



SUBMISSION TO THE PRODUCTIVITY COMMISSION PUBLIC INQUIRY INTO TASMANIAN SHIPPING AND FREIGHT

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Submission prepared by Flinders Council

BACKGROUND – FURNEAUX GROUP OF ISLANDS

The Furneaux Group of Islands are located in Bass Strait between Wilson's Promontory in Victoria and the northeast tip of Tasmania. Flinders Island is the largest of this group and is 75 kilometers long and 40 kilometers wide, with the Darling Ranges running down the centre of the island. It has three main population centres: Whitemark, Lady Barron and Killiecrankie; and around 778¹ permanent residents. Flinders Island is the largest of the offshore Tasmanian islands, approximately 1,333 square kilometers and a third bigger than King Island. Over a third of Flinders Island is cleared for primary production purposes.

The Flinders Island community has access to modern health and community services and an enviable island lifestyle. The island is a growing tourism destination (visitation has increased by 7% from last year), with some of the best fishing grounds in the world, easy access to the 120 beaches, and a host of other recreational facilities and supporting services.

The backbone of Flinders Island is its thriving rural industries that produce quality sheep and cattle products, supplemented with a range of local delicacies such as crayfish, abalone and wallaby. Flinders Island produces approximately 14% of beef and 9% of sheep meat products in Tasmania. Local company Flinders Island Meats is a growing niche market business who currently supply many of Australia's leading restaurants with their salt grass lamb, milk fed lamb and wallaby products. Increasing numbers of beef and lamb producers are entering quality assurance programs used by industry to market high quality Tasmanian product to international markets.

Whitemark is the main residential and business centre of the island. The Multipurpose Health Centre, child care centre and school (kindergarten to year 10) are located at Whitemark, along with the rural suppliers and local cafes. Flinders Island has essential services such as the Royal Flying Doctor Service (available 24/7) and other emergency services, as well as 15 different community clubs and associations. Flinders Island has the highest rate of volunteerism in Australia and is a connected, vibrant and supportive community to visit and live.

Cape Barren Island is the second largest island in the Furneaux Group and is primarily an Aboriginal settlement with a small percentage of non-aboriginal residents. The

¹ Latest census 2011 figures, ABS



community of Cape Barren Island has access to health and education services and benefits from once monthly government subsidised shipping services and regular passenger flights from Launceston.

Access to and from the islands for both product and people are of a critical importance. Flinders Island is regularly serviced by Sharp Airlines and Cape Barren Island is serviced by Airlines of Tasmania. Sharp Airlines provides a daily service between Launceston and Whitemark, and operates three times a week between Essendon (Victoria) and Whitemark. The region is also serviced by a number of charter aircraft. Much of the island's fresh food, general freight, mail, newspapers, and medical supplies are transported by air as are most of our high value seafood and value added meat products.

The all-tides port at Lady Barron is the berthing point for the trading vessels that service Flinders Island. The island is serviced at least once a week by the current operator providing both passenger and freight services, which also operates an occasional service to Welshpool, Victoria. This service is based on demand and focused on stock export. Cape Barren Island receives a once per month State Government subsidised shipping service that primarily transports diesel fuel for the islands energy needs, essential bulk food and building related goods and freights livestock from the island.

VISION FOR THE FUTURE

Our Vision for the Furneaux Community - A thriving, inclusive and self-reliant community that offers opportunities for current and following generations while maintaining the diversity, uniqueness and attractiveness of the natural environment².

CURRENT CHALLENGES

In order to consider the importance of freight based services and subsidies, it is important to understand the challenges and opportunities for the Furneaux Group. Some of the challenges identified below can be influenced locally, while others are imposed at a national level. As would be expected, many of the areas highlighted below are interdependent and changes in one area will have both positive and negative flow on effects in others, depending on the change.

ACCESS

Sea and air access for the Flinders Islands are arguably the most critical factors to ensuring the sustainability of the region.

Air Access

The Flinders Island Airport is owned by the Flinders Council, which has recently completed a master plan for the Airport. The master plan will be complemented by a business plan, primarily aiming at identifying additional revenue generation propositions for the airport land and facilities. Currently the airport is budgeted for an operational loss of approximately \$277,000 this financial year. The airport is critical to the community as a whole and is one of two CASA certified airstrips in the north east of Tasmania that a Regular Passenger Transport (RPT) air service can use, the other being

² Flinders Island Strategic Plan 2011, Flinders Council

Launceston Airport. Air freight is increasing in volume and the current RPT provider is openly discussing its desire to increase air freight services to and from Flinders. Flinders Island will fail without an adequate and sustainable airport and operator to service it. Current general freight charges for members of the community wishing to transport goods to and from the island range between \$3 and \$5 per Kilo. Commercial agreements with some businesses do exist at a slightly cheaper rate.

The Flinders Island Airport Master Plan³ has growth projections and infrastructure needs outlined within. This document outlines the critical nature of access to and from the islands via air and critical infrastructure investments that will be required to support the function and growth of this facility. The provision of more goods to and from the islands by air is a key component of the future viability of the airport, the RPT operator, charter operators and many niche businesses on the island who require fast and reliable access to premium mainland markets.

Sea Access

Sea Access is critical to the delivery of bulk freight and the timely export of livestock from the island. Having a modern port facility to ensure the proper handling of goods and livestock, while maximising efficiencies in stevedoring are essential to the economic future of Flinders Island. The Tasmanian State Government and TasPorts are currently completing a \$1.7 million upgrade at Lady Barron to modernise the ports infrastructure.

Critically linked to sea access and a redeveloped port at Lady Barron is shipping services to Flinders Island. Shipping freight rates increased last year, partly due to carbon pricing but more to do with changes to what businesses can claim on marine diesel rebates leading to higher fuel costs. With Flinders Island providing some 14% of Tasmania's beef and 7% sheep meat products, the island plays a significant role in the agricultural sector of the entire State of Tasmania and timely, reliable and cost effective sea freight services are critical to the island's sustainability and to the sheep and beef industry of Tasmania.

FREIGHT

The Furneaux Island freight task is primarily driven by the need to service the livestock industry, in particular, demand generated by the export of live animals from the islands to markets in Tasmania and Victoria (contributing over half of the total annual freight volume), and imports of farming goods such as fertiliser and machinery. While the majority of the freight task is related to the livestock industry, the needs of the communities and other industries located on the islands generates the majority of the remaining volume such as bulk fuel and general cargo.

Freight demand for the Furneaux Islands, and in particular Flinders Island, is highly seasonal, reflecting the nature and timing of the livestock industry. The freight task is further affected by the imbalance that results from the nature and scale of industries on the islands, showing a distinctly higher export task.

As a remote island chain, the Furneaux Group has a critical need for timely, reliable and

3

http://www.flinders.tas.gov.au/web_assets/documents/Projects%20of%20Council/Flinders%20Island%20Airport%20Master%20Plan%202012..pdf

cost effective shipping and freight services to support the ongoing viability of the island's productive economic sectors and community at large. While the existing Tasmanian Freight Equalisation System (TFES) support mechanisms provide some relief to the high cost of transportation of goods to and from the island, its narrow scope has only minimal impact on reducing the overall costs of shipping based freight while providing no relief at all to goods transported by air freight.

The Australian Government extension of the Tasmanian Freight Equalisation Scheme (TFES) in 2008 to cover eligible shipments moved between the main island of Tasmania and either King Island or the islands of the Furneaux Group has assisted in alleviating some issues around the isolation and physical disconnection of the islands to our main markets and in part has had a positive impact on the viability of producers on the islands. The current cost of shipping livestock from Flinders Island is outlined below. The figures include an example of the amount offset by the TFES in its current format:

Livestock Freight Costs ex Flinders Islands and comparisons

Direct Costs ex Flinders Island - shipped via Furneaux Freight

- Based on Yearling Cattle – per head	
- FI Farm to Lady Barron	\$7.00
- Lady Barron to Bridport (inclusive of wharfage each end)	\$64.54
- Bridport to consignment (Average to Powranna, Longford & Smithton)	\$23.33
- Less TFES (per head)	\$-30.54
- Total cost delivered to consumer per head	\$64.33

Compare this with

Livestock Freight – per head (Net after TFES) (includes pickup within 100km and delivery to destination)

- Melbourne to Burnie	\$61
- Melbourne to Devonport	\$78

If the current scheme's objective is to provide equal opportunities to compete in mainland markets, recognising that, unlike their mainland counterparts, Tasmanian producers do not have the option of transporting goods interstate by road or rail, the Furneaux Islands continue to be even further disadvantaged than our Tasmanian counterparts. A comprehensive, individualised and place based approach is required if the existing scheme's objectives (or that of any future support mechanisms) are to be effective in partially or completely offsetting the known disadvantages faced by producers in our remote island chain. An example of the unique challenges faced by island producers in accessing freight equalization under the current model has been provided by Flinders Island Meats:

“The business currently sends out 1000kg per week air freight, carrying high importance product that either has a short shelf life or a short order to delivery window that is specified for a top end customer. The cost of this service is approximately \$1.35/kg. The remaining product is via sea freight which on average is



approximately 4 tonnes per week. The Flinders Island to Launceston leg costs 30c/kg, to get to Melbourne costs a further 25-30c/kg.

Issues with the current system

Some issues with the current freight system used by Flinders Island Meat:

- *Lead Time. Long lead time from commencement of production until order arrives to destination – product must be stacked down and at the Lady Barron port Monday afternoon, and does not arrive in Melbourne until Thursday morning, sometimes Friday morning. For a perishable product this is an issue, especially with a once per week service.*
- *Flexibility. This long lead time also reduces our flexibility with customers, and creates a need for us to hold stock in Melbourne and value add product in Victoria to be able to provide the on demand service, and manufacture the short shelf life product our customers desire.*
- *On-Island production effects. This inflexibility also makes production on the island difficult – to have all stock ready for a Monday dispatch means that in many cases, the stock we are loading is already up to a week of age – and then once it reaches Melbourne, or it's end destination, it may have 2 weeks on it. For lamb, which has shorter shelf life than beef, and Flinders Island Meat only being a small domestic abattoir that cannot reasonably expect extended shelf life, this is an issue. 2 weeks date reduces the value of the product and the expected return.*

Air Freight

- *The benefits of the current air freight service provided by the company Tasfast have been that we can provide an on demand service for our customers with a reasonable time frame from their order, to delivery. It means we can value add all product on Flinders Island in the same facility, increasing our productivity and efficiency and also our number of employees on the island. It also means that the product is only days old when it arrives to the customer, increasing the end value.*
- *Current restrictions on further use of the air freight avenue are based wholly around cost. Our business can only afford to air freight that product for which the customer absolutely demands, and is willing to pay a premium. Should the TFES be extended to include air freighted product, it would spur a large increase in our ability to market our product, provide more value to customers, and expand our operations on Flinders Island.”*

CONCLUSION/RECOMMENDATIONS

In brief, Council has reviewed previous studies into the matters at hand and discussed the current freight situation and support mechanisms and provides the following for consideration:

- 1) *A simple, fair and effective system with measurable costs and benefits.*
That a comprehensive review of the TFES be undertaken to consider how it could be restructured to provide a simpler, fairer and more effective system



that encourages the movement of both sea and air freight (for the Bass Strait Islands) at a reasonable cost. This should include an assessment of the social and economic impacts, both cost and benefits, of any policy recommendations or revisions that might be proposed during the Commission's inquiry.

- 2) *A place based system that is cognisant of the competitive disadvantages faced by a remote Island community.*

That it be recognised that while freight from Tasmania requires a level of Federal support, air and sea freight from the Furneaux Islands requires a very specific and place based approach that may well be very different to that of the main island of Tasmania. The Furneaux Islands are specifically and materially at a greater level of disadvantage than Tasmania and this should be reflected in any policy recommendations.

- 3) *Increased recognition and consideration of the role of air freight in developing the Flinders Island community and economy.*

The current exclusion of airfreight from any subsidised support mechanisms does little to encourage on island value adding or employment growth in niche product development. From a productivity and value perspective, consideration to policy and support mechanisms that encourage on island processing of base primary products into high value added goods for air freighting direct into mainland or Tasmanian markets should be considered.

- 4) *Secure and sustainable shipping and freight that underpins private sector business confidence, planning and growth.*

A pure market based approach to the provision of freight services to our remote islands whereby efficiencies and low costs may be expected/encouraged from multiple service providers, without any State or Federal Government support, would have the potential to severely disadvantage our existing service providers, producers and community. Simply put, the very seasonal nature of our primary freight profile and small general freight levels are not to an economy of scale that could support multiple service providers over the long term. Secure, timely, consistent services and confidence are critical to the producers of the island and those that seek to invest. That Government support at a financial and policy level to ensure freight by both sea and air are provided with confidence to our community is a key consideration. The timely and quality transport of targeted numbers of livestock to Tasmanian abattoirs enables livestock producers to value add through quality assurance programs. Policy and support mechanisms that add to the viability of the islands' service providers while supporting the efficient and cost effective movement of freight are key outcomes requiring consideration and policy support. Enabling or maintaining timely freight movements at reasonable cost that lets producers target the highest return for product boosts the productivity and thus the economy of the islands. Increased productivity is targeted as a method of increasing island population to a more sustainable level for service providers to more efficiently supply services to the islands.



5) *Recognition that some freight services require direct subsidisation from Government to ensure the service is maintained.*

The provision of some shipping services to the Furneaux Islands are uneconomic and do require either State or Federal Government subsidies to ensure communities are provided with even the most basic level of service to move freight and goods. Cape Barren Island in particular relies on funding support for the delivery of a service for general freight and during quite times of the year for livestock. Flinders Island may also require funding support to ensure the provision of general freight services.

6) *Cost effective and reliable fuel supplies.*

Over 2.5 million litres of fuel (majority of which is diesel) are transported to Flinders Island (and Cape Barren Island) by ship from mainland Tasmania every year, with around one third of this volume being used for energy generation in Hydro Tasmania owned and operated diesel generators. Fuel costs in the Furneaux Islands are consistently some of the highest in Australia. In the Tasmanian context fuel on Flinders Island is typically 35-40 cents/litre more than mainland Tasmania prices. In reviewing the Flinders Island situation and development of recommendations the Commission is encouraged to give consideration to bulk goods importation, such as fuel, and to ensure that proposed interventions do not worsen and drive fuel costs even higher.

Flinders Council welcomes the inquiry by the Productivity Commission and trusts that the information provided in this submission will be of some value to the deliberations as they take place.

All enquiries in relation to this submission should be forwarded to the address above.

Yours sincerely,

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