.

MS ZIELKE (DIRD): And key issue areas at the time is my understanding but again I'm happy to investigate that further and come back, unless you're aware, Gary. I do think it was also influenced not just by price but also by what the key areas of issue were at the time, rather than - so I'm just conscious it's a bit of a mix from - - -

MR QUINLIVAN: You mean by that a response to the pressures on particular industry sectors at that time?

MS ZIELKE (DIRD): Various industry sectors that were putting forward or raising issues with Government at the time was I think a consideration of the way in which it was grouped.

MS CHESTER: So perhaps it might be a fair description that it was a function of cost cognisance and also a structure to the Tasmanian economy at that time which we know is probably very different to what we have today. I guess in that context it would be good to get your views in terms of where the eligibility lines are drawn in the sand at the moment. Are there any sort of anomalies from the perspective of the department, just setting aside the fiscal objective?

MS ZIELKE (DIRD): As I noted earlier, we have the ability to make some minor amendments to the ministerial directions for the minister to consider something. By "minor", I mean, for example, allowing donkeys not just horses in relation to some arrangements, just to show you it truly is minor in those interpretations. Whether we have seen anything that would lead us to think there are any issues at the moment, I have not seen anything come forward. I suppose the key issues are just where the lines are drawn.

MR JAMES (DIRD): And we have issues like the ANSZIC classification issue which I know you have heard about and continues to be an area where it is probably worth more thought - how that works.

MS ZIELKE (DIRD): I think people have become so used to the scheme though that it is not necessarily tested in relation to it any more. People know the boundaries and unless they are playing in the grey areas, then that is where we see people putting forward claims. People who want to argue for something clearly outside the bounds isn't something that has been put forward to us at all.

MR JAMES (DIRD): Clearly we do get a number of cases and there is certainly a number ongoing. There's a huge number about how things are classified, whether they are eligible and whether they are being elaborately transformed or not; but we deal with those on a case by case basis at this stage and interpret administrative directions. There is always room no doubt for improvement in terms of clarity about where the lines are drawn but, as you know, lines are drawn and they do lead to issues.

MS ZIELKE (DIRD): Particularly as new technologies or new processing or manufacturing come to light - - -

MR JAMES (DIRD): Exactly.

MS ZIELKE (DIRD): - - - which is the same with most programs that are based on ANSZIC codes or the type of industry sector that is actually eligible for them. As

soon as you start to define that group, you will continue to have those issues.

MR JAMES (DIRD): We are happy to mention some specific examples if you want but because it involves individual firms and sometimes appeal processes - we can talk about that; we can provide that to you confidentially.

MS CHESTER: I think it would be good to get a sense of - I mean, we did hear some anomalies or outcomes where you would think that the intent of the scheme was for that person to be a recipient. I think a good example was Morillo Estate and, because they are part of a larger business organisation and partly because they are vertically integrated, the primary purpose of the business is not the making of wine so therefore they are not eligible. Just stepping back and thinking through how that is attributed to business - as claimants for their eligibility today, whether we can make some changes such that you don't get those sort of anomalous outcomes.

MS ZIELKE (DIRD): Although I can't help but say from previous experience on manufacturing programs, for example, that it is a very difficult area which is why you end up in doing a case by case basis. Businesses can structure themselves in such a way as to benefit from that. Whether they should have to have that compliance burden is I suppose the other side of that coin, but that is generally the approach that they need to take on what is of best benefit to their business.

MS CHESTER: Fully understood, and we did get examples of where businesses have changed their business structures and created wholly owned subsidiaries, separate entities, to then secure eligibility for the scheme; but I guess the tax system is structured in such a way to encourage grouping but it does become ultimately a decision for the company. You are right, but if a primary line of their business is what the scheme was intended to benefit, then - - -

MS ZIELKE (DIRD): Maybe that's an area then for us to consider in relation to at what level we consider eligibility versus the issue of how you determine eligibility, just to deal with that grouping arrangement. I have not heard it mentioned that way before. I am not aware of this particular case, but that is an opportunity of how you could deal with that. It is at what stage or what level within the company structure you are actually considering what it is that they are doing.

MS CHESTER: It would be great if we could find out from the department, one, if that would address some of those anomalies and remove the incentive for companies to have to go through some form of restructuring and then, secondly, whether that is something the department is able to do under changes to the actual policy program. It is under ministerial direction.

One other issue that did come up in evidence, and again it comes back to this issue of what is eligible and what is not, is under the southbound scheme for inputs to

eligible Tasmanian businesses. Goods or items that are produced on mainland Australia are eligible. Goods that are imported from international jurisdictions are not eligible. Has the department or the bureau done any work on what implications that might have for the southbound part of the scheme if that were to be broadened in the future?

DR DOLMAN (BITRE): No.

MS CHESTER: Is that something that the department or the bureau would be able to - - -

MS ZIELKE (DIRD): We can take on board whether we can look at that or not. I am aware of how difficult a task that is.

MS CHESTER: Okay. It would be great if we could just know in principle, sooner rather than later, if it is a task that could be - - -

DR DOLMAN (BITRE): A challenge I can immediately see is just getting information on the goods that are currently not eligible.

MR QUINLIVAN: The main cases that were raised with us were agricultural producers where the tractors and machinery and equipment is typically not manufactured in Australia.

MR JAMES (DIRD): Increasingly so.

MR QUINLIVAN: There were other cases but I think most of the specifics that we heard of were from agriculture.

MS ZIELKE (DIRD): I suppose then you have got the imposing issue that if you open that market up too much, then you have got issues for anybody who is producing in Tasmania.

DR DOLMAN (BITRE): We can have a look and see what information is available.

MS CHESTER: That would be great. Thanks very much, Gary. One of the other draft recommendations that we had was in relation to the public reporting of information under the scheme, including new payments to recipients. We did receive some feedback and commentary around where lines in the sand would need to be drawn in terms of commercially sensitive data but upon further questioning in that area, I think at a headline metric level of company X gets X million, which is fine; but is there other data that in the department's or the bureau's view would merit being in the public domain around the scheme and its operation, given our objective is to

make the scheme as open and transparent as possible?

MS ZIELKE (DIRD): I suppose whether it is beneficial or not is interesting but knowing under what industry sector they have actually been receiving the subsidiary would be beneficial, I am sure, in relation to people understanding who it is that they are either competing with or who else they are working with. There is always the opportunity then to group together and get better outcomes as a result of that. That is also something that is used in a number of other programs, so if you take the grant programs, for example, in actually listing the information, it is normally the company, the benefit and the area in which that benefit has been provided so it would be consistent with broader arrangements in that regard as well. Anything beyond that, you are probably getting into issues in relation to both reliability of data but also something that might be considered commercial in confidence on behalf of the companies.

MS CHESTER: Thank you very much.

MR QUINLIVAN: Do you think it likely that the industry department would have a guideline on publication of grant recipients? You seem to be reflecting on some experience there in making that comment.

MS ZIELKE (DIRD): The Department of Finance issues information on what should be made public on all grants that are provided to industry, so that's the standard by which all departments providing grants actually issue their information. However, I'm also conscious of previous background in the industry department and that if you want to try and assess that information on a long-term basis then of course your next after that is breaking it down by state. In relation to TFES you're not going to have that some need because then that's beneficial in being able to break it from there. Therefore, there is a standard using the Department of Finance standard.

MR JAMES (DIRD): At least for the grants.

MR QUINLIVAN: No, I appreciate we're possibly talking about something different here.

MS ZIELKE (DIRD): Not all subsidies, as I'm sure you're aware, are provided publicly. Often that's just historical, not because anyone has necessarily said no. It's often just the case that nobody has thought about it.

MS CHESTER: If we turn then to our draft recommendation around a minimum value of a claim line about the northbound, that could be applied to - we seem to still be meeting the policy objectives of the scheme but reducing the administration costs both for Government and the compliance costs for business. It would be good to get the department's view on what would be a reasonable or sensible threshold given

those objectives, we do put forward a threshold in our draft report of \$250, and then a sense of what sorts of goods and commodities would be ruled out, would no longer be eligible under the scheme if we were to put such a threshold in place.

There was a sense in the public hearings and perhaps a little bit of a misunderstanding that we were talking about line claims not the size of the claimant; that it was anti small business. So whilst we weren't able to get evidence from a lot of the larger shippers about the impact of such a threshold on themselves, ie, it didn't seem like there was one, they were very concerned about small claimants and start-ups and the like. So it would be good to get a sense of what sort of items would be picked up with such a threshold. Then, secondly, are there any other ways that we can achieve those administrative simplicity by consolidation of any line items going forward with the way the scheme is administered?

MS ZIELKE (DIRD): I note that I'm sure Marcus wanted to comment on this one as well, but if you were to put in place a base level so to speak, I suppose I'd be wanting to make sure we consulted with industry before doing that to understand more broadly what the issues are in relation to that and happy to check whether we can identify particular areas that might be impacted. Of course you could deal with it by actually allowing companies to group them or actually ensuring that companies are aware that grouping them over a period of time would allow them to get above a threshold, for example, so that they can still benefit from it.

I'd like to think that that would enable them to get a benefit from reduced paperwork in doing them all individually, for example, grouping them together as much as the Government would receive a benefit from not having to process those. I understand some of the people that have put submissions and also acknowledged that there is a point in time in which they would also encourage companies not to bother claiming because the cost of actually doing that work versus what they get back isn't comparable. It will end up costing them to actually apply for the subsidy. So it makes sense that there would actually be a level put in place.

For us it's about what it should be and what else we can do to make it helpful to companies to still be able to claim but to be doing it for an amount that's actually more appropriate, yes, benefit both.

MS CHESTER: Any other comments?

MR JAMES (DIRD): No, I'd agree we'd have to consult and we haven't done any modelling specifically of what would be the best level or a level that was reasonable and didn't cause disadvantage, or significant disadvantage, so it's something we can have a think about and get back to you on.

MS ZIELKE (DIRD): Although I still think that we'd be open to hearing

companies' views first before setting an actual level. I get the point though that you can draw a line in the sand and just say anything about 250 is fine. There's that general point often made that anything below \$50 isn't worth processing, given the cost of actually putting that through. Whether that is how a company would feel about is another thing altogether.

MR QUINLIVAN: I think based on what we've heard, the feedback from companies generally will be along the lines Karen said; that it's not a problem for them but it might be for others, so you're really talking about individuals and partnerships and that kind of smaller trading enterprises who would be affected and a bit harder to consult with of course as well.

MS CHESTER: Thank you. That would be very helpful. I think that sort of covers it in terms of the draft recommendations and information requests related to the TFES. Are there any other views or commentary that the department or the bureau would like to make on the TFES before we move on to some of the other schemes?

DR DOLMAN (BITRE): Just a very minor point on that last one. It might be worth also considering if you're going to have a minimum claim to maybe express it in terms of TEUs rather than a dollar value, so if it's a flat rate, it should be a straight - they should be the same thing. Half a TEU or a quarter of a TEU might be a reasonable way of expressing a minimum claim as well. I take the point that you've made in the report that there are a very large number of small claims that don't seem to be related to facilitating business transactions.

MS CHESTER: Although I think given that this item is really focused on the northbound, I'm just trying to think through what would be some examples of small non-business related - so if the department or the bureau is aware of any evidence or examples of that, it would be helpful.

MR RISBEY (BITRE): I'd just like to emphasise that it would probably be better to express it in terms of TEUs as well, whether that's volume or tonne based, simply because to work out how much you're entitled to, you have to go through the whole claims process. So to work out it's more or less than 250, you have to go through the whole complex process, so by setting it at 250 you're not actually saving the administration costs from a significant point of view.

MS CHESTER: Thank you. We might turn then to the Tasmania Wheat Freight Scheme. In that context we did receive some evidence in our hearings last week from Tasmanian farmers of wheat who did have a different perspective with respect to mainland wheat farmers and eligibility under the TFES. I think firstly it will be good to get a sense from the department and the bureau of your view on the recommendation that we've made in that regard, and then, secondly, some thoughts

on how that can be operationalised in terms of the principle being to ensure that the lowest cost form of freight is used with the transshipment of wheat across the Bass Strait.

MR JAMES (DIRD): The recommendation, as you know, is really consistent with what we put forward in our submission though there haven't been any claims for two, three years.

MS ZIELKE (DIRD): Since 2009.

MR JAMES (DIRD): 2009 or longer. It has moved to containers as Judith outlined at the start. We're just not sure about the value of trying to figure out a different rate within TFES itself. You made the recommendation about looking for the lowest cost shipping option. I don't know whether you want to comment on that.. Do you?

MR RISBEY (BITRE): Only that you've then got the issue of perhaps other grains receiving a higher rate, if they received a standard TFES rate, and yet you shipped wheat. If you shipped mixed grains with wheat in it, you might get one rate. If you shipped wheat, you might get a lower rate. So you've got that - yes, that would need to be considered. In our parameter review we actually look at the cost of bulk rail on the mainland and try to get an estimate of how much per tonne. Then you can convert that through to a TEU, standard TEU, or 20-foot container of wheat and I think we do that or at least we have done that.

Just to get an idea how much more assistance you get if you were to claim TFES versus - I guess it's feasible to do it. You asked the question what the implications would be in terms of claimant behaviour and I think - - -

MS CHESTER: Yes. I think given the objective that we're trying to avoid the current situation where the subsidy is compelling businesses to use a least efficient form of transshipping their commodities across the Bass Strait; how we can perhaps reframing the flat rate minimise that perverse incentive or that incentive to go to perhaps a higher cost of shipping.

DR DOLMAN (BITRE): I think there is a practical way of doing it, given the density of wheat is reasonably well known so you can convert one to another in a reasonably straightforward way. There's the issue that Tim has raised about the fairness compared with other grains. I guess it is also worth noting that the movement of wheat in containers isn't restricted to the Tasmanian trade as well. There has been more specialised use of wheat. It is being transported in a number of different ways. The trend to transport wheat in containers is occurring in other places as well. I suspect there is an element of that moving in containers to Tasmania and back that is related to the operation of the Freight Equalisation Scheme

but there is also probably an element of it, some of it being shifted in containers just because it is more convenient for the end user.

MS CHESTER: Thank you. That is very helpful. Does the bureau have any data or examples that we can - - -

DR DOLMAN (BITRE): Yes. We are just completing a report at the moment on movement of grains in Australia. I think we can provide some information - - -

MS CHESTER: That will be very helpful.

DR DOLMAN (BITRE): - - - about general trends.

MS CHESTER: Yes, across other states that don't have a subsidy.

MR QUINLIVAN: There is a broader principle involved here. I think we heard of other cases where I think road-making material was bagged to receive a subsidy and then tipped out of the bags at the other end because it is useless when it is in the bag, so there is a broader principle here, although I am not sure just what we can do with it.

MR RISBEY (BITRE): That made me think of fertiliser.

MR QUINLIVAN: That's another one, yes.

MR RISBEY (BITRE): Certainly it is bagged for some markets; in other cases it is shifted in bulk so it could quite conceivably be shifted from bulk to non-bulk and receive a subsidy.

MR QUINLIVAN: Yes.

MS CHESTER: I think we are starting to view this as these are sort of inevitable flow-on consequences once you have a subsidy that has lines for eligibility but where we can through the design of the scheme or the flat rate try to reduce those perverse incentives, we would like to do so, so if the bureau and the department have any other thoughts on it, that would be very helpful.

Turning then to the Bass Strait Passenger Vehicle Equalisation Scheme, I think it is fair to say that this was an area where our draft report did provide some commentary focusing on what was one of the I guess secondary objectives of the scheme; that is, in relation to benefiting tourism in Tasmania. When cast in that context should that be the benchmark against which the scheme efficacy is assessed? We then had a very voluminous response that actually the objective was more of an

equity one about offsetting the cost disadvantage of passengers accompanying their vehicles travelling across Bass Strait and that that's the appropriate benchmark.

To be fair to that feedback, to go back to the original policy, the policy objective was described. I think the more fundamental issue that we are grappling with then is the situation where there is one service provider, being TT-Line. It is not a commercially viable service provider and it is owned by the state government. If we look at the movement in the rack rate for eligible vehicles accompanied by passengers travelling across Bass Strait, it is fair to say that the subsidy has effectively been diluted completely over the last five or six years by increases in TT-Line's rates.

I am just wondering whether the department has any views or thoughts on how we can frame the scheme or add any additional requirements to mitigate the risk that if the Government were to decide to increase the rate of assistance under that scheme, it wouldn't just simply result in a transfer of the benefit to TT-Line and ultimately the Tasmanian Government who is the shareholder of that service provider.

MS ZIELKE (DIRD): I suppose in short, no, we don't have any suggestions in relation to how you improve it. I note the recommendations or the comments outlined in the report in relation to things like amalgamating the level of support to be able to provide a single tender outcome in relation to it. There are pros and cons for that, just as there are for the current arrangement, in that regard.

Whilst we talk about there already being competition, obviously there is competition in what is an unequal market in that regard. Unless my colleagues want to correct me in this regard, I can tell you that we have been able to come up with a better mechanism in relation to how you would support that.

MS CHESTER: One of our draft recommendations heads in the direction of seeking the Tasmanian Government to better articulate the objectives of owing the TT-Line, both in terms of providing a service as a passenger and passenger vehicle transshipment but also as a commercial freight operator. I guess having that articulated would be helpful but I am perhaps thinking whether or not there should be some further transparency in relation to the decision-making of TT-Line when it comes to the setting of rates for services that are ultimately subsidised by the Federal Government.

From the department's experience and from your perspective, is there any information that would be helpful in terms of trying to mitigate that sort of subsidy leakage risk going forward?

MS ZIELKE (DIRD): We are down to discussions or negotiations that would

occur between the two governments in relation to how they wanted that to actually operate and work. I'm not aware that there have been any recent conversations in that regard. I suppose it has been obvious that the position, for want of a better word, is there and yet the Government is continuing to, you know, continue with the arrangement as is without challenging it. Therefore, I don't think there is anything else we can add to it.

MS CHESTER: I think the Tasmanian minister for infrastructure made it very clear that the decisions were those of TT-Line and they operate under (indistinct) expectations in terms of eventually becoming a commercially viable operation themselves. Perhaps one thought there might be in terms of the role of the Tasmanian regulator to have some oversight of the price setting of effectively what is a monopoly service.

MR JAMES (DIRD): It doesn't sound unreasonable but it is a matter for the Tasmanian Government.

MS ZIELKE (DIRD): I suppose there are so many different mechanisms on which you could address that, whether through sale et cetera of the asset as well. There's a number of ways in which you could do it.

MS CHESTER: Thank you. Are there any other comments or feedback that you have with respect to our recommendations on the schemes in the report?

MS ZIELKE (DIRD): No.

MS CHESTER: One other draft recommendation that we had was with respect to some stepping back - so two streams of broader work. The first one is a coordinated freight strategy for Tasmania. We put forward in our draft report, given the likelihood that a lot of the funding for any freight strategy, medium to long-term freight strategy for Tasmania, would involve Commonwealth Government funding; that it would seem sensible to have some form of Commonwealth Government involvement in the framing of that strategy. Is the department to date involved in having any input to your Tasmanian counterparts in the development of that strategy?

MS ZIELKE (DIRD): The Government in recent years has taken the approach of providing support to the Tasmanian Government and then allowing it to actually then take its decisions from then on. Whilst we have discussions with our colleagues in Tasmania, generally the arrangements are structured so that the Tasmanian Government makes the call, so to speak, in that regard, obviously with appropriate representation from its industry broadly in doing that.

The number of strategies or attempts at strategies though have been lengthy

over the years and I note the comments from the FLCT in relation to utilising any unspent dollars from the current monies that were most recently made available through the \$20 million amount in 2011 as being an option in relation to funding that ongoing work. I'm not aware of exactly what funds are left in relation to that bunker at the moment and what period of time it might take that that support would need to be provided as well.

MS CHESTER: Thank you. Did you want to - - -

MR QUINLIVAN: Yes, just also on infrastructure spending and planning, in recent times - the Commonwealth is responsible for funding the main highway system in Tasmania and has also made a big cash injection into TasRail, much of which duplicates the highway system, and we couldn't help wondering, in the course of this inquiry, about the costs and benefits of those two investments when it was clear that TasRail it seems very unlikely ever to be financially viable, let alone commercially viable.

We have been told that there's a maintenance and investment deficit on the main highway network in Tasmania, or parts of it at least, and that seemed like a very odd combination of events and decisions to have been made. So the question inevitably arose for us, what kind of planning was happening there and the decision-making process to maximise the benefit of the Commonwealth's investment.

MS ZIELKE (DIRD): I would need to refer that to our infrastructure investment colleagues in the department. Obviously there's a business case put forward in relation to all of the projects that are subsequently considered by the Government in relation to where the Commonwealth is assisting in that. It's a fairly rigorous process in assessing those proposals and then the Government takes decisions in relation to the final projects that will actually be supporting - - -

MR JAMES (DIRD): Clearly through the Infrastructure Australia as well.

MR QUINLIVAN: And that's really where this is most sharply expressed, because the last review of this scheme and the broader transport system in Tasmania was done by Infrastructure Australia and Michael Deegan and he had some fairly pungent comments to make in this area, which also led us to think there's quite a lot more to be done in that area to get best value for investment.

MS ZIELKE (DIRD): The arrangements for infrastructure investment around Australia though are heavily influenced by governments and not by independent regulation or, you know, independent economic regulators in that regard so you will always feel a swings and roundabouts approach in relation to that level of support but happy to take on board whether any of those assessments, or parts of them, are actually publicly available and come back to you in relation to that. I would be

surprised if there wasn't some assessment available through the Tasmanian Government as well.

MS CHESTER: There is some commentary and feedback from the Tasmanian minister for infrastructure on this issue in our hearings from Friday, where I think it's fair to say - but check what's in the transcripts - that the Tasmanian Government was open to some involvement or dialogue with Infrastructure Australia cognisant that some of these projects would require their ultimate assessment and recommendation to the Commonwealth Government which we thought was helpful. I think that about covers it all for the questions that we were hoping to put to both the department and the bureau. Are there any other remarks or comments that either the department or the bureau would like to share with us in the hearings today?

MS ZIELKE (DIRD): I suppose the key point I would like to make is that we support the comments in relation to simplification of the schemes. Anything that improves and streamlines the administration and burden in relation the schemes, and also provides greater clarity would be, you know, extremely well received by the department and by our DHS colleagues as well. I can't help but also note though that changes to the schemes would require both the transition period in relation to that for ourselves and for the businesses involved, but also comes at a cost too.

There are systems that have been in place for a number of years that would need to be replaced and that would also require resources to go with it. I can't help but note the capital investment that actually would be required to support any changes to the schemes and I think we would find that there was a much better outcome for all concerned if there was appropriate resourcing given to those. I'm not talking about ongoing costs in relation to that; I'm talking about the investment to support changes to the scheme in that regard. I don't doubt that appropriate system support would potentially lead to other efficiencies, assuming the recommendations were appropriate to that and taken on board by Government.

MS CHESTER: So is that something that the department wants to provide some facts or evidence to the commission in the finalisation of our report or is it something that the department would be presenting to Government in terms of its consideration of its response to the final report?

MS ZIELKE (DIRD): It's something that we would of course be providing advice to Government on, but I would like to just acknowledge that that's a broader issue, particularly in the current fiscal environment. I'm conscious that you have, you know, gone to some trouble to recognise the limitations in relation to the budget when looking at what your recommendations might be. Those same limitations apply to what the departments can actually do in relation to delivering on those recommendations. I think it's an important thing to note in both cases.

MR JAMES (DIRD): And we do acknowledge that you certainly talk about two to three-year transition time frames, you know, in considering things like flat rates and other adjustments.

MS CHESTER: Although I'm sure the extension to exporters, if that is to be recommended and adopted by Government, would be the first cab off the rank in terms of immediate transition. I think just to clarify, so our scope and our approach to reviewing the schemes and stepping back and looking at Bass Strait shipping and the like, is more about getting the design right in terms of the Government wanting to make sure that the scheme is efficient as possible and delivering on its policy objectives.

So cost neutrality or fiscal neutrality isn't an objective of ours but we are mindful and don't operate in a vortex of the Government's current situation, mindful that if we're looking at design matters, if the Government did want to do it on a cost neutral basis it would be important that we had some views on the best way to do that and what some trade-offs might be. We have to have a lot of feedback on what are the trade-offs in relation to the south-bound component of the scheme. Look, I would also like to say that the submission that we did receive from the department, and obviously with a lot of input from the bureau, was both comprehensive and very articulate and well-framed, which makes the job for our team a lot easier, and as intimated by Gary, there's a lot of work where your department and the bureau have been be working with our team to help us gather the information and get the right evidence, and comprehensive evidence, to sort of form our views in the relatively short time frame before us. So thank you very much.

MS ZIELKE (DIRD): Thank you.

MS CHESTER: And thanks for appearing today.

MR JAMES (DIRD): Thank you.

MS CHESTER: Well, ladies and gentlemen, we will now take a break for people to stretch their legs and find some lunch. We are resuming our official hearings at 1.30 this afternoon. So if you are joining us again this afternoon, if you wouldn't mind being back here about 20 past 1 that would be very much appreciated. Thanks.

(Luncheon adjournment)

MS CHESTER: Ladies and gentlemen, we'll get underway. We'll resume our proceedings and hearings this afternoon. I'd like to welcome our next participants appearing before us, Patricia or Trish Tarlinton and John Tarlinton who are both regulars of the TT-Line. Thank you very much for appearing here this afternoon and for your submission. As I said, it's very valuable that we hear directly from folk like yourself who are actually users of these services and know first-hand what's involved in travelling on a regular basis across the Bass Strait. So if you wouldn't mind just each stating your name and whereabouts in Australia you're from for the transcript record.

MS TARLINTON: My name is Trish Tarlinton.

MR TARLINTON: I'm John Tarlinton.

MS TARLINTON: We're from Tomakin, New South Wales.

MS CHESTER: Great, thank you. Look, Trish, would you like to make a few opening comments or draw on some elements of your submission that you'd like to share this afternoon?

MS TARLINTON: Yes, great. Thank you for this opportunity. I'm really in to bat for the 700 people who signed these petitions. The petition, I'll just note what we said in it. "We the undersigned respectfully request that the National Sea Highway from Melbourne to Devonport be implemented in order to make it part of the national highway system." We're from many walks of life: Tasmanians, holiday makers from the mainland, primary and secondary producers, and family members who wish to visit our family at least once a year at least for cost.

We believe that contact with our family is a most important part of life. We also contribute to businesses that we visit, for example, petrol, caravan parks, food, entertainment et cetera. We want equalisation of cost of maintaining roads on the mainland to maintaining the ferry or ferries. We support the work that the National Sea Highway Coalition is doing in that this piece of water and the ferry should be part of a national highway funded federally.

Travellers should be able to come and go to Tasmania as they wish, not to have to wait, sometimes months to get to Tassie and the same to leave. Regarding the ferry, an A-class ocean liner is not required, just a well managed ferry. No shop is necessary. An A-class restaurant is not required. A buffet would be more than necessary. A bar is not essential. Poker machines and dancing is not essential but we accept younger passengers would probably like this facility.

We are then informed that most of the time the executive suites on the top deck

are not used. By restricting these facilities the costs could be reduced and more room available for passengers. Other caravaners whom we have spoken to just want to visit this lovely state at a reasonable cost. If they want a cruise, there are other ships which provide this service. They will also have more spending money when they arrive in Devonport and to be able to book tours et cetera to help the Tasmanian economy.

We consider that a fair cost for this service should be the cost per kilometre of driving a vehicle as set out by automobile associations throughout Australia. Our daughter and family live in Tasmania and we like to visit as often as financially possible. We like to attend grandparents' days and other celebrations but it's not possible due to cost. We are amazed at how expensive it is to travel to one of Australia's states. It has been for a long time that Tasmania has been some sort of a joke to be left off maps, we've all seen it, and the two heads jokes and Tasmania being treated like a poor relation. It is easier to ignore than to do something about it.

At the caravan park at Longford we spoke to various tourists last year who could not believe how much it cost to come to visit Tassie. So we organised a morning tea which was open to anyone who wished to discuss this problem. We invited two papers to attend and also politicians from this area. We had about 50 people. Following this meeting and the subsequent media coverage, I was contacted by the Tasmanian sea and state head, Don Mackrill, who visited our caravan with his wife to discuss these matters.

He then contacted the CEO of CNCA to inform him of our meeting. It was also following this meeting that Peter Brohier contacted me and has since kept me up to date on proceedings throughout Australia. My husband and I organised a petition to make Tasmania the responsibility of the Federal Government. With the help of many interested Tasmanians, we've collected over 700 signatures which we believe was put to parliament by the then Canberra Senator Gary Humphries but to date I have not had any notification of the result of this document. I have a copy for you.

I have people ringing me from Tasmania asking what is happening. All I can say is, "Nothing." I wrote to all senators from Tasmania and received one reply, from Senator Milne. I refer to The Mercury which I have a copy. I won't read to you. I refer to The Mercury of 16 February 2013, an article referring to the National Sea Highway. Peter Brohier has been working on this problem for nearly 20 years. He is not a politician but an interested ex-Tasmanian. I do have his permission to provide this article.

Tell me if I'm going too long, please. I was fortunate to be invited to a meeting earlier this year at the Department of Environment and Transport here in Canberra where there were many interested parties from Tasmania. Tasmania is a state of Australia with no means of connection to other states other than sea and air. Let us

for a moment think of Perth with no road to the east. What would be the result? What of Adelaide with no connection to other states, and the same for all of our capitals. What a disaster. The same disaster is happening to the youth of Tasmania.

Employment is not fruitful. Trade is frightful. Our family are teaching in Tasmania. I get sooky when I talk about this. I'll go past it. We want Tasmania to be fruitful and available to all of Australians. Our petition stated that most visitors to Tasmania just want to get there, not to have a cruise line with entertainment, movies, bars, restaurants, et cetera. We know more people would travel more often if the cost was not prohibitive.

Could the commission please ask the Tasmanian and federal politicians to get off their bottoms and do something as it seems that it has fallen on people like ourselves to do something. We're not funded by anyone but we're interested in fairness as Tasmania is a little state where good things come in small parcels.

We had a family reunion over Christmas this year and the cost to our family coming from Tassie was \$782 for one return on the TT-Line. On the return journey my daughter and children paid \$480 from Melbourne to Launceston by air which is a bit more expensive than driving your car. This was supposed to be a very good fare. Coming to the mainland, they went via Sydney. I'd also note here that there's no direct flight from Canberra to Launceston. There may be one to Hobart but then one has to bus it to Launceston and I'm not sure of this. Perhaps that can be followed up. Jetstar once did a direct flight from Canberra. It was cancelled some time ago.

We're a close family who want to be near our grandchildren and of course their parents. What is the incentive for other families to travel to Tasmania? Our friends now travel to Europe and America instead of Tasmania. What a sad case. When the National Highway is extended, tourists would return off it often, not just to have a one-only visit. The cost of travelling to Tasmania is much more than travelling to China or Europe. We travelled to Tasmania last year and it cost \$1800 for my husband, myself and a caravan. We travelled to China later in the year to visit our daughter in Beijing. It cost \$749 each.

We spoke to a lady this morning from a caravan park in Tasmania who told us that the tourists they're getting for parks are from Tasmania not the mainland. Tourists are flying in, picking up an RV rental and staying for one to two weeks. Those like us who go in caravans and motorhomes stay for two to three months. Hence, the money spent stays in Tasmania. Caravan parks can then still exist.

We would also like to know why caravaners are charged the full length and height of a car and caravan whereas motorhomes are charged a little bit more than a car. The tow car can travel separately at a much less cost. We don't feel it's fair for those who cannot afford a motorhome. We want the Hume Highway extended over

the Bass Strait. Let's call it a National Sea Highway. TT-Line at the moment has to make a profit. Why? Hume Highway does not make a profit but it costs millions to maintain. The same should be a government owned ship. It should be a free service for all Australians.

Tasmania must be treated the same as other states in Australia. This is now 2014 and Tasmania is no longer a penal colony. Tasmanians would also like to visit the mainland. Come on. Give Tassie a fair go.

MS CHESTER: Trish, thank you very much. We followed your comments in your thoughts. We do understand your need to travel to Tasmania to visit your daughter and son-in-law and four grandchildren in Launceston, and appreciate that given you do want to travel with a caravan to stay there for a length of time, the only sensible way then to do that and cost-effective way for you is via TT-Line, but we also do understand that the cost of rates of travelling the TT-Line have gone up a lot, particularly in the last five to seven years, based on the evidence that we've seen.

So just coming back a step, the government when they introduced the Bass Strait Passenger Vehicle Equalisation Scheme which is a very long name, so I'll just call it the scheme, was really looking at trying to offset some of the cost disadvantage for folk like yourself who wanted to get across Bass Strait with a vehicle or with a caravan but it wasn't ever meant to be the full cost, offset the full cost. It was meant to just sort of - some of the disadvantage of having to go via ship over the seas as opposed to being able to tow your caravan 420 kilometres in New South Wales. So we're conscious that it was never meant to offset all the costs but that said, I think it's fair to say that the subsidy that the Government pays through the scheme with the rates of TT-Line going up have now offset the benefit of the subsidy.

That raises a difficult issue for us. The commission are looking at the issue because if the Federal Government were just to up the rate of subsidy through the scheme to passengers, accompanying motor vehicles or caravans or motorhomes, there's nothing to stop TT-Line from just getting you - and to increase their rates and, therefore, it offsets the benefit of the subsidy. So that's one of the issues we're trying to work through and it's one of the issues that we've raised with the Tasmanian Government, given TT-Line is government owned.

Unfortunately it's not commercially viable. It doesn't make a return to the Tasmanian Government. They as a shareholder don't get any money out of it. It's running at a loss and so that makes it difficult for us to know whether the rate increases are justified or not, but one of the issues that you did touch on that would be good to get a little bit more feedback from you, given that obviously when you stay at the caravan park you're talking to other people like yourself who travel across the TT-Line - one issue that has come up in some evidence is about what I'd call

unmet demand, so people like yourself who want to make a booking on TT-Line and travel across unable to get a booking, unable to get a spot. It would be good to get some feedback from you as to what sort of things you've heard from people that you've met at the park.

MS TARLINTON: Yes, I can do that. I have a friend at a caravan park down there and that's often a mention, yes, that they can't ever get on to come over or get on to go back. It is a problem.

MS CHESTER: What sort of lead times would you normally look to plan to make your booking to travel across, to make sure you can get a spot?

MR TARLINTON: We probably book about four months ahead I think, most of times.

MS CHESTER: So you've had no problem getting a spot and getting a booking that far in advance.

MR TARLINTON: No.

MS TARLINTON: No, but things have changed there also because you used to be able to have a flexi-fare where you could book a particular date and then if the circumstances, whatever, you had to change it, there was no problem. Now and I'm sorry I don't have those figures but I think there's a \$250 fee or there's a somewhat fee for changing your booking which makes it very, very difficult, particularly for a pensioner. I mean, that's just pensioners. A lot of people just haven't got that extra money and if they cancel, there's a problem with the refund. Those things should also be checked up but it is a lovely ship. We're not knocking the TT-Line itself. It's lovely but it's not needed. It's just a mode of transport from - most people go to bed by 9 o'clock, so there's really no need for all that evening entertainment to the general people just going backwards and forwards to Tasmania.

MS CHESTER: So if you have to travel down to see your daughter and the family on short notice or if it's just a short visit that you do every special grandparents day or something at school, would you fly down then?

MR TARLINTON: Generally we would have to.

MS TARLINTON: She used to have accommodation but now with four children, we've got to take some sort of accommodation. So they really haven't got room. She'd make a room I think. She really hasn't got any. She takes the children out of their beds for us to come in, or else we stay at a cabin in a caravan park but that's where flying there doesn't really work for us, does it?

MR TARLINTON: Not now. Not with that problem.

MS TARLINTON: No.

MS CHESTER: That's because you're there for a longer period of time and the caravan then becomes your house and it's more cost effective to stay in a caravan.

MS TARLINTON: Yes. We went there for three months last year. From November to January we were there last, over the last I think it was 12 months.

MS CHESTER: We have received evidence, particularly from organisations representing people like yourselves who use caravans and travel around Australia - you know, that benefit you are talking about of staying there longer and spending more money in the town. That is one of the benefits that the bureau which is part of one of the government departments has tried to measure when they are looking at the tourism benefits of the scheme; but the biggest issue that we are trying to grapple with is that if the subsidy rate were to be increased, we are not sure it is actually going to get through to people like yourself or whether it will just be captured in an increase in the rates from TT-Line.

MR TARLINTON: It seems that that has happened so far over the last seven or eight years. The benefits have just waned, you know, and been absorbed by TT-Line.

MS CHESTER: One other thing that we have had some evidence on from one gentleman in Tasmania - like yourself a pensioner - was that he couldn't always get a pensioner fare; that they were rationed apparently. Have you had that experience or have you heard of that experience?

MR TARLINTON: I have heard of it, yes. We have had a problem but it didn't affect us a lot because we got passages pretty close to it, but some people have been sitting around for over a week I think in Melbourne waiting for the pensioner fares.

MS TARLINTON: It was interesting actually. One person from a caravan park - I left it in my notes there - wanted to get onto the boat and they said there wasn't room. He spoke to another person who wanted to bring their caravan and car over on the ferry at short notice - "Sorry, no space available". He phoned later and asked if there was room for freight to Tasmania. "Yes, what size?" He gave the size of his caravan and car - no problem. He then told them he wanted to book his caravan and car on. He got on. That's what makes it difficult. It is almost as though they are stifling tourism to Tasmania. The TT-Line ad is beautiful. You know, you can drive on to the boat and go in but to actually get on there is quite difficult.

MS CHESTER: We have heard from other folk that they feel that freight has been

given a greater advantage or greater access to the slots than the passengers accompanying vehicles. One point, Trish, that you did mention was what you saw from your perspective to be an anomaly between the greater the subsidy or the rate that TT-Line charges for a motorhome versus a caravan and car. Am I right in saying - and excuse my ignorance on these matters - that they are about the same size collectively, or is the motorhome - - -

MR TARLINTON: It is probably a bit smaller in some cases. A motorhome, say 25 foot, and a small car is nowhere near as long as, say, a Land Cruiser and a seven metre caravan but the cost is hugely different. A car I think at the moment you can take over for about \$90. A motorhome is about another \$20 to \$30 dearer than that, so if you take them separately you are looking at around about \$200.

MS CHESTER: So what is the cost of a car and a caravan?

MS TARLINTON: It cost us \$1800.

MS CHESTER: Say you just had a motorhome instead of a car and a caravan. Do you know what the price difference would be?

MR TARLINTON: The cost for the motorhome would be about I think \$120 each way, so it is a huge difference.

MS CHESTER: We can look into that but it is the first time that issue has been raised with us. We can look into it.

MS TARLINTON: That is a common complaint from caravans - exactly that.

MR TARLINTON: If you take two vehicles together, it is so much more expensive than taking two separately. You can't take a caravan on separately because you can't drive it on.

MS TARLINTON: But you can take a little car that you tow behind the motorhome separately, so you have still got the use of it as a separate vehicle when you get there but I could drive a little Suzuki on and John could drive a motorhome on and we go independently; whereas with a car and a caravan, it is all one space and that's wrong. It really is wrong. It should be - measure the caravan. It all takes up the same space. It is just a way of getting money.

MS CHESTER: Thank you for raising that with us, because nobody else has.

MS TARLINTON: Thank you.

MS CHESTER: I didn't really have any other questions for you today. Is there

anything else that you would like to share or say to us this afternoon? I do appreciate you have come a way to present - - -

MS TARLINTON: Well, our heart is in Tassie. We just want people to be able to get jobs down there, to be able to make a living. There are so many people who are going bust and they depend on tourism. If you haven't got people coming from the mainland spending their money, where is it going to come from - not that we have got much to spend.

MS CHESTER: It all adds up. Thank you very much for taking the time to make a submission and gathering all of those - - -

MS TARLINTON: Thank you very much for listening to us. Can I leave this with you?

MS CHESTER: Yes. Thank you very much.

MS TARLINTON: Thank you.

MS CHESTER: Feel free to stay if you would like to. We have got another participant and then we will have a break for afternoon tea. Thank you very much.

MR TARLINTON: Thanks, Daryl.

MS TARLINTON: Thank you very much.

MS CHESTER: I would like to ask our next participants to join us from JBS Australia Pty Ltd - Mr John Berry. Welcome, gentlemen. Thanks for making the trouble here today to join us and for your initial submission. It is very much appreciated.

MR BERRY (JBSA): Thank you.

MS CHESTER: If I could get you both to state your name, title and firm, that would be very helpful for the record.

MR BERRY (JBSA): Sure. My name is John Berry. I am a director and head of corporate and regulatory for JBS Australia.

MR McCONNELL (JBSA): My name is Sam McConnell, chief operating officer and director of JBS Australia.

MS CHESTER: Thank you very much. Are there any opening comments you would like to make before we get into some questions?

MR BERRY (JBSA): Yes. JBS Australia is Australia's largest meat processor. We have ten processing facilities across five Australian states. In Tasmania we have two processing operations located at Devonport and Longford near Launceston. We employ across both sites 550 people. Our total annual livestock and wages cost alone for Tasmania is over \$120 million. Each dollar spent has significant multiplier effects throughout the Tasmanian economy. Just a point of clarification and correctness. In our original submission of 20 December we included the figure of \$65 million which is incorrect. It is \$120 million.

MS CHESTER: Thank you.

MR BERRY (JBSA): The Devonport processing facility supplies the local Tasmanian domestic meat market and trade. In our view, the Productivity Commission's Review into Tasmanian Shipping and Freight is timely. The findings must in our view be a driver for increasing business investment and economic growth in Tasmania. Importantly, Tasmania continues to be a high cost to operate production platform to service key domestic customers and also importantly growing demand from international customers. Returns for both the producer and the processor in our sector are being eroded in Tasmania by the significant transport and logistic cost in servicing these markets.

Based on improving opportunities for Tasmanian beef and lamb producers, along with the competitiveness of our processing businesses in Tasmania, with specific reference to our Longford export facility, JBS Australia would like to propose and support the following issues which were included in the commission's

preliminary report. The first point is that the Tasmanian Freight Equalisation Scheme be extended to include all export movements from Tasmania and importantly if there is a direct international service, these subsidies are in place to support export.

Secondly, based on a cost comparison against similar movements on the mainland the current level of TFES subsidy for domestic containers in our view is adequate. Even with a direct international service, point 3, from Tasmania, the type of product that we produce chilled and frozen, the international market access requirements would dictate how the product is transported. Therefore product, especially high value chilled beef and lamb will continue to be exported via Melbourne.

Fourthly, the level of TFES support for livestock movements from King Island to our Longford facility needs to be increased to cover the significant differential between transporting a beef animal a similar distance on the mainland.

The fifth point: the level of TFES support for livestock movements from the mainland to Longford is increased to cover the significant differential between transporting an animal a similar distance on the mainland, and lastly, Tasmania becomes exempt from cabotage. Sam heads up the southern Australian operation. I think it's important for Sam to follow up with how we operate and the need to operate businesses in Tasmania 12 months of the year.

MS CHESTER: Thank you.

MR BERRY (JBSA): So long as the facilities of Tasmania's largest processing facility and the state's only multispecies processing facility, importantly for Longford facility, it has sought accreditation access to all key international markets for beef and lamb. It's very hard to attract these accreditations. These markets include Japan, the US, EU, China, Korea, Middle East, Saudi, Russia. It's also the only EU and Malaysian-approved plant in Tasmania, beef and lamb plant.

Tasmanian beef and lamb product has a clean green image in the Australian domestic market. Historically, prices paid for Tasmanian livestock have been above the mainland in Australia. In order to extract value for this premium paid for live animals across many cuts produced, it requires the ability to sell efficiently into the domestic market and importantly based on increased demand directly in customers in international markets. You must be able to get 100% of carcass utilisation. It's not just selling a couple of cuts into the Australian domestic market.

In recent years we've grown the export orientation of the Longford business based on increased demand in the emerging international markets combined with the demand for a natural product by high income-earners in Australia and established in

emerging international markets. JBS has been the leader of developing brands for Tasmanian beef and lamb products. These brands are underpinned by traceable supply chain systems.

From farm to customers and, in the case of the great southern, underpinned by ISO standards, third party audited, we have product going out now into three international countries at a retail level. In 2013 exports from the Longford represented around 73% of the total production. All of this product was shipped directly to international markets via the Port of Melbourne and was not eligible for assistance under the TFES. On our figures the results is over 2 million per year in direct assistance, which is foregone. This is significant, based on the high costs of locating transport and containers to Melbourne and the additional cost of the international shipping.

If export was eligible for the TFES systems, based on the 2011 and 2012 figures shows on page 13 of the draft productive commission report dated January 2014 our combined volume would place JBS Australia in the top 10 TFES claimants.

We understand there has been a lot of discussion in Tasmania around the need for a direct export service. A direct export service from Tasmania will not meet the total requirements of our business in terms of frequency of call and range of destinations required within specific market access requirements, for transport time for high-value chilled beef and lamb. Even with one or possibly two international carriers calling directly into Tasmania this will not create the competition as in the place with Melbourne and other east coast Australian ports.

The fact is that global trend is and will continue to be towards larger vessels unless there are the volumes and these vessels will not service destinations. The other important trend in the international shipping arena is the reduction in number of port calls and to run smaller coastal vessels or road and rail into these key ports. International trends on refrigerated commodities on reefers are towards 40-foot containers. These fit better into the global transport network as most other companies do not use 20-foot refrigerated containers.

MR McCONNELL (JBSA): JBS Australia's Longford facility processed all year round, which is a challenge, considering the seasonalities in Tasmania. This requires an ongoing supply of livestock to maintain production to ensure continuing employment even through the wetter winter months. The facts are that the Tasmanian producers have optioned to sell livestock for processing in Tasmania or to processes in Victoria. TFES assistance is available to facilitate this trade. JBS Australia, based on its commitment to its Tasmanian processing operations and its people, does not send livestock off Tasmania for processing in a mainland operation. Importantly, due to supply and seasonal conditions in Tasmania, there are times throughout the year that we bring livestock from the mainland. However, based on

our commercial information, the costs of transporting livestock on a per head basis to and from Tasmania is approximately twice the cost of similar distance movements on the mainland.

The TFES support for livestock movements to and from Tasmania falls considerably short of the differential between the cost of similar distance movements on the mainland.

MR BERRY (JBSA): Certainly as part of our supply and brand strategy, King Island is a major part of that. King Island has a herd of 100,000 head of beef cattle or 20% of the total Tasmanian herd. The island produces a high-quality, grass-fed animal. The King Island brand has a long-time reputation for high-quality in the Australian domestic market. JBS Australia is the owner of the King Island brand. The brand, its integrity and ongoing development is undertaken in concert with our King Island supplier base and customer. JBS Australia acquired the King Island processing facility as an asset within the Tasman group in 2008. The facility, though export approved, processed only 120 to 130 head of cattle per day.

The cost of processing an animal on King Island was significantly higher than other processing facilities. Variability and throughput numbers impact on the fixed cost of the business. In addition, the cost of positioning containers and transporting the finished product from King Island to Devonport and then to Melbourne was prohibitive. Importantly, it was the same cost to move the product in a container to Melbourne from King Island as it was to send the same container from Melbourne to an international customer.

Significant resources were injected into the King Island business by JBS to improve its capacity and cost to operate. However, in late 2012, four years after buying the business, we made a decision, due to significant losses, to close the King Island facility and focus on growing the long-term sustainability of the Longford business. Today JBS Australia transports from King Island around 450 head of premium beef cattle on a Sunday afternoon shipping service to Devonport and direct to Longford by road for processing. As detailed on page 48 of your report the cost of livestock transport is considerably higher than on mainland Australia. The net cost after TFES of transporting a beef animal to Longford via Devonport, a distance of 341 road-equivalent kilometres, is around \$118 per head, and that was supported in the submission from the King Island producer group.

For the purposes of comparison based on a deck equivalent of 22 head of cattle, this cost equates to \$7 per deck kilometre. In comparison, a similar transport distance in Queensland of 341 kilometres is around \$1.80 per deck per kilometre. And cabotage: well, if removed, cabotage may have the effect of increasing the competition's space ability from movement of containers from Tasmania. It has the potential to benefit both domestic and export businesses. Currently we as a company

do not see any direct benefit as a business under the current arrangements due to a limited export service from Bell Bay, but the question that we would have if cabotage was dropped: how would that flow through to lower cost as opposed to higher margins for the service provided? That's it.

MS CHESTER: Thank you very much for those opening comments and for some other very valuable data and evidence that you have provided beyond your submission, which we're happy to sort of take as evidence as part of this inquiry. It would be good to follow up with some questions now if I may.

MR BERRY (JBSA): Sure.

MS CHESTER: Your submission rightly notes that the transport and logistic cost for your Tasmanian operations is significantly higher than your mainland operations, which gives you a great cost comparator and gives us an insight into the cost of operating in Tasmania versus the mainland. Apart from transport or freight costs, are there any other factors that are contributing to the operating cost disparity between Tasmania and mainland Australia? We'll come on to international operations in a minute.

MR BERRY (JBSA): Yes. I think it's important to understand that the Tasmanian product is, as we said in our opening comments, seen as a premium product on the Australian domestic market. You know, it's quality both on the beef and lamb side but as Sam alluded to, we have to maximise the value of our carcass utilisation so though there may be an opportunity to sell product into the domestic market by cuts and they are in demand, we have to sell the whole animal around the globe, and that's where the statistic we have put on the table today, around 72% export, shows that the King Island business needs to be able to access all markets in a very cost-effective way. If you take another cost to operate, transport is the stand out in terms of cost to operate challenges, getting containers to position them on Tasmania and to move that finished product out. It's important on a daily production to keep those cold stores filling those containers and to get that product direct to the Port of Melbourne and then to the end customer.

The other important issue, and Sam is better placed than myself, but our brand strategies have been supplying high end customers around the globe 52 weeks of the year. We need to make sure that we continue to have livestock available, whether that's from bringing livestock coming from the mainland to Tasmania or making sure that we've got the numbers to process throughout the year on Tasmania.

MR McCONNELL (JBSA): If I could just add to John's point there as well. For us an average 40-foot container of chilled beef or lamb, sometimes we mix them together, is about 150 to 200 thousand per container. So it's high value goods and obviously they're perishable, so the movement - you've got to keep them going fast.

You've got shelf life going into retail customers. If we go to UK, we arrive in London, you've only got three weeks to sell the product, so if it misses a slot - gone. So it's critical to our business if we can get this movement going, to be able to pay these premiums.

MS CHESTER: Across the two plants you've got in Tasmania at the moment, over the two of them what's the percentage that are going to international destinations versus Tasmania versus mainland?

MR BERRY (JBSA): Yes, good question. Longford is 72 per cent export. Devonport is a domestic focused business, either Tasmania or product going to mainland Australia.

MR McCONNELL (JBSA): And does the only pig processing for one retailer in Tasmania.

MS CHESTER: What's the percentage of volumes that you are processing between Longford and Devonport? I'm just trying to get an idea of the overall Tasmanian operation.

MR McCONNELL (JBSA): Yes, sure. Longford we're basically processing around 470 head of cattle a day and 1700 sheep. Devonport do it all in sheep equivalent because it will be easier, it's about two and a half thousand sheep a day.

MS CHESTER: Thank you. For the Devonport, what percentage is going across Bass Strait to the mainland versus what's staying in Tassie for the local consumption?

MR BERRY (JBSA): Probably about 30 per cent because we've been trying to get some more into a retailer on the mainland to make it work, otherwise the plant is not viable because of these costs.

MS CHESTER: Just going back to the costs and we'll talk a little bit more about your international shipping these in a while as well. You're right it's very timely given the mooted potential return of a direct international service. So when you're looking at transport as a percentage of operating costs, and I don't know if you've got exact numbers here for your sort of relative orders of magnitude. What would the percentage be for your Tasmanian operation versus your other mainland operations?

MR BERRY (JBSA): Based upon our costs, it would be between 11 and 15 per cent.

MS CHESTER: For Tasmania? What would it be for the mainland?

MR BERRY (JBSA): I haven't got that figure unfortunately but it is significantly higher in Tasmania.

MR McCONNELL (JBSA): It would be in single figures.

MS CHESTER: Is that a figure you're able to give readily or not?

MR BERRY (JBSA): Yes, we will.

MS CHESTER: No, I didn't want you going to - - -

MR BERRY (JBSA): No, more than happy to give a comparison but I think you've also got to look at it from the locational perspective. In the case of our Queensland operations, they have access to the biggest beef export port, being Brisbane. So there's economies; there's back-loading opportunities New South Wales through to Port of Botany or Melbourne and Melbourne and South Australian facilities. So the land transport component is lower. The direct port cost opportunity for us is lower as well.

MR McCONNELL (JBSA): I suppose a real life example this is. Last week I sent a 40-foot container from Melbourne to Philly and one had to come from Tasmania to Philadelphia. It cost me the same to go out from Tassie to Melbourne as I did to go from Philly from Melbourne. That's the same customer and they all pay the freight again but he's not going to pay me for that extra freight.

MS CHESTER: No, I understood that. That's helpful for us to get in terms of some of those international comparisons, and then in terms of your mainland operations, is there an on average sort of split of exports versus for mainland consumption?

MR BERRY (JBSA): Yes, in our northern operation which are four Queensland plants, Townsville, Rockhampton, Toowoomba and Dinmore near Ipswich, in the calendar year 2013 just around 90 per cent of the total production out of those plants was for the export market. Our Riverina plant near Yanco in New South Wales is highly export orientated. Sam has the Brooklyn business which is the largest multispecies facility in Australia near Melbourne. That's a domestic customer but it has outside of that an export component. Cobram, our lamb plant, export. Bordertown in South Australia, 8000 lambs a day, double shift, highly export orientated, and as we've said, you can't run a business out of Tasmania just on domestic focus, so our strategy has been - Sam has done effectively the mainland, to do the same there and grow the export orientation of it.

MR McCONNELL (JBSA): As a rule of thumb you can probably find the Australian industry figure of 65:35 for beef and it's fifty-fifty for sheep meat.

MS CHESTER: Thank you.

MR McCONNELL (JBSA): As a company, we've got a higher orientation than the national figure.

MS CHESTER: Your submission also made some reference to cost comparators to process livestock in Australia versus a couple of other international operations that you own. So three times in Brazil, twice in the US and 1.5 times in New Zealand. I know you may not have exact figures here but if you were just looking at doing attribution and why such a disparate processing, how much of it would be related to transport costs and how much is it to do with other cost of production factors in those geographies?

MR BERRY (JBSA): When you look at it the cost to operate, 70 per cent of the cost to operate is in - I'll start again. The live animal is the most expensive component but if you look at the balance between that and 70 per cent of that balance then differs across species and locations - is labour and then you've got a whole lot of other costs associated with it. Just interesting, the whole regulatory red tape reduction is quite topical at the moment. We did some figures on our northern plants last week.

Taking out the labour component, 18 per cent of the cost - sorry, it was in labour. It was the total cost to operate. 18 per cent was in regulatory costs, state and federal. So we are a highly regulated export industry. Cost whether it be DAFF inspection costs, the impact on our industry, our business, through the carbon tax was a significant cost. When you look at the transport component of this, it comes back to - it is fundamentally cheaper to run the transport system on mainland Australia than it is in Tasmania. The Tasmanian component, as we said, in total percentage terms is higher than the same transport costs associated in doing business on mainland Australia.

MS CHESTER: But for 70 per cent of your operating costs, wherever you are in the world, it down to labour. So it's then down - - -

MR BERRY (JBSA): No, it may be different. Labour costs in between the US and Brazil, the US is about half the cost of an hourly rate of labour. We're double it and that's primarily due to higher hourly costs and significant on-costs of around 40 per cent.

MS CHESTER: That's helpful. Turning then just for a moment to King Island before we talk about the broader exporting needs of your business in Tasmania, I understand with the close of the abattoir. Are you able to just talk through the relevant matrix in terms of cost of processing and getting livestock as processed meat

to, say, the mainland market pre and post the abattoir closing on King Island?

MR BERRY (JBSA): Look, I think what we saw at King Island was the need to position containers to King Island, heavy containers. There was a cost associated with that and based upon a small volume per day of 120 to a maximum of 130 animals processed a day then we had to make sure that that product, especially the high value of chilled (indistinct) international markets was then out in those markets in the shortest time possible and that had its challenges, especially only having a weekly service through to mainland Tasmania and then on to Port of Melbourne. So the cost structures around the King Island business was amplified to that of either Tasmania, Longford, or mainland Australia. As I said, the cost of doing business on Tasmania, the cost of processing an animal and the transport cost, was double, double the cost of our mainland operations in terms of that transport component on a per head basis.

MS CHESTER: But you do have operations in Victoria.

MR BERRY (JBSA): We do.

MS CHESTER: Obviously you still make a decision if it is economic for the presence of the two to continue to operate in Tasmania.

MR BERRY (JBSA): Yes. The decision to close King Island was that we needed to make sure that we, as I said in the opening comments, had throughput at Longford. Longford is a multi-specie facility. It is well placed internationally for market access and rather than having two facilities running at less than optimum capacity, the decision unfortunately was made to close King Island.

MS CHESTER: John, you mentioned before some processing shifting to Victoria. Are you able to elaborate a little bit further on that?

MR BERRY (JBSA): Sorry. I am not clear on that.

MS CHESTER: You mentioned earlier on - and I don't think it was particular to JBS's operations but others where the processing of livestock has moved to Victoria.

MR BERRY (JBSA): I think it was put in one of the contexts, and we will clarify this if we need to, that we have not taken livestock off King Island to process in the mainland Australian operations. We did for one week and that was way back. We had some shipping issues. We process Tasmanian livestock on Tasmania. There is a leakage off Tasmania when producers of these livestock sell their livestock to Victorian and mainland processors. We don't do that. We are focused on buying Tasmania livestock, processing in our livestock processing facility at Longford and as Sam alluded to, to ensure that we have got 52 weeks of the year production and to

address seasonal conditions and supply side challenges, we do bring livestock from mainland Australia to Longford for processing.

On a per head basis, and just giving a lamb equivalent per head basis, it is over \$8 per lamb as opposed to - to bring an animal to Tasmania from mainland Australia, it is around \$4 to move that lamb the same distance on mainland Australia, so again double the cost.

MS CHESTER: Thank you for that. When you were referencing before some processing from other operators going to Victoria, we have received some evidence of the way the scheme is currently designed because it doesn't pick up all eligible commodities - it is shipped to the Port of Melbourne, in particular exports. Some processing activities have shifted to Victoria to get eligibility for the scheme. Was that a factor at play there?

MR BERRY (JBSA): No. We have got significant investment in our Longford facility. The whole objective is to make sure that is long-term sustainable. That is where our business focus is.

MR McCONNELL (JBSA): And so we can keep the workforce there 52 weeks of the year and keep up the quality.

MS CHESTER: Understood. Thank you. It would be helpful if you could just outline your freight path to market from Tasmania and whether that has changed, whether or not pre and post the AAA service that was available - were you using any of those - - -

MR BERRY (JBSA): The fact is that there is a handful of operators who can move the product to the Port of Melbourne. Our view - and I suppose I will digress just slightly. There is a lot of passion and emotion for a direct service into Tasmania. Our view is that it would be very difficult to stack up economically. The volume is not there. As we said, the trend is towards larger international vessels, 40-foot containers. Investment required in the port system down there we believe would be significant. It is no use in our business having a service which rotates every 21 days or two weeks. We have got chilled high value product - as Sam said, very high value, \$200,000 a container which needs to go now.

The other important issue is the idea around moving product direct internationally, hubbing out of some locations. Our view is that Melbourne, because of the scale of operation, will continue to be the significant port for Tasmania going forward because of its orientation - it's a cost operator - and the destinations it services.

MS CHESTER: Just to make sure I understand it, any of the shipping lines that

were previously servicing AAA weren't used by JBS for any export.

MR BERRY (JBSA): No.

MS CHESTER: It is more about the hub that the Port of Melbourne provides in terms of accessing your markets in the most time-efficient way.

MR BERRY (JBSA): It is. As business people we are not shippers but we are intimately involved in shipping large volumes around the globe. As Sam said, we are 70 per cent orientated. In our northern operations, we are 90 per cent. We are well above the Australian average. We know where product has to be moved, in what time frame and what cost structures. Tasmania for us - we can't base our commercial decisions going forward at Longford around the expectation of a direct international service out of Tasmania. It has got life on it, shelf life requirements, product integrity, product quality, so it is imperative that we have that product in the shortest time possible to our end customers so that there is no commercial downside to us.

MS CHESTER: That is helpful because one of the key judgments that we are trying to arrive at is with the mooted entry potential of a regular containerised service directly to export markets from Bell Bay which we understand to be maybe once every 18 days and there's a few stops along the way so it is not a time-critical freight like yours, what percentage of the Tasmanian export task does that meet the needs of
- - -

MR BERRY (JBSA): That's a good question.

MS CHESTER: - - - given the issue we are grappling with is exports previously were covered by the scheme, the primary reason we understood being that there was this direct international service with the AAA consortium. I am just trying to work out what this proposal means for exports more broadly.

MR BERRY (JBSA): We are here to represent our interest as a company. We have got a significant investment, as we said, but again we could be proven wrong. We can't see how a direct service would stack up without significant subsidies and how it would stack up without subsidies and be competitive with Melbourne going forward.

MR McCONNELL (JBSA): I think it is very important to note that any business - normally business is strong in certain areas. Shipping is no different. Certain shipping lines are a lot stronger in some lanes than they are in other lanes. Some are strong in Europe; some are strong in north Asia, north America or wherever. By coming into Melbourne - Singapore is the biggest port in the world, followed by Port Klang which is coming in very fast, number 2, in Malaysia. Vessels going there give

us access to the whole globe, so we have got to get them there as fast as we can because again we can't miss a slot.

As you know, the shipping lines are all merging and taking each other over, so it is getting harder and harder for us to be able to make sure we meet those deadlines, so coming out of Melbourne, Brisbane and Sydney it is a lot easier.

MS CHESTER: With the current transshipments that you are doing across Bass Strait, which of the providers are currently meeting those needs for you?

MR BERRY (JBSA): We're using a number of those. We are using Toll. We are using SeaRoad.

MS CHESTER: Do you use TT-Line at all?

MR BERRY (JBSA): I don't think so.

MS CHESTER: What is the duration of the contract that you enter into with those shipping lines for the Bass Strait service?

MR BERRY (JBSA): I think it comes back to throughout the year the volumes, the mix between species with the beef and lamb. We're in a situation whereby we have got to look at it from when we buy the animal, through the processing and the cost structures associated with that. The Tasmania to Melbourne link though is an expensive piece of water. We believe that quite clearly even if there is a direct service in Tasmania there has to be a commitment by any government, federally and at the state level, to expand to the export TFES component because otherwise, as we said, the perception around Tasmania and its premium will be eroded quite significantly quite quickly. If you want to grow a business in Tasmania, it has got to be not just around domestic; it has got to be export orientated.

MS CHESTER: Thank you. One of the issues that we did try to get some evidence on and we had some commentary in our draft report was around the competitiveness of the shipping lines across Bass Strait. What is your sense of that sort of competitive dilemma between SeaRoad and Toll when you are looking at renegotiating rates?

MR BERRY (JBSA): We are in a highly competitive industry in the processing sector. Though we want to see competition, at the same point you don't want to be paying more. My only comment would be that Tasmania - even if you aggregated every piece of product, volume product, that was going out, it is still small in the grand scheme of both Melbourne, Brisbane and Sydney ports. In other ways, the leakage as we see it is driven by the TFES so people will make the decision to move product because it is domestic-orientated. I come back to it, what's forgotten about

Tasmania, and I look throughout all the papers that have been written and the views that have been done. Export for whatever reason seems to fall off the radar and, you know, if you have strong brands here in Australia around product, whether it be cheese, milk, beef, produce, but the point is in our business, we have to supply the world and, you know, it's the whole integrated link. It's not just the link between Tasmania and Melbourne. It's the total cost associated with servicing those markets. As I said, it's ridiculous to let a situation whereby the cost of servicing the King Island processing business in a TEU sense from King Island to Tasmania, to Melbourne, at the same cost of sending that container to the US is - you can't have cost structures like that. We are a vulnerable business. We have built it with small margins.

MS CHESTER: Just going back to the point then about what are the competitive dynamics you might see say travelling the SeaRoad sea route when you are looking at the negotiating of the rate and duty, do you know if there is some type of competition in the margin between the two when you are looking to negotiate?

MR BERRY (JBSA): Look, that's something that the ACCC might want to consider or others may want to consider. I know in our business that there's a situation whereby, you know, there is concentration and there is a process in capacity which is growing. Now, for us, it is what's the best option: is it two providers, one provider, three providers, four providers, you know, to us, in that we're all in competition at the same time. You know, price would be the driver of it. Probably historically we haven't seen price being the driver.

MS CHESTER: So from what you're saying then, transshipment through the Port of Melbourne will likely be the way forward for the JBS, regardless of what happens with a direct international service coming through Bell Bay. It would be good to get your feedback then on some of the draft recommendations that we have made. I am fairly confident I know what your feedback might be on the potential extension of the TFES to all eligible transshipments through the Port of Melbourne. You just made some earlier comment and I'm not quite sure if I caught it correctly, John, about the quantum of the assistance under the current parameters, that that was about right from your perspective.

MR BERRY (JBSA): I note the message. In cross-comparison of what we have done, that 855 per TEU is about the differential between a similar distance on mainland Australia.

MS CHESTER: Okay.

MR BERRY (JBSA): Where it is different is when we're bringing livestock from mainland Australia to Tasmania. That's where the significant costs are. As I said, it's twice the cost per lamb to bring them across Bass Strait to Tasmania, so, you know,

when you look at whether the value placed on the subsidy moving animals on to the island should be reviewed, our view is it's significantly higher than \$855 equivalent.

MS CHESTER: Thank you. So with respect to the parameters of the rate of assistance, does JBS have a view on that?

MR BERRY (JBSA): Well, as I said, we have been disadvantaged because we're at the high end of the export business, so we have a small component which we are eligible for in domestic terms. You know, it's as we said, that the domestic value that we receive through the TFES is negligible.

MS CHESTER: But say that we were to extend it to exports, if we could get your view on how that rate of assistance has been set and with the current parameter based scheme or whether we would move to a flat rate of assistance.

MR BERRY (JBSA): Can I answer it this way as well; you asked a question before about the shipment providers. You know, one thing we got a bit concerned about or to look at is that if we do see an extension to the export service, what does that mean in terms of shipping costs out of Tasmania? We are business people, the shipping people are business people, but at the same time, you know, we want to see a bit more transparency in terms of the cost structure as opposed to potentially margins being increased on the other side of the fence.

MS CHESTER: Yes. No, we're very sympathetic to that as well and think that there is some merit in perhaps looking for some greater transparency in it. Given that we know there are just a couple of service providers, there is inevitably going to be some subsidy sharing, for want of a better description. We want to keep most of the subsidy going to the intended recipients with the difference in Tasmania.

MR BERRY (JBSA): Yes.

MS CHESTER: Did you have any thoughts on that transparency and how it could best be procured?

MR BERRY (JBSA): As I said, we're business people and, you know, we have relationships with the shipping providers. Unfortunately, the cost structures around Tasmania are driven by lack of volume and, you know, in the case of King Island, our view would be that we need to seriously look at what the cost structures are, meaning not just for our business but for the producers who support our business throughout King Island's land. You know, \$118 a head net after TFES to send an animal from King Island to Longford is - as I said, it's figuratively presented at \$47 per head per - sorry, per kilometre, pays \$1.80 in Queensland. Sure, there's loading of the vessel on a Sunday. There's dropping in on Devonport and the animals moved off in crates and moving them to crates by truck but, you know, it's potentially going

to have significant effects on not just the producers over there but the economy if we can't look at options and I heard you say before about a potential to look at those who are affected in a greater way in Tasmania. Certainly King Island and the Bass Strait islands need to be looked at as a separate entity, in our view, because they have challenges different to mainland Tasmania.

MS CHESTER: No, we do see that relative cost disadvantage, given their volumes, and we have certainly got some very powerful evidence on the shipping groups out there with the tender process and what that shows in terms of other options that are in the shipping and so forth.

MR BERRY (JBSA): That's correct, but at the same time, the best model for King Island, we haven't got a view on that. Certainly, the SeaRoad vessel on Sundays is a large vessel. There are smaller vessels which may come in the market but the question is, you know, with Tasmania volume on and volume off, it's a microcosm of mainland Tasmania, in our view, in terms of the idiosyncrasies and challenges and the scale of production of cost of production.

MS CHESTER: One other point of evidence that we received from some of the shipping lines was the issue around vessel upgrading and the potential for SeaRoad to upgrade a vessel in the 2006 scheme and I do understand that that decision has been a long time coming but for many Tasmanian businesses, and it still hasn't been decided by the board, with that would come a material uptake in capacity across the Bass Strait. What would your expectation in terms of the impact that that may have on your business?

MR BERRY (JBSA): I heard a comment in the question that was put before; government involvement in shipping through TT-Line in Tasmania. I answer it this way. Is there a future for governments being in transport? We have seen it on mainland Australia. We have seen governments get out of that perhaps later. More recently, we have seen the Queensland Government get out lock stock transport by rail, Horizon now providing that service. We have seen the privatisation of ports, more recently Botany, as we know. You know, to me as a business person, I think really as we said in our opening comments, we are at an interesting stage in the development of our investments and the growth of Tasmania and, you know, if government hasn't got the capacity to build businesses and build infrastructure, then clearly there needs to be greater involvement by the second division of that infrastructure, because certainly they are the people who are best placed to assess it and make commercial judgment. So in the case of TT, you have taken capacity out of the services when the two products had to be provided in there. Well, that may be the outcome from this process but you want transparency. Governments continue historically to cross-subsidise their operations. It's not obvious to the user of those services. What we want is efficiencies, not inefficiencies.

MS CHESTER: No. Thank you. That's one of the fairly fundamental issues that we have tried to raise in our report in terms of the future of the freight logistics path in Tasmania and the level of government ownership and whether there are potential efficiencies and also the reality of Tassie's aging population and reducing fiscal base and what is really affordable for the Tasmania state government going forward.

MR BERRY (JBSA): That's right.

MS CHESTER: Given that you are also obviously heavy users of the road networks in Tasmania, it would be good to get any views or thoughts you have got on some of the recommendations or issues or information requests we raise in that remark, and in particular whether there are any constraints on the current road network in terms of the sort of vehicles that you would want to use to get your road transport costs down as low as possible.

MR BERRY (JBSA): That's a good question. I think it's, in terms of this space, how the national heavy vehicle process unwinds. We work across five states in different jurisdictions, different weights, limits, et cetera. I have a very simple response to that: it's about the most efficient volumetric mode of transport at a national standard.

This is 2014, it's not 1914, and we need to understand that there is efficiencies, whether it's in livestock transport - and I'm not saying this is a case for Tasmania, but road trains, AB-doubles in terms of containerise - two heavy 40-foot containers. So it's about getting the best efficiencies throughout the chain, not the inefficiencies. There are some limitations in Tasmania as there is on the mainland, but what we need to do is have a national strategy. Whether we have the same - the national infrastructure strategy and road transport is a component of that, but we do need to harmonise. We can't continue to be out of sync.

MS CHESTER: Okay, so there's nothing sort of peculiar to Tasmania on the road freight side of things from your perspective?

MR BERRY (JBSA): It's probably the fact that what we want is to be able to move heavy 40-foot containers. We want to bring scale to the business down there. You're talking about efficiencies and if there's any roadblocks or impediments now today or going forward, we want that addressed to be able to move in a more and more efficient way.

MR McCONNELL (JBSA): Which is currently what we can do in Brisbane and Melbourne, but not in Launceston.

MR BERRY (JBSA): Yes, indeed.

MS CHESTER: Just briefly on the southbound component of the scheme, are you currently recipients under any elements of the southbound component?

MR BERRY (JBSA): We have a nominal amount. That is in terms of positioning consumables and things that we use within the plant. That's the only amount we receive.

MS CHESTER: Okay, and all the machinery and stuff that you need to use in the plant that you bring across from the mainland, is it mainland produced or is there any - - -

MR BERRY (JBSA): There is an export component to technology, but most of our movement is in terms of the consumables produced in Australia.

MS CHESTER: Okay.

MR BERRY (JBSA): I did read one - and correct me if I'm wrong in interpretation, but some view that balancing up - if there was an extension of the export, then there may have to be some consideration of the southbound. One of the things we would certainly want to reiterate is that southbound for us is primarily in the livestock supply to keep Longford going 52 weeks of the year or as much of the year as possible, so we wouldn't like to see on the one hand producers receiving a freight subsidy to move animals off the island but at the same time we're at a lesser rate for bringing animals on to maintain throughput, investment and jobs in Tasmania.

MS CHESTER: Thank you. That's helpful.

MR QUINLIVAN: There was a paragraph in your submission on the second page, the third-last one if you have got it handy. You made the point about international exports not being eligible for assistance, which is right of course. Then you said:

In contrast, under the TFES businesses are incentivised to move product as produced, especially that which is shelf life sensitive. In our view, the TFES rebate impedes the capacity to aggregate volume and achieve economy of scale.

Can you just go through the logic of that point?

MR BERRY (JBSA): That comment in our submission was written that because you have got different product coming into Tasmania, a lot of it may not be requiring refrigeration or have specific shelf life - that rather than aggregating and getting the volume and in a perfect theoretical world being able to get scale to drive efficiencies, then product just moves helter skelter off the island.

In our case we have got a regimented structure and a business based upon food safety requirements, so we're not in that luxury of being able to say, "We will park these containers for several weeks," in case of international service. We have to move that product and so therefore we have got different cost structures to those that are moving a similar box in a domestic environment than we are. Several cents per kilogram - it may not seem much in the overall scheme of things but it is quite significant in terms of what it means in the efficiencies and cost structures around our business.

MR QUINLIVAN: And the TFES incentives are increasing that problem.

MR BERRY (JBSA): That's correct,. To pick up on the other question about alluding to taking complexity out, this is simplified. I don't know how many PhDs have been written on TFES. I'm sure there's experts out there who are better than us, but we're very simple meat processors, international traders and transporters. What we need to do is have a very simple system rather than a complicated system because more complicated does potentially open itself up for abuse.

MS CHESTER: Thank you very much. Did you have any other comments or issues you would like to raise with us this afternoon?

MR BERRY (JBSA): I think, Commissioner, that as a business we're well placed to work with the commission and we're more than happy to, in conjunction with the commission, provide more commercial information on various supply chain cost if the commission would like to take that opportunity to work with us on that. It would be sad if the impact of such a timely review was lost because there was an absence of commercial information to underpin the work, so we're more than happy to work with you in that regard.

MS CHESTER: Thank you. That would be very helpful. We have had some other businesses also share some information like that, which is very important evidence for us to be able to draw upon. Thank you again for appearing this afternoon and for your written submissions.

MR BERRY (JBSA): Thank you for your time.

MR McCONNELL (JBSA): Thank you.

MS CHESTER: Thank you. Ladies and gentlemen, we will adjourn briefly to stretch our legs and have some afternoon tea before we then resume at just before 3 o'clock. Thank you very much.

MS CHESTER: Ladies and gentlemen, we'll resume our hearing with our last participant for our public hearing here today in Canberra, Mr Peter Greenham and Grant Ryan from Greenham Tasmania Pty Ltd. Let me just explain in terms of the logistics. We have the two gentlemen as I understand via teleconference and it's coming to us via these little pods that are up in the ceiling. So I'll ask you all if you could kindly be very quiet because they'll hear anything you say, but look, with no further ado I'd like to welcome the representatives from Greenham Tasmania.

MS CHESTER: Good afternoon. Is that Peter and Grant now on the line?

MR GREENHAM (GT): Yes, it is.

MS CHESTER: Thank you. Welcome to our hearings this afternoon. My name is Karen Chester. I'm the Presiding Commissioner on this inquiry. I'm joined by my colleague Daryl Quinlivan who's the head of office of the Productivity Commission. We're listening to you in a relatively large room in Canberra with about 25 other people who we've asked to be very quiet so we can just hear yourselves speaking. So good afternoon.

MR GREENHAM (GT): Good afternoon. How are you?

MS CHESTER: Good thank you.

MR GREENHAM (GT): Thanks, Karen.

MS CHESTER: Thank you very much for finding the time to appear with us by phone and thank you very much for the submission that you provided us following the release of our draft report. We try to have our hearings relatively informal, so there's no need for you to take an oath or anything like that but there is a full transcript being taken which will be made available to you a little bit further down the track.

MR GREENHAM (GT): Yes.

MS CHESTER: Perhaps I could get you first each to speak respectively just to say name, title and the firm that you're with, just so we've got that for the record and then we'll get going on the substance.

MR GREENHAM (GT): Certainly. Yes, Peter Greenham, joint managing director of Greenham Tasmania.

MR RYAN (GT): Grant Ryan, joint managing director of Greenham Tasmania.

MS CHESTER: Again, thank you very much. What I'd like to do is first allow you

to make any opening comments that you would like to do and then we'll open it up to some questions if that's okay.

MR GREENHAM (GT): Yes, sure. Look, as for our submission, we own a processing facility on a north-west corner of Tasmania. Our company also owns another processing facility in northern Victoria, so we know the Bass Strait quite well as everything coming in and going out of the state is at that stretch of water. We employ over 190 locals from the area and when we purchased the abattoir in 2001 we were employing about 120 locals and over the last 10 years we've actually increased our production from about 250 cattle per day up to now 500, so in that time we've seen some large growth and large numbers of processing in that area.

We turn over \$100 million a year and through that is a lot into cattle purchases and also wages. Our domestic and export split, we've got a fairly good export split on the plant. We export close to 50 per cent of our production and the other 50 per cent goes into the domestic trade. Over the years that has changed a little bit but generally that has been our split over the last 10 years.

As in my submission, what I was discussing is that the industry is a very, very low margin industry and any costs or any increase in costs on our import costs, be it packaging, be it other import costs, cattle costs or freight costs, has huge ramifications on our profitability and also our producer's profitability as well.

JBS might have said before that globally our costs are a lot higher than others in the competing nations. The United States is half and I think the other countries which is Brazil and places like that, they're up to one-third of the cost of our production costs. So we take any changes to our costs, be it packaging or other freight cost components to the export market, very seriously and it's a huge impost on our company.

As I said also in the submission, we have a great opportunity to market overseas and to have that impost of the Bass Strait freight subsidy not being on export products, that also is a deterrent for us to go out and market overseas and it's a large impost as compared to if it was - to sell into the domestic market. So it has got a skewing effect on our marketing ability to maximise the carcass value for our producers.

Our Tasmanian operations has a clear disadvantage as far as - seven to 10 cents as compared to our Victorian operation and that is a large deterrent which goes back onto our farming community, that we cannot pay as much for our cattle as we can out of our Victorian - on commodity type style beef, because we all go to the US market for certain grinding beef and we have to - unfortunately we have to pass that back to the producing sector or the farmers as we can't wear that sort of cost. So any benefit that we get in lowering our costs of freight across the water will go directly back to

the producing sector which is very, very important.

There are situations throughout the year, there's an oversupply of cattle in Tasmania for approximately three to four months a year, up to five months a year, and there needs to be the ability to send stock out of Tasmania for those months, albeit on the other side of that there is also another four or five months where Tasmania doesn't have enough stock because it's a small area, the seasons are all - it's a very seasonal place and we need to be able to process cattle 52 weeks a year. So we need to have access to cattle southbound as well to fill up our plant, to make sure that we keep our employment on the island and we make sure that we can run an efficient operation.

The other part of it is the producers on the island - there are a lot of import costs on the southbound freight subsidy. If they were to be taken off, then a lot of our producers would be in a very difficult position in being able to compete with mainland counterparts, to be able to have access to superphosphate and those sorts of things at a competitive price, because that stretch of water is very expensive.

The rest of our submission is - I think it's partly (indistinct) all those points and if the export - I can definitely see, being an exporter in Tasmania, if there is no subsidy on exports we are at a huge disadvantage and if that were to change, I could see that there would be a huge benefit for our company but also through the farmers into higher prices for cattle, through producing - for the producers as well in Tasmania.

So having said that, that's probably the crux of our argument and hopefully we can open it up to questions. If anyone has anything to state, that would be good.

MS CHESTER: Thank you very much. We do have a few questions based on your submission that we recently received and your opening comments and it is advantageous, given you have got operations on the mainland and Tasmania, that that gives us an insight into the relative costs of those operations. So if you're just setting aside transport and freight costs, the operating costs between your facility in Smithton, Tasmania versus the one I think Tongala, Victoria, are they on a par?

MR GREENHAM (GT): No, they're not. Everything from maintenance to motors; if we wanted to buy ball bearings into the state, if we needed to buy - you know, all packaging material has to come in from the mainland, so that's a huge cost coming into the state. Anything that we really need to get in from the mainland which is - you know, there's not a lot of - our maintenance - like machinery and those sorts of things that come into the state which are produced interstate.

So really it's all consumables plus any maintenance things that we need to bring into the plant. They're the main increase in costs. I mean, all the other - the

other part of it is on the farming side, the cattle; you know, bringing bulls and other things to the farmers, to come into the state, but on our production side the main costs are consumables like packaging.

MS CHESTER: It would be fair then to say that the cost differences are really the direct costs of transport and freight - - -

MR GREENHAM (GT): Transport interstate. That's right.

MS CHESTER: - - - getting your product to market and then the embedded cost in your operating expenses, the additional cost of bringing your consumables from the mainland across to Tassie for the plant?

MR GREENHAM (GT): That's right, yes.

MS CHESTER: What percentage of the operating costs does your workforce and your labour make up?

MR GREENHAM (GT): Labour?

MS CHESTER: Mm'hm.

MR GREENHAM (GT): So a breakdown of between labour and overhead would be approximately the same, would they?

MR RYAN (GT): Yes. About 50 per cent.

MR GREENHAM (GT): About 50 per cent on labour, 50 per cent on overhead costs and then our largest cost of course is our raw materials which is our cattle - - -

MS CHESTER: Okay, thank you. That's all - - -

MR GREENHAM (GT): - - - which would be probably 80 or 70 per cent of our costs or 60 per cent of our costs maybe and then another 20 or - yeah, 20-20 for overhead and labour.

MR QUINLIVAN: On the same theme, in your letter to us you say costs are exploding and you mention wage burdens and you also refer to higher regularity costs. Could you just tell us - - -

MR GREENHAM (GT): That's export regularity costs; meat inspections for export. We have AQIS which is (indistinct) on plants and through the - the Government has taken up a lot of subsidies on actually counteracting some of those costs and that has only happened in the last two or three years. So those regularity

costs come on to every exporter in Australia on meat but it has gone up dramatically over the last two or three years, and what that point was meant to say was that we have got a lot of costs which are increasing and I suppose any imbalance on costs for our - to run our abattoir is detrimental to our business.

MS CHESTER: Thank you for that. You mentioned before that the break-up between export and domestic was about 50 per cent. That's based on volumes?

MR GREENHAM (GT): Yes. Based on volume, yes.

MS CHESTER: When you said domestic, I'm assuming that includes both Tasmania and the mainland.

MR GREENHAM (GT): Yes, it does; yes. Tasmania would make up maybe 5 per cent or 10 per cent of that. The majority of the volume would go to the mainland. Tasmania is not a large consumer for us for domestic.

MS CHESTER: Are you able just to talk us through your path to market, say, for your exports, in terms of getting to the port, which shipping lines you're using and when you're transshipping presumably from the Port of Melbourne?

MR GREENHAM (GT): Yes. We use Toll shipping for all our shipping. So we deliver from Smithton, they go into Burnie and then from Burnie they go into the Port of Melbourne, and then they get transhipped to the export port and then they go into pre-ship and then onto the ship from there. So it's a weekly service. It goes to the USA, leave on Tuesday, it goes to different places - it might go Monday but it's usually a weekly service out of the Port of Melbourne.

MS CHESTER: And apart from the US, the other countries and destinations for your export products?

MR GREENHAM (GT): Yes, so we go into Japan, into Yoko and Osaka, both of those ports. We also go into China. We also go into, you know, Shanghai or some of those ports but we also go into Busan in Korea. Busan is quite a large destination for our beef. They are the major sea destinations in Asia and then we go to east coast, west coast USA as well.

MS CHESTER: I'm sure you're well aware that there has been recent talk in Tasmania about the return of a regular, by some definitions, international container shipping line with Swire potentially offering an additional service through Bell Bay.

MR GREENHAM (GT): Yes.

MS CHESTER: We understand that it's likely to be once every 18 days and then to

an unknown hub but potentially a Chinese hub in Asia. Would that meet any of your export needs?

MR GREENHAM (GT): Yeah. Look, I have discussed it with some shipping lines and about what services are being touted. A lot of our business is chill business, high-end business, which really at times has to go sort of direct, so sort of some of the routes that they are talking at the moment, Singapore routes, aren't as huge - wouldn't be very, very favourable to us. We would still probably have to go into Melbourne port for some of our customers but, look, I haven't seen any specific routes yet and, you know, there's quite a few different lines being touted but the hubs that they are talking about would be very difficult to get a lot of our beef into.

MS CHESTER: We do appreciate that the details around a potential service remain relatively sketchy at this time so it's difficult for anyone to be definitive but just given the regularity of the service being potentially once every 18 days and your freight task, it's good to just get your initial sense on that, given we're sort of - - -

MR GREENHAM (GT): Yes. Look, the 18 days: I mean, for frozen beef that's okay but, you know, we're talking a lot of chills as well. So the chilled beef, we would need a regular seven-day service.

MS CHESTER: All right, thank you. That's helpful, Peter. In terms of your sense of the competitiveness of the shipping services across Bass Strait at present, you mentioned that your service is currently provided by Toll but I presume you sort of test market occasionally when you are looking at negotiating a new contract.

MR GREENHAM (GT): Yes. Look, we do. We're also aware that we're up in the north-west and, you know, we really need to sort of look at Burnie as our sort of first option but yeah, we do go to market and test the market at times to see what prices are out there and also our overseas lines, test the market and try and find the best rates for us as well. So yeah, look, I think it's fairly competitive but, I mean, there's always room for improvement at times.

MS CHESTER: And what has been your experience with those rates over the past five to seven years?

MR GREENHAM (GT): They are fairly stable. You know, their rates haven't gone up dramatically over the last while. Livestock shipping rates might be a little bit different than sea freight - sorry, for meat rates but, you know, livestock rates have sort of gone up a bit. But, you know, the meat rates probably haven't gone up as much as what we've seen in - and look, I can't put specific numbers to the cattle rates but, you know, we have seen probably the cattle rates going up a bit more.

MS CHESTER: From reading your submission it seems that your business is

processing livestock from a couple of sources, sort of Tassie main island, King and Flinders Islands and then Victoria. Can you just talk us through the quantum of livestock that you're bringing in from Victoria and the relative cost of doing that?

MR GREENHAM (GT): Yeah. Look, we bring in - I don't know specific numbers but it would be, you know, a few thousand a year and it would be, you know, to try and fill up holes during the winter time. We've got a brand, a specific, like, Angus brand, which doesn't require Tasmanian cattle or King Island cattle so, you know, it is very important for us in the winter time to have cattle, you know, available in the winter time from the mainland. The numbers we're talking from King is probably between 15 and 20 thousand a year and Flinders Island we might be talking about, you know, four or four maybe thousand a year as well. So, you know, they're all fairly substantial sort of numbers that we're shipping across the water but, you know, it makes up to be able to fill up our part. You know, we're up to 100,000 cattle so at times we need to access cattle where we can get them as it's a fluid market.

MS CHESTER: No, and we understand, from another participant that we've heard from in your line of industry, that keeping the capacity, utilisation of the facility as high as possible through the year is sort of paramount. Are you able to share any data or insights on the cost of shipping livestock from Victoria to your plant versus, say, bringing livestock from King Island?

MR GREENHAM (GT): Well, King Island costs - what was that - about \$95.

MS CHESTER: If you want to give actual numbers just to - you know, what sort of difference would there be between the two in terms of transport?

MR GREENHAM (GT): Well, King Island is a very inefficient sort of stretch of water, I think, and I would say it would probably be the same, roughly the same, to go from King Island to the Tassie mainland as it goes from, you know, Melbourne to Tassie mainland as it's a smaller ship and, you know, the Flinders Island is more efficient. It, you know, could be half the cost of King Island but the most expensive per kilometre would be King Island and then, you know, Flinders Island and the mainland would probably be on par.

MS CHESTER: And in terms of the scheme, we sort of put forward not as a draft recommendation but a proposal in our report to extend the scheme to all eligible commodities transhipped through the Port of Melbourne which would pick up exports to market. What sort of impact would that have on your business operations in Tasmania?

MR GREENHAM (GT): Well, I suppose it would give us a better - make us more competitive in the export market. There's a lot of times where as we've got that gap

of water, you know, we might lose volumes to export because of other areas that they can sell at a cheaper price than we can into the export market because they've got, you know, the same cattle costs or less and they can access the port more efficiently than we can.

You know, I would say that we may increase our exports, we could increase our exports because of that, which would benefit, you know, everybody and at the end of the day we would be able to pass back to the farmer those commodity lines that there's no appreciable benefit coming from Tasmania at a higher cost to the end user. Those commodity lines that, you know, the price is the price we would then be able to pass back more down to the producer for those type cattle like the manufacturing-type cattle and we wouldn't be at that disadvantage of the mainland producers.

MS CHESTER: Can you just talk us through the nature of - I appreciate given that a large part of your business is targeting export marks -what form of assistance your company is getting at the moment through the Tasmanian Freight Equalisation Scheme and northbound versus southbound and the like?

MR GREENHAM (GT): Yeah, so the subsidy that we get is cattle coming southbound from the mainland, also coming from King Island down to Stanley, from Flinders Island back to Bridport and then also domestic meat going from Burnie into the Port of Melbourne and also southbound we also get cardboard, so packaging, cryovac bags, cardboard, any other consumables that we use at the plant. So that's the scope of what we're claiming at the moment and then, you know, of course the exports that aren't eligible.

MS CHESTER: Okay. Are you able to indicate the order of magnitude of that assistance for the last financial year and also what the break-up is, northbound versus southbound?

MR GREENHAM (GT): No. I don't have that on me, to be honest.

MS CHESTER: Is that something you would be able to provide to us separately from the public hearings?

MR GREENHAM (GT): Yes, sure.

MS CHESTER: That would be helpful. Thank you. We also raised in the context of the suggestion to potentially extend the scheme to exports if the Government did want to do that on a cost neutral basis that one potential trade-off might be to consider removal of the southbound component. It would be good to get your feedback in terms of the implications for your operations on that.

MR GREENHAM (GT): Packaging is a very large part of our costs in packaging the beef. We spend a lot of money every year on packaging. That would be very difficult for us. The other thing is the access. I don't know. You are talking southbound. Are you talking from Flinders Island and King Island back into the state? Is that included when you are saying southbound, or are you just saying from the Port of Melbourne?

MS CHESTER: No. We are talking interstate, so just from the Port of Melbourne.

MR GREENHAM (GT): Just from the Port of Melbourne. Access to cattle from the mainland in winter is another fairly large cost. If there was no subsidy, there is no way we could compete to bring cattle back into the state. We would need to cut back our kill in winter dramatically to be able to keep going. That would be a detrimental effect on our business if we weren't able to bring cattle back into the state.

MS CHESTER: That is fair; that is helpful. I guess it would be good to get a sense from you: if the scheme were extended to exports but the southbound were removed, would that see you a net winner or a net loser in that scenario?

MR GREENHAM (GT): I think the loss of efficiency - it is not the money that you are talking about as far as the actual dollars a head of the cattle. It is more the loss of efficiency. There would be no way we could bring cattle in. I suppose it is the loss of efficiency of the plant. I mean, it is like an exponential effect. If you process less - and at that time of the year we cut back. If we had to cut back more, then that loss of efficiency would be exponentially costly for our business and then in turn for the whole of the livestock industry in Tasmania. You can't look at it just on a dollar basis. We would not be able to effectively bring in cattle at times.

If there was only subsidy in taking cattle out, what you would find is that a lot more cattle going out of the state than coming back in or none coming back in . You would sort of see a bit of a vacuum of cattle out of the state.

MS CHESTER: We appreciate - and one of the large objectives of our public hearings is to put forward sort of draft recommendations or ideas and to find out what the impacts would be on businesses. We are conscious that some of those impacts would be efficiency impacts through changes to the scheme and some of them would also be distributional, but just on distributional - and I appreciate it is just headline matrix at the dollar quantum - would you see yourselves being a net winner or loser in terms of just the amount of subsidy your firm would be attracting under that hypothetical change to the scheme?

MR GREENHAM (GT): I honestly don't know. I would have to do the numbers on how many cattle we do bring into the state. At this stage I wouldn't be able to say

if we were a winner or loser. The other thing too is that we have to see exactly what - if we say fifty-fifty, then we have to see exactly the numbers we would be exporting, and also what rate are you talking on exports? Are you talking the full subsidy as it is now or are you talking a per load rate? It is very hard to say if we are going to be a net winner or a net loser on that.

MS CHESTER: Fair enough. I appreciate you may not have worked through that. It is also fair comment - what the ultimate parameters or the ultimate flat rate may be aren't contained in our draft report either, but I was just hoping to get a sense at a high level of whether you thought you might be a relative winner or loser, but we are happy to park that question for now.

In terms of the other part of our draft recommendations as they relate to the scheme - firstly around the parameter review and recommending an enhancement to the process that the bureau would take in terms of consulting with and getting feedback from recipients of the scheme as to the data and the methodology of the parameters, is that a recommendation that you have any views you would like to share with us?

MR GREENHAM (GT): No. Look, anything that makes the scheme more efficient and easier to deal with is certainly something we'd support.

MS CHESTER: One thought there is our proposal to move to a flat rate of assistance which doesn't simplify the scheme overall because there are still a lot of eligibility issues, particularly around the southbound component of the scheme that people would still need to work through, but if we move towards a flat rate of assistance, the primary objective being to ensure at the margin, the greatest incentive for shippers to secure the lowest cost shipping option. Assuming we were to get the quantum about right, is that a mechanism for delivering the assistance that would work for your company?

MR GREENHAM (GT): As meat is a very dense product, per container rate would probably go against - we would probably be valued at top part which would probably not benefit but cattle might benefit because they're less dense and you don't get as many kilos in a container, but I think at the end of the day if we're covering that cost, if it comes back to that first goal that we're trying to do, to cover the extra cost of freighting product across the water compared to freighting across land, then we're all for simplifying systems.

At the end of the day if we can simplify it and also get exports, that would be a good outcome for us, I think, because we're not going to say that, you know -on meat or on livestock. We do ship a lot of cattle but we also do ship a lot of meat overseas, so I think at the end of the day we'd be in favour for a system which would simplify and take away that. I haven't seen any where people want to not maximise

their freight but I suppose there might be some people out there that tweak the system to get the best net return back for them, but look, we would be all for simplifying the system in any which way you can.

MS CHESTER: Also, I'm not suggesting that the people are out there because of the highest shipping costs but we're also aware that having the subsidy in the way that it's designed in place does have flow-on effects to other shipping lines then determine their rates that they want to charge to businesses like Vicuro.

MR GREENHAM (GT): Yes, right.

MS CHESTER: So it's that sort of broader incentive at the margins we're thinking through there. Were there any other issues around the current design and administration of the southbound component of the scheme that you wanted to bring to our attention?

MR RYAN (GT): No, I don't think so, Karen. I think we're pretty happy with the way the southbound scheme works and we'd really hate to see it gotten rid of totally. As Peter has been saying, it would be very detrimental to our business and to Tasmania.

MS CHESTER: As I said, that's what's very important around the public hearings, to try to work out if we do have to make changes if the Government were looking to do the scheme in a cost neutral sense. That hasn't been communicated to us. It's just something that we thought of in terms of being comprehensive in going through some design changes. This is the opportunity to find out from businesses what impact it does have on them in terms of efficiency and distribution.

MR GREENHAM (GT): I suppose at the end of the day I understand you're saying cost neutral and, you know, if you've only got a bucket of a water and you only want to use that bucket of water after and to use it for the exports. Look, at the end of the day no-one really will be better off or not better off. We have had the same system and the same rate for however long we've had it, 10 years or 15, however long it was when it came in - I think the last time it was reviewed, and costs have gone up. So I think what we've really got to look at is we really need to have a system which is dynamic and which can change with ups and downs in costs and so that Tasmania and producers and processors on the island are not at a disadvantage whether they sell domestically, whether they sell to an export market, whether they bring in packaging, whether they bring in cattle. We really need to be at a cost neutral position because, you know, we are not - being in Tasmania anyway has got its costs. We are isolated, everything takes longer to come on to the island. It's not just costs, it's also time that it takes to get products and to get things to market, so the cost is just one thing in this scenario. Producers on the island really do need a hand and, as you can see, constraints and things like that, you know, different processes on

the island - there's a lot of variable things out there, imports coming into Australia, and they all have impact on processing facilities. If you see what has happened in Tasmania over the last few years, we really do need a hand to make sure that we are not at a disadvantage of being on an island.

I think that's a thing at the end of the day, if you have only got a certain amount of money, then really we are not going to be any better off. It really needs to be extended so that we get a benefit so that we can plough more money back into the state and more get more confidence back to our producers to be able to invest into their properties and make sure that they have got a property there for years to come. I just think that at the end of the day we need to make sure that we are not at a disadvantage, being in Tasmania.

MS CHESTER: Thank you for that, and I think we all understand that - I mean the Government's position at the moment is to retain the schemes that we are reviewing, and our objective really is to come up with are there any ways that we can improve the design, and improve the efficiency and administration of the scheme. Our overriding objective isn't cost neutrality, that's really a matter for the Government at the end of the day, but just mindful that while we're out getting a lot of evidence from businesses like yourself that are directly impacted by these changes, if the Government did want to do things in a cost-neutral basis, then we want to make sure they do it on a fully informed basis - - -

MR GREENHAM (GT): Yes, okay.

MS CHESTER: - - - and don't do design changes when they don't know what the flow-on consequences would be. That's why it's very helpful for us to get this feedback directly from you through the public hearings, and we do really appreciate hearing it directly from you.

MR GREENHAM (GT): No problem.

MS CHESTER: We didn't have any other questions for you this afternoon. I feel we have covered quite a bit of ground. Are there any other comments or issues you would like to raise with us this afternoon while we are still in the hearing process?

MR GREENHAM (GT): Just on King Island, what is the commission's thoughts on King Island the subsidies from King Island to mainland Tasmania?

MS CHESTER: I think a couple of initial thoughts, firstly that when we look at the update to the parameters from the parameter with you, it looks a little bit strange to us, the different directions that the assistance was going in for King Island and the Furneaux Group, given their distance issues and the cost disadvantage. That said, we do see King Island and the Furneaux Group, that it is sort of like a different zone of

freight cost disadvantage that is faced, and certainly from the evidence that we have received about the options that are available for getting freight to Tasmania, and then ultimately to the mainland, are very much more constrained.

So it's more in terms of making sure that if we stay with the parameters that the parameters are appropriate in terms of capturing that freight cost disadvantage or, if we move to a flat rate of assistance, making sure that it would be framed in such a way that there might be zones of cost disadvantage that are factored into the flat rates; but they are just some initial thoughts at this stage. Getting some of the evidence that we have had from the public hearings, particularly two of the participants from King Island, has helped us to get a better understanding of pre-imposed abattoir closure and that cost path from King Island to Tasmania.

MR GREENHAM (GT): Yes.

MS CHESTER: I'm not sure if that answers your question fully.

MR GREENHAM (GT): Just as long as it's in the scope, because, as I said before, it is a very costly stretch of water from King Island to the mainland Tasmania, so I just think it has to be looked at in quite detail, because it is very, very hard to have an efficient service there and it's a very costly little stretch of water there; so it just needs to be looked at a little bit differently.

MS CHESTER: We got some very helpful evidence and submission from the King Island Shipping Group where they gave us some insights from the current tender process that they tried to go through, which did elucidate for us very keenly that they just don't have the options to get a competitive dimension into - - -

MR GREENHAM (GT): No.

MS CHESTER: They are just happy that someone will ship it to Tasmania at the moment.

MR GREENHAM (GT): Yes, exactly.

MS CHESTER: So that has been very helpful.

MR GREENHAM (GT): Yes. No worries.

MS CHESTER: The only other thing I did feel that I did need to say was the (indistinct) I had the best piece of Scotch fillet on Saturday night. My local butcher in Sydney does stock your beef, so - - -

MR GREENHAM (GT): Beautiful.

MS CHESTER: I just wanted to share that with you.

MR GREENHAM (GT): I hope it was fantastic.

MS CHESTER: It was. My husband thinks it's his barbecue cooking; I think it was the meat. Anyway, we will leave that there; no further evidence to be received on that one. Peter and Grant, thank you very much for making the time this afternoon. I know it's difficult to do these things not in person, but we can still get all your evidence and get your feedback and thoughts, and we certainly hope to have done so this afternoon; so thanks again.

MR GREENHAM (GT): Yes. Right. Thank you, Karen, for the opportunity. Thank you. Thanks, Daryl.

MS CHESTER: Ladies and gentlemen, that concludes our official proceedings for this afternoon. If there is anybody else who is present this afternoon who would like to make a brief presentation, if they could kindly make themselves known. If not, I'm very happy to say that this concludes our public hearings for the Productivity Commission's inquiry into Tasmanian freight and shipping, and thank you all for your attendance in joining us today. Thank you.

AT 3.46 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY