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22nd June 2006

Productivity Commission  
PO Box 80  
Belconnen ACT 2616

Attention Jill Irvine

Dear Madam,

**Re: Inquiry into the Tasmanian Freight Equalisation Scheme**

The Forest Industries Association of Tasmania (FIAT) was formed in 1983 to represent the interests of the Tasmanian processors of timber. These companies' activities include producing hardwood and softwood sawn timber and veneer, manufacture of pulp and paper and the export of woodchips.

The Tasmanian forest industry, as reported in the 2002 Tasmanian Regional Forest Agreement (RFA) Review, has an annual turnover of approximately \$1.27 billion and a comprehensive study in 2004 revealed the industry directly employs 10,693 Tasmanians. It is the economic backbone of many rural towns and communities.

The security of supply that the 1997 Tasmanian RFA provided, together with the mainland market opportunities provided by the Bass Strait freight equalisation scheme, resulted in investment of \$615 million on new plant and equipment, upgrades of existing facilities and major company acquisitions within Tasmania between 1997 and 2002.

Tasmania has a relatively small population and a correspondingly small market for timber products. This means that most Tasmanian timber companies must access mainland and overseas markets to gain the economies of scale sufficient to make their individual businesses viable. Because of the high freight cost of transporting goods across Bass Strait, the Tasmanian freight equalisation scheme is essential to the ongoing viability of most Tasmanian timber companies.

A recent survey of FIAT members revealed the following approximate proportions of timber and wood products are sold into mainland markets;

- 1) 60% of kiln dried hardwood timber products such as flooring and dressed timber, with a further 10% exported out of Australia;
- 2) 50% of kiln dried pine timber;
- 3) 80% hardwood veneers and 30% softwood veneers
- 4) 97% newsprint and;
- 5) 85% printing and writing paper.

Whilst there is considerable variation between sectors, all sectors rely upon the freight assistance

to gain access to mainland markets.

Tasmanian processors seeking to export to South East Asia are at a disadvantage relative to mainland producers. For example freight costs excluding loading, wharfage and associated land transport for a container ex Melbourne to Shanghai is US\$225 as compared to Bell Bay US\$500. Similarly ex Melbourne to Bangkok is US\$400 as compared to ex Bell Bay US\$650. FIAT is not seeking freight assistance for these higher international freight costs but their presence increases the importance of retaining the Tasmanian freight equalisation scheme to access domestic markets.

The retention of the Tasmanian freight equalisation scheme is also an important factor in justifying new Capital investment. The Tasmanian industry is poised to make investments of approximately \$200 million to retool industry for changes arising from the Tasmanian Community Forest Agreement 2005, and possibly a further \$1 to \$1.5 billion to build a world scale pulp mill in Northern Tasmania. This pulp mill, should it proceed, offers a great opportunity for Australia to replace imported pulp with domestic and reduce the current annual trade deficit in pulp and paper of \$2,138 million. The ongoing provision of the Tasmanian freight equalisation scheme will play an important part in accessing mainland markets on a competitive basis with imports. Should these investments eventuate, the output of the Tasmanian timber industry should exceed \$2 billion per annum. It is important there is a commitment that the freight assistance is retained for many years forward to underwrite these very large Capital investments.

FIAT is aware that some individual member companies have or will be lodging their own submission with specific information about their company. However if the Commission requires more specific information about the importance of the freight assistance in a particular sector several members have offered to provide details upon request.

FIAT does not have comments on how the Tasmanian freight equalisation scheme could be improved but the current level of assistance at company level should not decrease, nor should the application of the assistance be decreased. It is important that the wider mainland market continues to be accessed.

FIAT members regard the Tasmanian freight equalisation scheme as an essential part of the economic viability of their companies and urge the Commission to support its continuation.

Should you require any further information, including detailed case studies for specific companies, please do not hesitate to contact the undersigned?

Yours truly,

Larry Henderson  
Manager Projects  
Forest Industries Association of Tasmania