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Tasmanian Shipping and Freight
Productivity Commission
GPO Box 1428
CANBERRA CITY A.C.T. 2601

Dear Sirs,

Tasmanian Shipping and Freight Inquiry

We are pleased to present this Submission on behalf of Markarna Grazing Company Pty Ltd.

The Markarna Grazing Company Pty Ltd produces beef and fat lambs from its property on Flinders Island, Tasmania and, like many other enterprises operating on the Island, is a beneficiary of, and grateful for, the assistance provided by way of government freight subsidies available to business operators on Flinders Island.

The company welcomes the Inquiry being conducted by the Productivity Commission into whether the current freight schemes are delivering efficient outcomes and achieving stated objectives and offers the undermentioned thoughts in the hope that they may assist the Commission in its deliberations.

The Impact of Freight Costs on the Flinders Island Economy

The University of Tasmania's "University Department of Rural Health" website currently notes that the Median Weekly Household Income for Flinders Island is \$832. This compares with a figure of \$1,234 for Australia as a whole.

The website does not detail from which series of ABS data these figures have been extracted but the disparity between household incomes on Flinders Island and the rest of Australia is startling. The weekly incomes of householders on Flinders Island are only 2/3rds of the weekly incomes of Australian households generally.

However, for businesses operating on Flinders Island, and residents living on Flinders Island, these statistics actually understate the disparity in profitability and living standards relative to most other Australian businesses and residents.

As well as suffering from earnings below national averages, Flinders Island businesses and residents also suffer from input costs, and cost of living factors, above those paid for the same items by most other Australians.

The single most significant factor responsible for the relatively lower incomes earned by Flinders Island business enterprises (and residents) and the relatively higher input costs they also have to incur is the freight cost associated with importing business inputs to the Island and the freight cost associated with exporting business outputs from the Island.

As such, the completion of an Inquiry to bring about the delivery of more efficient outcomes from a freight scheme for Flinders Island, and to ensure such a freight scheme achieves its stated objectives, is undoubtedly the most critical act the Productivity Commission can do to assist Flinders Island enhance the productivity of its existing business enterprises, to boost the vibrancy of the Island's economy and to support the establishment of new businesses on the Island which can seek to exploit the many and varied commercial opportunities which are available.

The Current Tasmanian Freight Equalisation Scheme

The TFES Ministerial Directions of 2008 Guidelines – November 2013 edition – setting out the operation and requirements of the current Scheme is a document of 82 pages. At the risk of understatement, it would be reasonable to conclude that the interpretation of this complex document may be beyond some of those it is intended to assist.

The stated aim of the TFES is to assist in alleviating the sea freight disadvantage incurred by shippers of eligible non-bulk goods moved by sea for shippers engaged in the manufacturing, mining, agriculture, forestry and fishing industries in Tasmania.

As a starting proposition, we would ask that the Productivity Committee give some consideration as to whether the stated aim of the TFES promotes an inherent distortion within the Flinders Island economy and, as a result, produces outcomes which may be less than optimal.

Firstly, the availability of assistance to only those using sea freight would appear to create a distortion and an anomaly. Some goods – small, high value-add inputs/outputs, urgently needed inputs etc – may necessitate transport to/from Flinders Island by air but without eligibility for freight assistance they will still suffer a freight disadvantage relative to competitors.

Secondly, with assistance only available to shippers of non-bulk goods, the freight disadvantage to those importing bulk goods for use on the Island effectively imposes an additional impost/cost on all other Island businesses who use these bulk goods in their own enterprises.

Finally, the limitation of assistance to only those involved in the abovementioned industry sectors provides a distortion in that other industry sectors currently operating on the Island, or wishing to do so, may find themselves with relatively inefficient cost structures vis-à-vis those other sectors on the Island currently favoured by the TFES.

To remove or alleviate the intra-Island distortions outlined above, we would ask that the Productivity Commission give serious consideration to extending eligibility for assistance under the TFES to include all forms of freight, for all types of transport and for all industry sectors.

With respect to the operation of the TFES for those businesses which currently qualify for assistance, the complexity of the Scheme itself remains an issue – with regard to both interpretation and use. This aspect not only imposes a time and cost burden on Islanders responsible for making applications under the Scheme but also imposes a significant cost burden on the government and its agencies who are tasked with administering the Scheme.

The nuances of the current Scheme, and applicability for funding, do not only apply in determining those defined as eligible by virtue of them using sea-freight, shipping non-bulk goods or operating in the “right” industry grouping.

Eligibility for funding at the moment, or the extent of assistance applicable, can depend upon whether goods are shipped north or south (and in the case of Flinders Island, whether goods are shipped from or to the west).

Even for businesses generally eligible for assistance, some of their inputs/outputs may not actually qualify.

Eligibility for assistance may also depend on whether the goods shipped out are for export or for domestic consumption in Australia and whether goods shipped in have been manufactured in Australia or overseas. Where some value-add has been, or is to be made, in Australia, eligibility may vary.

If faulty goods are returned to the supplier (whether they’re on Flinders Island or elsewhere in Australia itself), freight assistance may not apply.

Different treatment may be accorded to new or second-hand machinery shipped to Flinders Island and even upon whether the capital items shipped are motor vehicles or other types of farm/mining equipment to be used by the shipper.

The shipment to Flinders Island of the fuels and lubricants used to operate the machinery don’t appear to be eligible for any freight assistance but spare parts shipped to the Island to ensure the machines keep running do appear to be eligible.

Building and construction equipment shipped to the Island to erect buildings for the farming and mining industries don’t appear to be eligible for assistance but the shipping of equipment used in farming and mining itself may be eligible for assistance (but after meeting other criteria).

Eligibility for assistance with freight, and the rates applicable, can vary depending upon whether full or partial container loads are shipped, whether the goods shipped are dry goods or refrigerated goods and even whether the goods shipped are owned outright or have been acquired under Lease and Hire Purchase arrangements.

Determination of rates of assistance applicable has to take into account the “stowage factor” for individual items and as well as applying conversion rates to if goods were transported in 20 foot containers.

A further scaling factor has to be applied depending upon the port from which the goods have come, or the port to which goods are to be sent.

Even when all these nuances have been understood, calculated and quantified, the applicant for assistance is faced with quite a number of different Forms to choose from to lodge his application correctly.

A description of how to actually fill out a claim for assistance begins on page 29 of the TFES Guidelines publication and concludes on page 42.

Appendix E of the publication – Common Conversion Factors – lists over 50 items which may need to be “converted” for inclusion in an application for freight assistance. Appendix D of the publication – List of Eligible Goods – lists over 150 individual items.

To alleviate the administrative and cost burden currently imposed upon Scheme applicants seeking to use the Scheme and government agencies tasked with administering the Scheme, we would ask that the Productivity Commission give serious consideration to streamlining and simplifying eligibility criteria for assistance under the TFES and the manner in which assistance is calculated.

Proposal for Consideration

For the reasons outlined in this Submission, in its current review of the Tasmanian Freight Equalisation Scheme, we believe the Productivity Commission should give serious consideration to the merits of extending the Scheme to all business operators using all forms of freight services for all types of freight.

We further believe that your Review should seek to simplify what is currently a very complex Scheme which appears to involve significant administrative costs for both its users and the government and its agencies.

In seeking to achieve these joint aims, we offer a suggestion that consideration be given to providing freight assistance simply by way of providing a percentage subsidy to all business enterprises incurring “off island” freight costs.

Determination of what constitutes a “business enterprises” could be done simply, comprehensively and cost effectively by allowing any enterprise with an ABN to fall within the definition.

If all freight costs, seaborne and by air, were to be eligible for assistance, and all items shipped were to be eligible for assistance, administrative time and cost would be dramatically reduced in that an approved applicant would simply need to lodge his freight invoices. A percentage of those costs, to be provided as a subsidy, could then be readily calculated.

Whilst this may seem an overly simple proposal, we would submit that in determining their freight rates, shippers already factor in such parameters as weight, volume, freezing etc and that the complex administrative procedures embodied within the TFES Guidelines are simply an unnecessary duplication of effort and expense.

If a particular area within Tasmania (for example King Island and the Furneaux Islands) was deemed to need a special or a differing level of assistance from the rest of Tasmania, the percentage rate of subsidy could simply be adjusted for that particular area with minimal administrative effort.

With respect to ascertaining the cost to the government under such a revised Scheme, comprehensive data from shippers is readily available and mathematical modeling could easily calculate the cost to government at a range of percentage subsidy rates which may be considered. An appropriate rate could then be chosen to meet the amount of overall assistance the government is prepared to provide. Hopefully, such a budgetary allocation would reflect administrative savings made by government and pass on such savings to the beneficiaries of the Scheme.

Were the Scheme to adopt this model, it would be important to ensure that the benefits flow to the business enterprises and not end up flowing to the freight operators. Were these changes to be brought in, it may be appropriate to task the ACCC with reviewing applicable freight rates pre and post implementation of these changes.

One other aspect that the Productivity Commission could consider is that the implementation of a revised TFES along the lines set out herein could be utilized as a Case Study to assess whether other government assistance packages elsewhere in Australia could benefit from the adoption of a similar, simplified model.

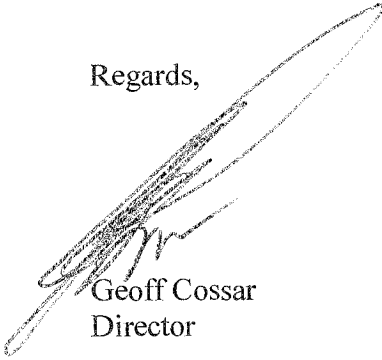
Because of the relatively small size of this program, and its relatively localized application, it would not be difficult to monitor the implementation, operation and administration of the program and study whether or not the template used for the revised TGES could have application for other government initiatives of a similar nature.

Conclusion

We appreciate the opportunity to make this Submission to the Productivity Commission as it conducts its Review of the Tasmanian Freight Equalisation Scheme.

Should the Commission require elaboration or clarification in regard to any matters raised herein, the writer would be happy to assist.

Regards,

A handwritten signature in dark ink, appearing to read 'Geoff Cossar', is written over a large, light-colored oval scribble.

Geoff Cossar
Director