Prepared by

Input from

Tasmanian Freight Equalisation

The Case for Southbound Extension

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11 SEP 2019

Mr Mike Brindley
Secretariat
Tasmanian Logistics Committee
Regional Development Australia – North West
By email: mike.brindley@rdatasmania.org.au

Dear Mr Brindley

I am responding to an email from Brett Charlton, Chairman of the Tasmanian Logistics Committee regarding the Tasmanian Freight Equalisation Scheme (TFES). I understand that Mr Charlton is currently on a well deserved break, and he has asked me to correspond with you in his absence.

The Tasmanian Government acknowledges the key role that the Tasmanian Logistics Committee and Regional Development Australia have played in securing the extension of the TFES to eligible Tasmanian exports destined for international markets, and for continuing to advocate for further amendment to the TFES to benefit local businesses and stimulate the Tasmanian economy.

The Australian Government's recent announcement that it will boost the TFES by modernising its operation and enhancing the benefits for Tasmanian business is welcomed by the Tasmanian Government.

The TFES is vital for placing Tasmania on a level playing field with the rest of Australia, off-setting the disadvantage Tasmanian businesses face with shipping their goods across Bass Strait to and from the Australian mainland to connect to domestic and international markets. The TFES has been integral to economic growth in Tasmania since it was established in 1976.

Since the TFES was extended to international exports in January 2016, Tasmanian businesses have benefited from access to high value global markets. This initiative has improved viability for exporters and driven trade growth. This is clearly demonstrated in the *Case Studies Paper* prepared by Regional Development Australia in March 2018. The permanent application of this extension will provide added confidence for Tasmanian exporters, and as you have noted, build on the momentum created through this initiative.

The proposed extension of the TFES to eligible goods that are imported to Tasmania via an Australian port, where there is no direct Australian made equivalent, will also deliver a significant boost for Tasmanian businesses who rely on international imports as inputs into their business activities.

The Tasmanian Government has written directly to the Deputy Prime Minister, Hon Michael McCormack MP in support of the recently proposed amendments to the TFES, and officers of the Department of State Growth have been made available by the Tasmanian Government to assist their Federal counterparts in the finalisation of the proposed amendments.

I look forward to continuing to work with the Tasmanian Logistics Committee and Regional Development Australia to ensure the continued growth of the Tasmanian economy.

Yours sincerely

Michael Ferguson

Michael Ferguson MP
Minister for Infrastructure and Transport

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Executive summary

In 2016, Tasmania achieved its goal to support Tasmanian exporters with the extension of the Tasmanian Freight Equalisation Scheme (TFES) to cover northbound international exports (also known as “other markets”) transhipped through mainland ports. This initiative has since delivered significant results for Tasmanian exporters who are now on a level playing field and can access international markets on equal terms with their mainland competitors.

This extension reflected the withdrawal of Tasmania’s last true direct export option and the subsequent need to move all non-bulk export across Bass Strait for transhipment through a mainland port. This extension was entirely appropriate given the underlying reason for the scheme is to ensure Tasmanian industry does not incur a disadvantage through its reliance on sea and the inherently higher costs.

However, there remains one last hurdle to making the TFES scheme fully effective and consistent given the cost disadvantage applies equally to southbound freight as it does to northbound.

The scheme has always excluded imported southbound product on the basis that such product could be shipped direct into Tasmania. However, this option no longer applies. As is the case with non-bulk Tasmanian product destined for export which requires transhipment through a mainland port, imported product destined for Tasmania generally also requires transhipment through a mainland port. This results in Tasmanian businesses incurring the very same cost disadvantage across Bass Strait as compared to their mainland competitors.

Specifically, while TFES is available for Australian-made products deemed vital inputs for Tasmania’s eligible industry sectors, it is not available for imported products where there is no Australian-made alternative.

Tasmania’s susceptibility to the cost of shipping as the only means of importing goods leaves the cost of production for many Tasmanian manufacturers in an unenviable position that often results in reduced outcomes.

Extending the southbound TFES to imported goods which have no Australian-made alternatives, and serve as inputs into the value-added chain for Tasmanian industry sectors, will directly drive profitability, investment and increased employment opportunities similar to the results achieved with the extension of the northbound scheme.

Potential Positive Outcomes of the Proposed Extension

- Improved confidence in the business model of Tasmanian industry
- New investment in plant and equipment
- Improved employment outcomes (part-time and full-time)
- Sustainability and comparable outcomes on a par with mainland exporters
- Improve the case for industry sector participants to remain in Tasmania

Acknowledgements

The RDA Tasmania committee continues to support the development of Tasmanian business wherever possible through its engagement with key regional stakeholders. In addition to these activities, RDA Tasmania's continued participation in the freight and logistics sector is crucial to understanding the ongoing and emerging challenges and opportunities for Tasmania.

RDA Tasmania gratefully acknowledges the input provided by members of the Tasmanian Logistics Committee in the preparation of this report. The Tasmanian Logistics Committee is a joint initiative between the Tasmanian Chamber of Commerce and Industry (TCCI) and RDA Tasmania Committee.

RDA Tasmania would like to thank the Tasmanian Government and the representatives of various organisations who gave their time and resources to supply the supporting information contained in this report, and who provided valuable insights into the operation of the TFES.

Most importantly, RDA Tasmania would like to thank the various businesses we approached to prepare the case studies. All were very willing to give of their time to provide a detailed understanding of their business operations, what their freight task is, and how vital the TFES is for them to maintain their ongoing viability in a very competitive marketplace.

Purpose

This report has been prepared to provide an understanding of the current challenges faced by a number of leading Tasmanian businesses in regard to the importation of non-Australian manufactured goods that support the value-adding (production) process.

The report does this by providing Case Study evidence from a sample of Tasmanian businesses that sell into both Australian and international markets on a regular basis. The evidence provided by representatives of these companies serves to illustrate the challenges of importing specialist products from overseas suppliers, and how the cost represents an ongoing imposition on their businesses.

Furthermore, the case studies allow this report to consider what these businesses may be able to do if the cost imbalance were addressed through an extension of the TFES – that is, if product from overseas that is deemed vital to the production processes were eligible for relief.

Importantly, this report also serves to illustrate how the Tasmanian economy has evolved since the TFES was first introduced in 1976. It presents a compelling case that consideration should accordingly be given to re-engineering some facets of the scheme.

Finally, this report provides conclusions and recommendations based on the collective views of the various business owners that have been approached to compile the case studies.

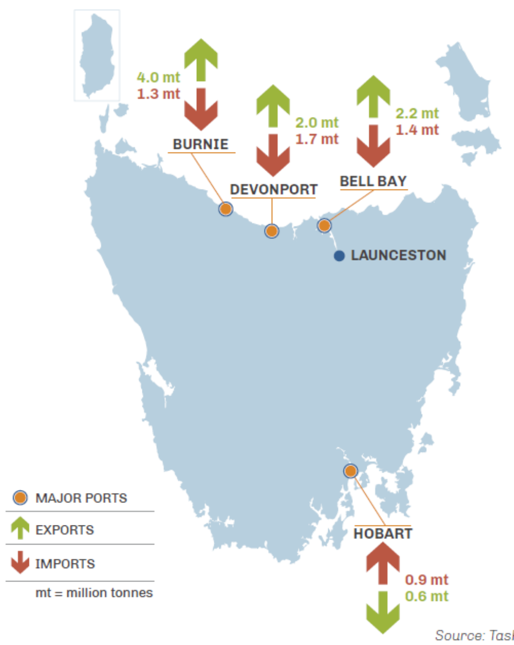
Background

Tasmania

Tasmania is in a unique position as the only Australian state that has a heavy reliance on shipping to transport its goods. In fact, almost 99 per cent of Tasmania's freight by volume is moved by sea. While Tasmanian businesses now enjoy an improved frequency of shipping services provided by three shipping lines across Bass Strait, the rate of charge for freight is levied commercially.

Export off-island to both domestic Australian and to international markets is vital to the Tasmanian economy, which is growing at a steady rate (with comparable rates of employment when compared with Australian mainland states). Addressing the issues of Bass Strait shipping to achieve the best possible outcomes – namely, to secure a reliable and cost-effective shipping service to domestic and international locations – is key to ensuring the Tasmanian economy continues to grow.

FIGURE 1 Tasmanian Freight Movements (Major Ports), 2016/17



Source: TasPorts Annual Report 2016 - 2017

Latest figures (provided by TasPorts from source data)

2018/19	Import (mt)	Export (mt)	Total
Bell Bay	**1.65**	**2.61**	**4.26**
Devonport	**1.71**	**2.30**	**4.01**
Burnie	**1.34**	**3.93**	**5.27**
Hobart	**1.02**	**0.93**	**1.95**

Domestic shipping services

Three main shippers provide a regular Bass Strait shipping service from the ports of Devonport and Burnie to Melbourne: Toll, SeaRoad and TT Line, the latter being a Tasmanian Government Business Enterprise (GBE).

Between these shippers, approximately 900 sailings occur annually between Melbourne and Tasmania (and return) with approximately 320,000 container movements (235,000 full and 85,000 empty). In addition, approximately 65,000 wheeled unit (trailer) movements occur with 50,000 full trailers and 15,000 empty trailers.

Almost 99 per cent of Tasmania's freight is carried by sea, with the remainder by air. The majority of Tasmania's sea freight is destined for domestic markets, with just over 11 per cent of freight transhipped, primarily through Melbourne, for international export.

The net outflows and inflows of freight are approximately the same and this substantiates the reliance Tasmania has on sea freight as a lifeline for its economy.

International shipping services

In addition to the domestic services available, additional routes are also offered from time to time by international shippers – including MSC – that visit Tasmania. These carriers use Tasmania as a stop-off point and provide "feeder services" to international destinations via mainland Australia on periodic service arrangements.

The Tasmanian Freight Equalisation Scheme

History of the TFES

The scheme was introduced in July 1976 by the Australian Government to alleviate the freight cost disadvantage incurred by shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea.[1]

"The TFES provides financial assistance for cost incurred by shippers of eligible non-bulk goods moved by sea between Tasmania and mainland Australia. The amount of assistance is based on the difference between the freight costs of moving the goods by sea and the notional freight costs of moving them by road over an equivalent distance. The objective of the Scheme is to provide Tasmanian industries with equal opportunities to compete in other markets, recognising that, unlike their mainland counterparts, Tasmanian shippers do not have the option of transporting goods interstate by road or rail. Assistance is also available for eligible non-bulk goods shipped between the main island of Tasmania and either King Island or the islands of the Furneaux Group."[2]

Productivity Commission report into Tasmanian Shipping and Freight, 2014

The inquiry, undertaken in 2014, allowed key participants and stakeholders in the Tasmanian freight and logistics supply chain to provide evidence and insights related to the TFES to help determine its effectiveness in providing a level playing field for Tasmanian exporters when compared to their mainland counterparts. In its report, the Productivity Commission found there would be merit in extending the TFES to include non-bulk goods whose final destination was an overseas market.

- ## Southbound component of the TFES

The southbound component covers non-consumer raw materials, machinery and equipment produced in Australia, or imports transformed on the mainland, for use in the manufacturing, mining, agriculture, forestry, and fishing industries in Tasmania. Eligibility is determined by the division of the Australian and New Zealand Standard Industrial Classification (ANZSIC) that the business belongs to, as determined by their primary activity. ANZSIC is the industrial classification system underpinning industry statistics of the Australian Bureau of Statistics and Statistics New Zealand (ABS and Statistics NZ 2006).

Imports, bulk freight and the backhauling of empty containers are not eligible for TFES assistance. Price-equalised goods, where a vendor averages their mainland and Tasmanian transport costs and charges the same price free-into-store, are not eligible for assistance under the southbound component of the scheme. The TFES provides assistance for the estimated and relative freight cost disadvantage, not the full freight costs.

[1] BITRE Tasmanian Freight Equalisation – Other Markets Review Draft Report Chapter 1 introduction, December 2017

[2] https://infrastructure.gov.au/transport/programs/maritime/tasmanian/

The cost disadvantage is calculated as the difference between:

- the costs incurred by shippers for moving freight across Bass Strait; and
- the notional cost incurred by moving freight an equivalent distance (approximately 420 kilometres) on the mainland by road. This amount is adjusted according to the parameters used to estimate the cost.[3]

Figure 2 **TFES top 10 commodities**

TFES paid for commodities shipped in 2011-12 [4]

Direction/commodity	*Amount paid ($m)*	*Direction/commodity*	*Amount paid ($m)*
Northbound		**Southbound**	
Frozen/processed/ prepared vegetables	8.1	Beer bottles/cans	3.0
Newsprint	7.7	Wheat	2.9
Fresh vegetables	6.8	Fodder/straw or pellets	2.4
Processed wood	5.5	Animal feed preparations	1.8
Fresh/chilled fish	3.7	Mixed or other cereals	1.7
Processed milk	3.6	Other paper products/printed matter	1.4
Waste and scrap metal	3.5	Cattle (adult)	1.3
Confectionery and chocolate products	3.4	Glass (other articles)	1.2
Beer	3.1	Paper	1.1
Cheese and curd	2.7	Sugar/molasses	1.1
Total (all commodity groups)	**66.7**	**Total (all commodity groups)**	**27.4**

Source: TFES database (unpublished).

The Productivity Commission report noted the highest southbound claims for the period 2011-2012. The main areas included agricultural products, paper products and cans/bottles.

While no specific conclusions could be made from this data, the opportunity to expand the scheme for the benefit of industries which require inputs from overseas suppliers is worthy of further consideration to provide consistent benefit to all Tasmanian businesses, regardless of their processes.

[3] Productivity Commission Inquiry into Bass Strait Shipping 2014 – Page 86
[4] Productivity Commission Inquiry into Bass Strait Shipping 2014 – Page 91

- ## What industry representatives said at the Productivity Commission Inquiry

"Participants highlighted the importance of the southbound component to many industries and firms. Net Sea Freight argued that industries that were reliant on inputs sourced from the mainland, such as mining, bore high input costs relative to their mainland competitors due to the cost of shipping across Bass Strait (sub. DR75).

Further, they would not benefit from an extension of the subsidy to exports as they shipped in bulk (Net Sea Freight, sub. DR75). The Commission heard that high value agriculture, aquaculture and viticulture firms would have their operations severely affected by removal of the southbound component of the scheme (Net Sea Freight, sub. DR75). Participants from the Bass Strait islands, in particular, were concerned at the impact on businesses' viability if southbound assistance were to be removed.

Both the King Island Shipping Group and the TFGA (King Island Branch) emphasised the importance of the southbound component to the viability of the islands' livestock industry. The TFGA (King Island Branch) commented that:

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. (sub. DR79, p. 2)

More broadly, participants such as Wine Tasmania were concerned that a lack of local substitutes for inputs would deter investment (sub. DR78)."[5]

Tasmanian business owners recognised the importance of the TFES southbound component during this inquiry and, importantly, the issue of sourcing localised input for their respective value adding (production processes).

When compared to mainland counterparts who face the same challenges, these business owners collectively expressed concerns that the freight impost for internationally sourced inputs could be cost-prohibitive and therefore could deter investment in Tasmania.

[5] Productivity Commission Inquiry into Bass Strait Shipping 2014 – Page 110

Understanding the regulatory environment

Agility

Chairman Tasmanian Logistics Committee Tasmania,
Mr. Brett Charlton
41a Tamar Street
Launceston. Tasmania. 7250
Phone: 03 63348633 Email: bcharlton@agility.com

Date: 16/09/2019

Dear Mr. Charlton

I am writing this letter in the support of *Tasmania Logistics Committee's* submission for a proposed amendment to the current Tasmanian Freight Equalisation Scheme (TFES). I am currently working for *Agility Logistics Australia* in the capacity of National Customs & Trade Consulting Manager with over 17 years of experience in the industry, specialising in Customs, tariffs, and international trade regulations.

As you may know, one of the main theories behind tariff regimes imposed on imported goods is the protection of local industries through an increased landed costing factor. However, in recent years the '*protectionism policy*' through tariff barriers has significantly reduced due to several Free Trade Agreements, unilateral preferential duty rates, and removal of tariffs on a large number of goods due to the absence of manufacturing advantage in those areas. This means that existing tariff barriers on imported goods are not as effective as may sound for local industries any longer, specially given the Free Trade Agreements that Australia has entered into with its major trading partners including China, United States, New Zealand, Singapore, Japan, South Korea, and Thailand.

In regards to *Tasmanian Logistics Committee's* proposed amendment to Tasmanian Freight Equalisation Scheme (TFES), I would like to confirm that I have reviewed at least 10 different products imported into Tasmania either in primary forms for further onshore manufacturing, substances consumed to grow or produce other products, or finished goods used in heavy equipment and machineries. These products are either duty free on their own rights or duty free under Australian Tariff Concessions System. Therefore, in order to assist the Minister that 'local manufacturing capability' has been carefully considered in the proposed amendment I would like to elaborate further on two important tariff related scenarios as follows.

a- *Duty free goods on their own rights*: A number of goods under this review, such as fish knitted netting, fishmeal, magnesium ingot, and Meta sulphite are duty free on their own rights. The prime philosophy behind a duty free tariff is the absence or very limited local industry capabilities in those areas. That is why usually governments put a lower or zero tariff rates on those goods which they have no advantage or much less comparative advantage in the world markets. This is essentially aimed at improving the related industry as well as protecting 'consumers' *rights'* for sourcing their needs at a lower cost.

b- *Goods subject to existing Tariff Concession Orders*: There is a large number of Tariff Concession Orders (TCOs) applicable to several products and materials imported into Tasmania. The Australian Tariff Concession System is an Australian Government revenue concession that is applicable where there are no known Australian manufacturers of goods that are substitutable for imported goods. This concessional program has been legislated under Australian Customs Act 1901 and the core

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criteria for the grant of a Tariff Concession Order (TCO) is stipulated under Section 269C of the Customs Act 1901 as below:

"For the purposes of this Part, a TCO application is taken to meet the core criteria if, on the day on which the application was lodged, no substitutable goods were produced in Australia in the ordinary course of business".

Therefore, the existence of a Tariff Concession Order is an evidence of no known local manufacturing capability for its substitutable goods.

In addition to the above, under Schedule 4 of the Australian Customs Tariff Act 1995 there are number tariff concessions related to certain types of goods, which have direct contribution to the development of certain local industries. These concessions are essentially related to raw materials used in the manufacture of other articles, or materials and components used in the maintenance, repair, or manufacture of goods related to transport industries including certain vessels, aircrafts, and certain trucks. All these concessional schemes under *Customs Tariff Act 1995* are attributed to the policy that Australian Government has always tried to support local industries through elimination of relevant tariff barriers unilaterally outside the Free Trade Agreements principally due to the lack of Australian manufacturing advantage in the world market.

Therefore, it is important to note that all these concessional regimes are self-evident of the absence of local manufacturing capabilities. Thus the proposed amendment to Tasmanian Freight Equalisation Scheme (TFES) has minimal, if not at all, adverse impact on the local manufacturers and producers in Australia.

I hope that this statement provides you with further clarity on local manufacturing capability implications for the proposed *Tasmania Logistics Comm*ittee's submission.

Please feel free to contact me at aparvar@agility.com if you require any further information.

Sincerely Yours

Afshin Parvar
National Customs & Trade Consulting Manager

What do Tasmanian business owners say?

In order to provide an understanding (and illustration) of the issues surrounding the importation of products to Tasmania and how an extension to the southbound component of the TFES could assist, a series of case studies have been prepared in this report.

These case studies are a snapshot of Tasmanian business. They are a reasonable starting point to gauge the wider opinion of the business community about freight and logistics, and about the TFES as a support mechanism for southbound freight importation and how this impacts their respective business models.

We are grateful to the following Tasmanian businesses that have contributed as part of this process:

Name	Type of exports	Industry sector
Norske Skog	*Paper*	*Paper manufacturing*
Epiroc Australia	*Mining equipment*	*Manufacturing*
Incat Tasmania	*Shipbuilding*	*Manufacturing*
Petuna Aquaculture	*Salmon farming*	*Aquaculture*
Nyrstar	*Zinc processing*	*Manufacturing*
Botanical Resources	*Pyrethrum*	*Agriculture*
Skretting	*Specialist fish food*	*Aquaculture*

Case Study 1 – Norske Skog

Situated in southern Tasmania, the Boyer Mill produced Australia's first newsprint in 1941 and remains one of the state's major employers with a direct workforce of approximately 300 people. The mill also provides many jobs in the forest and transport industries across the state and has two paper machines; one produces standard and improved newsprint and book paper and the second was converted from the production of newsprint to quality lightweight coated paper in 2014 at a cost of $85 million.

Lightweight coated paper is used in advertising catalogues and magazines and the Boyer Mill supplies around 40 per cent of domestic demand. The mill is a major participant in the Tasmanian Forest Industry using softwood pine from certified plantations.

Discussion with Arnold Willems – Commercial Manager

What overseas inputs do you use in your manufacturing process?

Norske Skog currently imports latex product from South Korea which is used in the coating of paper products for domestic (within Australia) and export sales. Presently we import three Twenty-Foot Equivalent (TEU) containers of product per week to support our production operations.

Can you source locally produced options for these inputs?

Unfortunately, we are unable to source any Australian alternatives.

If these inputs became TFES-eligible, how would any additional funding be used in your business?

The viability of Norske Skog's Boyer operations is regularly reviewed by our Norwegian parent company and the operating costs continue to be an area of scrutiny. To remain competitive, we must always be looking for, and putting in place, cost-reduction initiatives. The ability to access TFES on consumables which have no Australian supply alternatives, such as latex, would certainly be a substantial benefit, contribute to the continuation of our Tasmanian operation, and the viability of quite a number of Tasmanian businesses (large and small) who rely on supplying goods and services to the Norske Skog Boyer Mill.

Case Study 2 – Epiroc Australia

Located in Burnie in North-West Tasmania, Epiroc (formerly Atlas Copco) is a multinational organisation with many international operations that produces quality rock excavation equipment, drill equipment, trucks and loaders and specialist mining equipment for Australian and international use.

Discussion with Sri Pillay – Supply Chain Manager

What overseas inputs do you use in your manufacturing process?

We import the base machines from Sweden and the United States which we then use in our Australian production lines to produce specialist equipment tailored to our customers' requirements.

Can you source locally produced options for these inputs?

Epiroc is the Original Equipment Manufacturer of all our equipment and parts. These are created and designed in-house providing innovative products, solutions and technological advancements. As such we are unable to source these items from local suppliers.

If these inputs became TFES-eligible, how would any additional funding be used in your business?

The inherently higher costs of transporting machines destined for the North-West Tasmania site means that there have been several reviews as to the possible cost savings of centralising all Australian activities into Perth.

While acknowledging that there are operational benefits of maintaining a site more central to our South-Eastern Australia customers, the operating costs continue to be an area of review and we are always looking for cost-reduction initiatives. The ability to access TFES on imported base machines would certainly be viewed as a substantial benefit and a contributor to the continuation of our Tasmanian operation.

Case Study 3 – Incat Tasmania

The Incat group evolved from other boat-building companies, including the Sullivans Cove Ferry Company (SCFC) formed by Robert Clifford in 1972. SCFC built conventional steel mono-hull vessels, and operated small ferries across Hobart's River Derwent. SCFC gained prominence transporting more than nine million passengers in the two years following the 1975 Tasman Bridge collapse, the sole bridge link between the eastern and western shores of Hobart.

Since then, Incat has developed a global reputation for excellence in the manufacture of high-speed passenger and vehicle ferries that are used worldwide, transporting people to their destinations in a fast, efficient and safe manner.

Discussion with Simon Fleming – Purchasing and Logistics Officer

What overseas inputs do you use in your manufacturing process?

We import 3mm to 300mm thick aluminium including grades 5083 to 5383 from France, Greece, Italy and China to build our ferries.

Can you source locally produced options for these inputs?

All aluminium plate now used in Australia is imported. Australia only produces coiled aluminium to suit the beverage can industry.

If these inputs became TFES-eligible, how would any additional funding be used in your business?

Certainly, we would be able to construct our ferries on the same pricing platform as our mainland competitors if freight costs were not an inhibitor. Extra funding would also support ongoing research and development and other investment opportunities.

Case Study 4 – Petuna Aquaculture

Established with their first commercial fishing boat in 1949, Petuna Seafoods (Petuna deriving its name from Peter and Una Rockliff who started the company) is one of Tasmania's most established operations, pioneering ocean trout and Atlantic salmon aquaculture in 1991. Employing over 340 people throughout sites in North and North-West Tasmania, Petuna continues to produce a variety of quality fish products for domestic and overseas consumption in partnership with Sealord New Zealand (since 2010).

Discussion with Penny Higgins – Tax and Compliance Manager

What overseas inputs do you use in your manufacturing process?

We purchase fish nets from international sources to allow us to farm Atlantic salmon and ocean trout within specified areas in Tasmania. The conditions in Tasmania require our fish nets to be highly durable and able to withstand climatic conditions and repel predators (sea lions and seals). The annual cost is $1.2 million

Can you source locally produced options for these inputs?

Our supplier is local and confirms fish nets have not been made in Australia for at least twenty years.

If these inputs became TFES-eligible, how would any additional funding be used in your business?

Petuna is actively expanding its farming operations and any additional funding through the TFES would be used to invest in our business and employ more local Tasmanians in our aquaculture industry.

Case Study 5 – Nyrstar

The Nyrstar smelter is located on the western bank of the River Derwent Estuary in Hobart and is one of the world's largest zinc smelters in terms of production volume.

The facility uses the RLE process for zinc production. Its key products are special high grade (SHG) zinc, die cast alloys (branded "EZDA") and CGG (continuous galvanising grade) alloys. In addition, the site produces by-products of cadmium, copper sulphate, paragoethite, lead sulphate, leach concentrate and sulphuric acid.

Discussion with Mark Smith – Regional Category Manager (Australia)

What overseas inputs do you use in your manufacturing process?

Aluminium Cathode Plates.

Can you source locally produced options for these inputs?

Our procurement team have undertaken market research and are unable to source this product locally.

If these inputs became TFES-eligible, how would any additional funding be used in your business?

Nyrstar competes in an extremely tight worldwide market and production costs are a significant determinant of the ongoing viability of our plant and ability to attract customers for our products. Any cost savings simply makes the plant more competitive.

Case Study 6 – Botanical Resources

Botanical Resources Australia (BRA), based in North-West Tasmania, is a vertically integrated agricultural and manufacturing company producing the natural insecticide pyrethrum. Since the early 2000s BRA has been the world's largest producer of pyrethrum with major exports to North America and Europe.

In 2012, BRA started producing energy-dense biofuel from pyrethrum green waste, used to power operations of major Tasmanian agri-businesses. [6]

Discussion with Ross Blaikie – Commercial Manager

What overseas inputs do you use in your manufacturing process?

We are trialling the importation of a various feedstocks from our sister company in the US to process and value-add at our factory in North-West Tasmania.

These feedstocks aren't grown currently in Australia and this would provide additional product lines for BRA to complement our existing products. It would also ensure our state-of-the-art refinery plants are fully utilised through the year.

Can you source locally produced options for these inputs?

No. Growing practices and conditions in our Australian locations do not make it viable to produce these feedstocks at this time.

If these inputs became TFES-eligible, how would any additional funding be used in your business?

We view the potential market for these naturally derived products as an area of expansion and growth globally in the chemical industry. While in the very early stages of developing this market, the cost savings generated by the ability to attract southbound TFES simply strengthen the business case to proceed and to manufacture locally in Tasmania rather than offshore.

[6] https://www.botanicalresources.com/company/company-history

Case Study 7 – Skretting Australia

Skretting is the Aquaculture Feed division of Nutreco, one of the largest animal nutrition companies in the world, and it serves all major aquaculture centres from production plants in Europe, South Asia, North and South America, Africa and Australia. Skretting Australia has a long and proud history of operation in Cambridge, Tasmania, and today is the largest manufacturer of aqua-feeds servicing the Australian and New Zealand aquaculture industries.

Skretting Australia is strategically positioned in Tasmania, largely because it is the major supplier of Atlantic salmon which is grown exclusively in Tasmania. Atlantic salmon represents approximately 65 per cent of its production volume. Skretting also makes feeds for other aquaculture markets such as chinook salmon (NZ), prawns (northern QLD), rainbow trout (VIC and TAS), barramundi (mainland Australia), yellow-tail king fish (WA) and abalone (VIC, SA, TAS).

Discussion with Jerome Zodins – Purchasing Manager

What overseas inputs do you use in your manufacturing process?

Presently Skretting imports fishmeal and fish oil predominately from Peru (approximately 1000 tonnes per month) and soybean concentrate (200 tonnes per month) from Brazil to be used in our regular manufacturing process.

Can you source locally produced options for these inputs?

In order to produce feeds for the species and markets to meet the health and nutritional profile required for sustained health and growth, specific raw materials are needed in our feed formulations. These specific raw materials are not able to be sourced in Australia as they are either not produced in Australia or there is no commercially viable Australian substitute. The only option is to source specific raw materials from suitable overseas suppliers and therefore Skretting Australia must import these specific raw materials into Australia and Tasmania.

If these inputs became TFES-eligible, how would any additional funding be used in your business?

The introduction of a TFES in identified imported products would significantly lower the cost of our operations as we service a large geographical market that stretches across Australia and New Zealand.

Securing TFES on identified imported products would help embed our operations in Tasmania over the long term by making it more cost-effective to operate from within Tasmania. At this point, we incur significant cost disadvantages compared to mainland manufacturers by transporting products across Bass Strait.

Not having access to the raw materials required to fulfil both nutritional and customer contractual obligations reduces Skretting's market competitiveness. Current pricing of freight to deliver our inputs for manufacturing products for these markets puts a Tasmanian mill at a disadvantage as it lowers cost competitiveness.

There are no direct shipping services calling directly to Tasmania from overseas origins, which therefore necessitates our imported raw materials going through an Australian port as the first point of entry into Australia, then transhipped to Tasmania via Bass Strait. Markets such as prawn and barramundi are growth markets, so it's likely we will see increased demand in these areas in the future.

TFES on identified raw materials would significantly benefit our Tasmanian operation by assisting to level the competitive landscape, allowing us to capture future opportunities in the aquaculture market. Securing Skretting Australia's future in Tasmania has positive benefits for the employment opportunities for the local communities in which we operate by creating opportunities for Tasmanians, upskilling workforce, and presenting a variety of career pathways.

Industry and government in collaboration

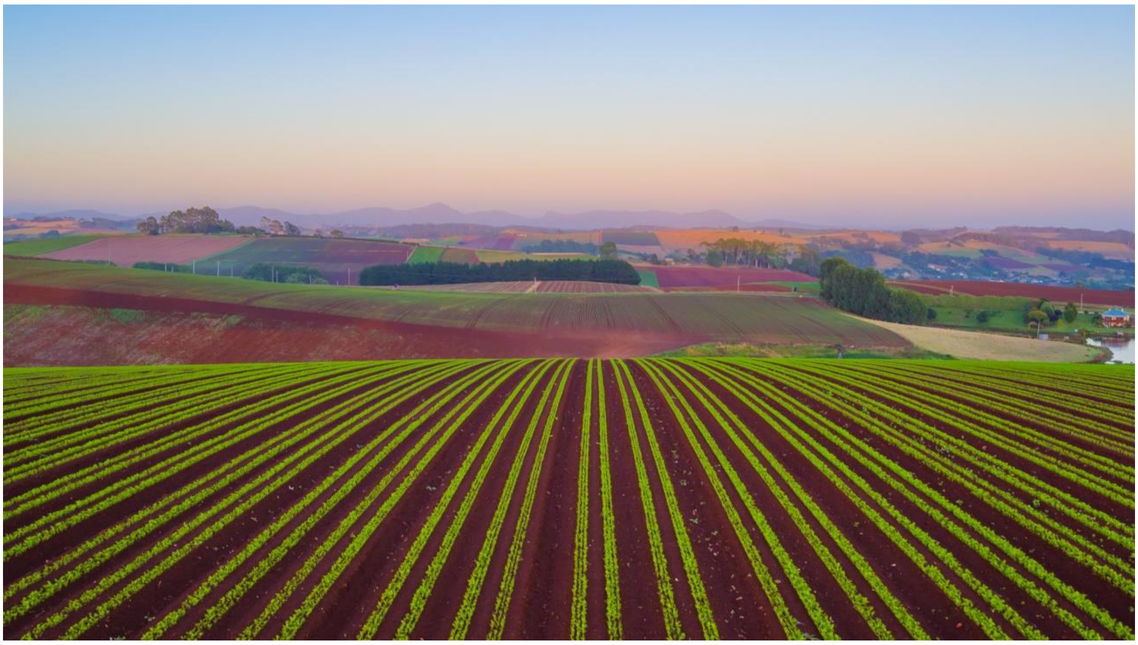
In 2016, the TFES was extended to include northbound exports to international markets (also known as "other markets") as a result of significant lobbying by Tasmanian exporters and industry sectors to address an inequity in the scheme and to level the playing field.

The results since this date speak for themselves and it is fair to conclude the extension to the scheme has contributed to assisting the Tasmanian economy experience a period of economic resurgence.

Media release

Tasmanian exports might be levelling off at high level

By Sean Ford – The Advocate, 3 July 2019



Tasmania's overseas exports look to be levelling off at historically high levels.

The value of Tasmanian merchandise exports sent overseas totalled $3.688 billion in the year to May, according to Australian Bureau of Statistics figures. That was $87 million more than for the previous year, an increase from an average of $300.1 million per month to $307.3 million. However, a month ago the annual total value was estimated at $3.741 billion.

Also, the monthly totals for March, April and May were all weaker than for the corresponding months in 2018. A 12-month average is used to smooth out volatility in the monthly figures.

State Treasury analysis showed the average had been bumping along at similar levels since the second half of 2018, following a period of powerful growth.

China and the wider Asian region remained Tasmania's crucial markets in May. Mainland China alone took $86 million of the $298 million in monthly exports. China's total was an increase of $11 million from the previous month. Hong Kong took a further $10 million.

Japan also went on a spree. Its May total of $35 million was up by $15 million and the strongest since May last year. APEC (Asia-Pacific Economic Cooperation) nations accounted for $278 million in total.

European Union nations took $4 million worth of Tasmanian merchandise. Other big markets included Taiwan ($23 million), the US ($25 million) and Thailand ($17 million).

Tasmania is struggling to gain export traction in India, despite India's vast population size and strong economic growth. India took just $3 million worth of Tasmanian goods in May, which was unchanged from the previous month.

Mining and related sectors remained Tasmania's biggest overseas export earner.

Treasury analysis for the year to April showed non-ferrous metals made up 39.3 per cent of Tasmania's overseas merchandise export value and metallic ores and metal scraps (15.9 per cent). Between them, they dwarfed the value of agricultural related exports. Meat accounted for 6.7 per cent of export value and seafood 6 per cent.

Evidence to Government

RDA Tasmania and the Tasmanian Logistics Committee prepared a report into the benefits the extended TFES is delivering in its March 2018 report "Tasmanian Freight Equalisation for International Exports – Case Studies Report". This report provided case studies of ten Tasmanian export businesses and how their businesses have benefited through this scheme.

Media release

New jobs and investment from Tasmanian Freight Equalisation Scheme

By Lachlan Bennett – The Advocate, 16 March 2018

Exporters have increased investment and added jobs because the Tasmanian Freight Equalisation Scheme was expanded in 2016, according to a new report.

The Case Study Report for International Exports documents the uptake and benefit of the freight subsidisation scheme through case studies of 11 Tasmanian businesses.

The report was produced by Regional Development Australia and state chairman Tom Black said it provided further evidence of the positive impacts the TFES provided Tasmanian exporters and regional communities.

Mr Black said a group of businesses interviewed for the report had added 45 new jobs and $15 million of investment since the TFES expansion.

"Furthermore, international export container movements for July 2016 to June 2017 increased by 11 per cent on the previous year, and July 2017 to October 2017 saw an increase of 16 per cent for the same period the previous year," he said.

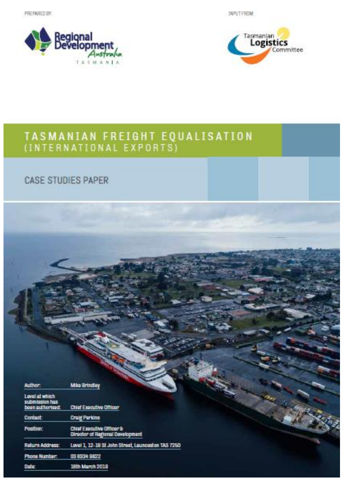
The federal government has funded the TFES since 1976 to help alleviate the cost of shipping goods across the Bass Strait. It was expanded in 2016 to include exports that are sent to an Australian port before heading overseas.

Vegetable producer Premium Fresh has increased its international exports from around 15 to 20 per cent of total exports since the scheme was expanded. Managing Director Jim Ertler said the Forth-based company had also invested $400,000 in a refrigerated loading dock and storage.

"The investment that we have put in place has been directly related to the (TFES) scheme," Mr Ertler said. "It has allowed us to expand with confidence." Mr Ertler said the scheme had put Premium Fresh "on a level playing field with mainland producers".

The Case Study Report for International Exports aims to build an evidence base to justify continued funding of the expanded TFES after its initial four-year run. But the report did highlight some ongoing challenges of the scheme, such as the limited awareness among Tasmanian business of the TFES, how to make a claim and who is eligible.

The report included input from the Tasmanian Logistics Committee.



Media release

Tasmania benefits from further extension of TFES

Jeremy Rockliff, Minister for Infrastructure, 12 May 2018

The Hodgman Liberal Government has a strong working relationship with our Federal Liberal colleagues, and this relationship is delivering real investment and outcomes for Tasmania.

On behalf of the Tasmanian Government, I would like to welcome the extension of an important scheme which will benefit Tasmanian exporters.

This week's Federal Budget extends the important Tasmanian Freight Equalisation Scheme (TFES) by a further two years, meaning the scheme will continue until at least 30 June 2022.

This is great news for Tasmanian businesses and industries which utilise the TFES to get their exceptional products and fresh produce to the eager international market.

The extension sees Tasmania benefit to the tune of up to $175 million per year to 2021-22.

Established by the former Fraser Coalition Government in 1976, the TFES was designed to offset some of the freight cost disadvantage for Tasmanian businesses associated with Bass Strait shipping.

This most recent expansion of the TFES is fair recognition of the disadvantage Tasmanian businesses face when seeking access to interstate markets.

As a Government, we will continue to fight for the best possible outcomes for Tasmanians, as we have done in this case.[7]

Improvements in Tasmanian Economic Outcomes

As a result of Tasmania's solid economic performances and resurgence in the national context, more people are choosing to call Tasmania home. This is providing economic spin-offs and improvements in housing prices, business confidence and investment.

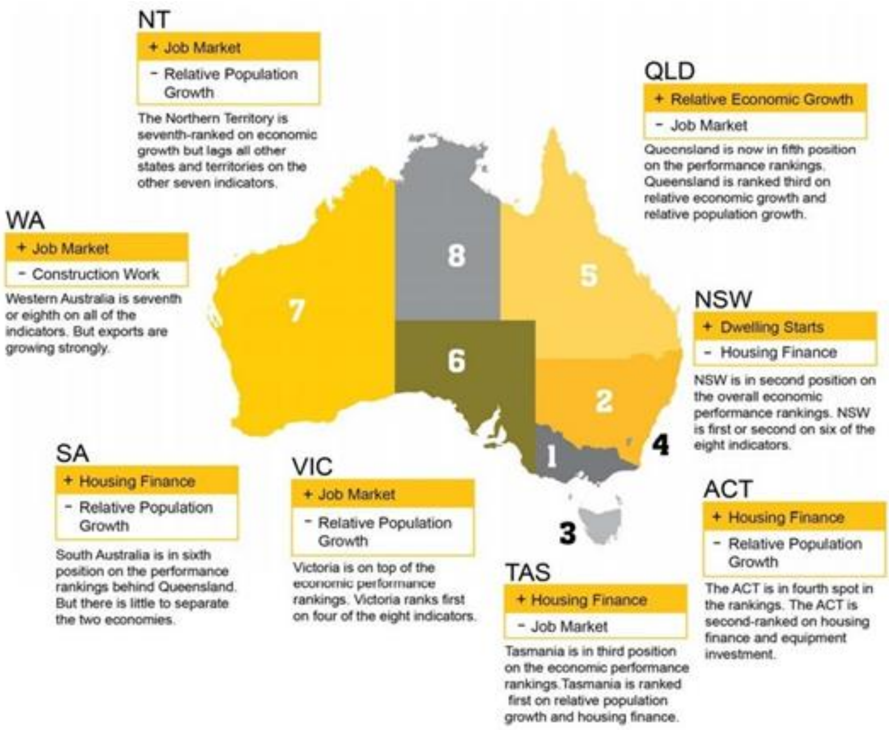
The recent Commsec Report (July 2019) suggests Tasmania has the potential to challenge Victoria and New South Wales as the lead performer in Australia in terms of population growth and economic outcomes in the years ahead.

[7] http://www.premier.tas.gov.au/releases/tasmania_benefits_from_further_extension_of_tfes

[CommSec State of the State July 2019]

"Tasmania ranked first on relative population growth, housing finance and business investment and is in second spot on dwelling starts. Such is the strength of the Apple Isle.

CommSec believes the island state could challenge Victoria and NSW for top position in the year ahead. And people are flocking south. Tasmania's annual population growth of 1.24% is the fastest rate in 27 years. Only NSW pipped Tasmania for dwelling starts."



Industry and government working together in Tasmania has yielded significant outcomes in recent years. The Tasmanian Trade Strategy released in 2018 is further evidence of the need to continue this working relationship as a means of identifying roadblocks or challenges and providing workable solutions that are justifiable and will deliver beneficial outcomes for both parties.

To this end, industry's identification of the international extension of the southbound component of TFES as an issue for consideration, similar to that of the northbound international extension in 2016, has the potential to achieve outcomes of similar scale. The opportunity to provide further support to industry that can in turn deliver ongoing economic output and further job creation cannot be overlooked as a means of ensuring economic sustainability for the long term.

Conclusions and recommendations

Tasmania has emerged from a period of economic stagnation to prosperity in less than 15 years. There are many reasons for this dynamic turnaround, with access to a reliable and cost-effective freight network for Tasmanian exporters “top of the list”.

Tasmanian businesses that export product to both domestic and international markets are among the most innovative in Australia. The need to drive down costs in line with the regular production of quality exports remains challenging, yet Tasmania is increasing its export output and market share within Australia and internationally.

This momentum has been supported by government including through an extension to the TFES in 2016, an Integrated Freight Strategy for Tasmania, and most recently a Tasmanian Trade Strategy, all designed to map a path for future economic sustainability. However, Tasmanian industry has identified a further opportunity to support all Tasmanian industry sectors and once again “level the playing field” in terms of cost of production.

The extension to the southbound component of the TFES to include the importation of non-Australian manufactured goods used in the value-adding (production) process in Tasmanian industries, is vital to reducing costs and supporting the long-term continuation of industry in Tasmania. Incorporating into the TFES southbound goods from international origins (where no local alternative exists) that are required in the production processes of Tasmanian industries is the last hurdle to providing Tasmania with a consistent support mechanism for freight leaving and entering the state.

This is not to suggest the current TFES scheme is outdated, but more to recognise that Tasmania’s economy has diversified significantly from its original form when the TFES was first introduced in 1976. Industry feedback and the recent Productivity Commission review into Bass Strait Shipping (in 2014) have helped all parties to recognise how Tasmania has evolved into its current form, and to better understand its ongoing freight task and its future requirements to be able to compete on equal terms against mainland and international exporters.

Extending the southbound TFES to imported goods which have no Australian-made alternative, and that are directly related to the value-adding chain for Tasmanian industry sectors, will directly drive profitability, investment and increased employment opportunities similar to the results achieved with the extension of the northbound scheme.

Potential Positive Outcomes

- Improved confidence in the business model
- New investment in plant and equipment
- Improved employment outcomes (part-time and full-time)
- Sustainability and comparable outcomes when considered with mainland exporters
- Improve the case for industry sector participants to remain in Tasmania

Many businesses interviewed during the preparation of this report suggested that incorporating this proposed extension to the southbound component of the TFES would strengthen the case for industry to remain in Tasmania. It would also potentially attract to the state new industry participants that require robust freight networks, the availability of suitable industrial land, skilled labour and access to renewable energy for their long-term business investment.

This report is a good starting point for discussions on these issues. It is clear that both industry and government have a role to play in the consideration of these recommendations as a means of ensuring the future economic resilience for Tasmania.