

7th February 2014

TFGA – King Island Branch – Submission to the Tasmanian Shipping and Freight Draft Report

The TFGA – King Island Branch congratulates the Productivity Commission on the Draft Report into Tasmanian Shipping and Freight. We also extend our appreciation for noting the issues facing the King Island freight task to our farming businesses.

Our response is based on the recommendations that are specifically pertinent to King Island and is aligned with as follows

Draft Recommendation 2

We agree that the Bureau of Infrastructure, Transport and Regional Economics (BITRE) parameter reviews be held every 2 years. It is important that if BITRE figures are to be used in formulating costs relevant to the freight task that they appreciate the uniqueness of the King Island situation.

Draft Recommendation 3

It's important that the process of gathering information provides as much opportunity for King Island stakeholders to contribute. Therefore it is important BITRE holds hearing and evidence gathering processes on King Island.

Draft Recommendation 5

The flat rate must take account of unique costs associated with the freight task to King Island as evidenced by

We feel that the draft report doesn't fully appreciate the issue of freight cost disadvantage – We are open to price gouging through imperfect competition. The reality is that the volume of freight will never be enough to create true competition. Our sea freight system is expected to operate under a free market system yet in reality we have a duopoly on livestock and a monopoly on all container, vehicle and trailer freight. The differentials were highlighted in Appendix 1 & 2 in our first submission.

Draft Recommendation 7

We agree with the need for a simple online claims system.

Draft Recommendation 8

We suggest that it would be more equitable to aggregate a number of small claims to meet a minimum threshold.

Any limitation would disadvantage the vast majority of primary producers on King Island, self assessment with audit provisions should be implemented if the recommendation was to be accepted.

Draft Recommendation 13

We agree with an assessment of the commercial viability of TasPorts, however in consideration of alternative models, once again that assessment will need to take into consideration the uniqueness of King Island involving freight volumes and frequency of use.

Draft Recommendation 14

Any freight strategy for Tasmania will need to include King Island.

Information Request 1

If TFES is removed from King Island for southbound freight, the ramifications to an already weak farming business community will have a strong negative effect on the Island economy and a reduction in farm productivity. Under current arrangements we rely heavily on fertiliser, trade cattle and farm inputs that travel south bound from Victoria.

We also have concerns around any potential removal of the intra state TFES for cattle from King Island to Tasmania where 95% of our cattle are shipped to.

From research carried out it has been estimated that the extra burden on the King Island farming community would be in the vicinity of \$2 million per year if the south bound and intrastate TFES were removed. This is made up of Livestock – \$1.2 million, Fertiliser – \$240,000, General farm Inputs – \$500,000

Information Request 4

While we are supportive of securing more direct freight services through tendering processes, due to the volume of freight on the King Island run this would need to be incorporated into an overall Bass Strait program. As highlighted in the **Draft Recommendation 5**, under the current arrangement we are disadvantaged by volume. For this very reason putting the King Island freight task out to tender on its own is unlikely to secure better freight rates.

The King Island Shipping Committee has previously put the provision of a service to King Island out to the “market” and the response demonstrated clear “market failure” as no positive result was received. Similar situation would result if the freight task for King Island alone was tendered.

Economics

The draft report does not appreciate the impact that increased freight costs have had on King Island farming businesses. This impact is highlighted and quantified by the following facts.

By incorporating the extra cattle freight costs into historical benchmarking data over 10 years of farm financial benchmarking between 2000 and 2010 on King Island this shows that these farms would only have been profitable for 1 of those 10 years. We are now staring down the barrel of this scenario on an ongoing basis.

Freight for King Island beef producers is 26% of farm operating costs – compared to freight of comparable mainland beef producers at 3% of operating costs. Prior to the abattoir closing, freight costs were less than 3% of farm operating costs.

Summary - King Island Issues

The King Island beef industry has responded to market signals developing a niche market producing a premium grass fed branded product. This was to take advantage of our benign grass growing climate and negate the effect high costs have on inputs and outputs. However our best endeavours to be efficient, viable, long term businesses is continually thwarted by accelerating freight and port costs.

Invitation

We feel it is imperative that an officer attached to the Productivity Commission and involved in the Tasmanian Shipping and Freight Review should visit King Island while this review is being conducted to familiarize themselves with the unique and vulnerable position we conduct business under.