

**Submission to the Government Administration A Sub Committee
Inquiry on King Island Freight Services**

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Key points:

- The cost of doing business on King Island is too high because of high freight rates
- The cost of living on King Island is significantly higher than even remote communities on the mainland of Australia
- Subsidies do not work
- Encouraging competition is likely to be the only strategy to keep freight costs in check
- A freight service should be customer focussed and flexible rather than dictatorial and inflexible.

My name is Don Story. I am a King Island beef producer.

My wife and I retired to King Island in August 2015 to renovate a neglected former dairy farm and convert this to a beef finishing enterprise.

The aim was to be independent of government in our senior years.

Much progress has been made in restoring productivity to this farm.

We take great pride in producing the highest quality beef we can under the Greenham and Co Global Animal Partnership (GAP) program. The GAP program is best practice with a strong animal welfare overlay. This is one of the highest level, independently audited, quality assurance programs operating.

We supply both GAP and Never Ever (no growth promoter or antibiotics) cattle to Greenham's premium brands.

The cost of getting cattle to and from King Island and necessary inputs such as fertiliser to King Island dramatically increases the costs of doing business, slashes profitability and constrains further farm productivity improvement.

These high freight costs, along with current high cattle replacement costs relative to the prime stock price, could force us to abandon this enterprise.

That will mean further farm aggregation on King Island and two fewer people.

The Tasmanian government recognises the impost with one Minister stating: "You are being screwed but we are not going to do anything because there are jobs at stake".

Another Minister told an estimates committee hearing the freight charges were all about the small scale of the King Island freight task. This is a simplistic explanation.

The writer recognises the 400 acre property is too small to be economically sustainable as a cattle breeding operation, which is the mainstay of most King Island beef enterprises.

But it can be economically sustainable as a finishing enterprise if freight rates are fair and reasonable and fertiliser prices are on par with mainland Tasmania.

Most beef farms on King Island are breeding enterprises with some selling store cattle opportunistically or through seasonal imperatives. Most try to turn off prime stock at varying weights, from yearling beef at 240-280kg dressed weight to heavy ox at more than 300kg.

GETTING CATTLE TO KING ISLAND

We try to buy in "store" steers at 330-350kg liveweight and grow these out to 600-650kg lw in 8-10 months.

As a steer trader/finisher, we must buy and grow well-bred cattle that have been well-managed from conception through to purchase as weaners at nine-10 months of age.

These cattle are rarely available on King Island.

They are, however, available in large numbers in Victoria.

Quality cattle of the preferred weight range imported from Victoria typically reach finished market weight in eight-10 months

The cattle available for purchase on King Island have taken as long as 14-16 months to reach target market weights.

Semi-trailer loads of around 60-65 steers of the preferred weight range are imported from Victoria by the writer and at least two other, significantly larger, steer traders supplying the high quality heavy steer beef for which King Island is known.

Until April of this year, we were able to import these cattle on the SeaRoad Mersey on an "as needs" basis.

The cost of importing these cattle was about \$65 a head, depending on from where in Victoria they originated. These cattle have typically come from Bairnsdale, Yea or Casterton. The cost of shipping the last load of cattle imported by the writer was \$6380 including GST.

This attracted a north-south freight rebate of \$1710 under the TFES, making the cost of importing these steers \$4670 or \$78 a head.

Management of the the new government shipping service to King Island has said it will not be involved in shipping cattle to King Island from Victoria. It has demonstrated it is inflexible and dictatorial in its approach to customer needs.

Without affordable access to Victorian cattle the writer's business model is not viable.

It is understood the Tasmanian government is working toward the reinstatement of the triangular service between Victoria, King Island and Tasmania. The writer feels this will take many years to achieve, with TasPorts management saying another "interim" boat will replace the Investigator II before a new boat is purpose built for the task.

As a result of BIL saying it will not bring cattle from Victoria via the Investigator II, and the significant extra costs of importing cattle via mainland Tasmania (quoted at \$10,000 a load or \$154-\$166 a head), we are working on alternative strategies, including assembling a full boat load of suitable cattle with two other King Island steer traders and chartering the LDS Statesman.

We will need to assemble approximately 400 head in Victoria, pay road transport from the point of purchase to an agistment property and pay agistment until a boat load is assembled (typically \$4 a head per week). There will also be supplementary feed costs.

These cattle will take some time to assemble.

Instead of costing approximately \$5000 to bring a trailer load of 60-65 steers direct from Victoria to King Island the cost, under the new shipping arrangements the freight from the agistment property will be \$7000. This will attract the TFES rebate. That makes a trailer load of cattle \$81-\$88 a head.

Another option is to ship cattle from Victoria to Smithton via commercial shipping, spell these cattle for a suitable time and ship these cattle via the LDS Statesman from Stanley to King Island. This is likely to cost about \$100 a head.

GETTING CATTLE OFF KING ISLAND

The cost of transporting cattle to Greenham and Co at Smithton on the LDS Statesman (pens on deck) was until recently \$95 a head, not including the cost of transport from farm to port which was typically \$14/head. Cattle are now shipped in trailers with the cattle collected from the farm.

The total cost remains the same at about \$110.

This is a socialised price as the cost of shipping cattle from anywhere on King Island is the same \$110, whether the cattle are transported from 8km from Grassy or from the top of the island, 80km away.

The cost of cattle transport is tipped to increase.

When Greenham first started to source King Island cattle it paid the freight as a sweetener to build support.

It is understood the cost of shipping cattle to Smithton soon rose to \$60-\$65 a head until the former JBS Australia abattoir on King Island closed in late 2012.

To assist King Island producers transition to off-island processing the former Labor government initiated a temporary freight subsidy of \$30 a head in a program that included a commitment from producers claiming the subsidy that this money would be invested in farm productivity improvements.

The day this subsidy was announced it is understood the cost of shipping cattle to Smithton jumped to \$95 a head.

The freight subsidy to assist producers never reached the intended recipients.

In fact, it can be argued the attempted assistance actually cost producers \$60 a head when the farm improvement component was included.

The writer did not claim any subsidy.

In the last 12 months there was an attempt to increase the cost of shipping cattle to Smithton via the Port of Stanley. This was short lived after producers protested the increase.

The writer does not sell cattle to JBS so cannot comment on shipping costs to Longford.

For this writer, the cost of transporting cattle to market in the year ended June 30, 2017, was \$20,000, including GST.

FERTILISER

Well fertilised pastures are essential for optimum productivity. Fertiliser on King Island is mostly shipped as a bulk product inside 20 foot containers. Container weight has been restricted by TasPorts to 23.5t.

This year the writer applied 57 tonnes of a blend of superphosphate, potassium and nitrogen fertiliser.

The cost of this fertiliser was \$510 a tonne ex Grassy Port.

This figure included \$142/tonne freight.

That means the cost of freight to the writer in March this year was \$8094. As a percentage of the fertiliser cost, this is 28 per cent.

The writer has learned that the freight component is now \$160/t excluding GST and likely to go higher. This has increased the freight component to 32% of the total fertiliser cost, assuming the fertiliser cost remains the same.

While it is understood each container was restricted to 23.5 tonnes this past season, containers of bulk fertiliser are now restricted to 23 tonnes and predicted to be further constrained.

The biggest changes to the increase in costs are from:

Container hire \$7.70/tonne

Wharfage Devonport \$4.22/tonne

Empty return \$2.35/tonne

Reduction in container capacity \$3.26/tonne

Total

The writer has been informed that the cost of shipping fertiliser to Flinders Island is \$60/t.

This fertiliser is shipped in one tonne "bulker" bags which are handled at least six times.

A 20 foot container holding 23.5 tonnes of fertiliser equates to \$3337 per container freight to King Island (March 2017).

Containers of fertiliser to Tasmania can or do carry up to 29 tonnes. Containers to King Island are limited to 23.5t, supposedly on occupational health and safety grounds.

This means the writer's recent order of 57t had to be put into two bulk containers with the remainder shipped in more expensive one tonne bulker bags in a shared container.

This made the order more than \$2000 more expensive than it needed to be.

Comment [megadon031]:

By limiting the weight, more containers must be shipped, increasing the wharfage received by TasPorts.

Wharfage on King Island is advertised as \$146 for each container.

Wharfage at mainland Tasmanian ports it is \$74.50/20 foot container.

FOOD PRICES

Visitors to King Island and residents returning from off island trips regularly comment about their shock in discovering the high cost of groceries relative to the mainland.

One resident returning this month from 12 months in the Kimberley region of Western Australia reported grocery prices are higher on King Island than in that remote part of Australia, except for some perishables such as lettuce.

These high prices have prompted some to form a buyer's group and it is understood that some have negotiated free freight on large grocery orders from major supermarkets.

Many grow their own vegetables. Some "live off the land".

The writer has twice done price comparisons between King Island and Mildura on a basket of staples – flour, sugar, tea, breakfast cereal and butter. On both occasions it revealed King Island to be much dearer than Mildura which is, in itself, a remote town.

The latest comparison of prices includes Mildura, Mansfield (Vic) and Burnie against King Island.

On the basket of staples listed prices range from 27% to 245% higher on King Island than Mildura.

	IGA Burnie	Coles Mildura	IGA Mansfield	IGA King Island	\$ increase over Mildura	% increase over Mildura	\$ increase over Burnie IGA	% increase over Burnie IGA
Devondale spreadable unsalted butter – 500g	\$4.89	\$5	\$5.25	\$6.89	\$1.89	37.80	\$2.00	40.90
B&G Plain Flour 1kg	\$1.19	\$0.75	\$0.78	\$2.59	\$1.84	245.33	\$1.40	117.65
B&G Raw Sugar 2kg	\$2.50	\$2.10	\$2.20	\$3.99	\$1.89	90.00	\$1.49	59.60
Lanchoo Leaf Tea 250g	\$4.00	\$3.96	\$4.21	\$5.04	\$1.08	27.27	\$1.04	26.00
B&G Butter 500g	\$4.00	\$3.60	\$3.78	\$6.85	\$3.25	90.28	\$2.85	71.25
Sanitarium Weetbix 1.12kg	\$5.99	\$4.50	\$5.25	\$6.99	\$2.49	55.33	\$1.00	16.69
Bulla Real Dairy Icecream 4Lt	\$10.27		\$10.50	\$15.76	\$5.26	50.10	\$5.49	53.46

B&G = Black and Gold brand.

The writer has on return trips to Victoria filled the car with as much non-perishable food items as possible and allowable under the shipping rules which, while charges are set on the foot print of a vehicle, can be increased substantially with additional and punitive charges for what is deemed to be a laden vehicle.

WHY FREIGHT COSTS ARE SO HIGH

There are many theories within the King Island community as to why King Island freight costs are so high.

Some blame TasPorts, some blame SeaRoad, some say it is the unionised port while others blame the freight forwarder.

It is likely to be a combination of all involved.

The four links in the King Island freight chain (when the SeaRoad Mersey serviced the island) were monopolies in their own right – SeaRoad, TasPorts, the union and the freight forwarder/agent who is thought to lease Grassy Port.

When the former Searoad Mersey operated on the Victoria-Tasmania Bass Strait transport route it transported motor vehicles, machinery, building supplies, fertiliser, consumer goods and food to King Island on a regular Sunday visit. It carried store cattle, breeding cattle and bulls on demand.

It carted cars, machinery, cheese, sheep and cattle to Tasmania and mainland Australia via Devonport.

As a unionised port, this Sunday visit incurred significant penalty rates with some TasPorts staff understood to put on high visibility vests and become stevedores for the day at pay rates thought to be around \$1000.

Like many small communities King Island thrives in rumours and getting straight answers from those who claim to know or should know is difficult.

As a result, there is much half truth and misinformation.

In addition to questions on the suitability of the Investigator II for Bass Strait, there are claims TasPorts has leased a crane at Devonport costing \$50,000 a day and there are “too many senior staff wearing suits”.

In the absence of competition SeaRoad was able to charge a “King Island rate”.

SeaRoad was asked in late 2015 why it's freight rates were so high. This conversation was witnessed by the writer. The answers given were . . .

- “King Island is a remote port”. (It was pointed out that the SeaRoad Mersey called at KI on a regular Sunday voyage from Melbourne to Devonport)
- “It is a difficult port to get into.” (It was pointed out that the SeaRoad Mersey rarely had difficulty docking at Grassy Port)

- “It is an inherited charge”. (Freight rate increases imposed by SeaRoad have been made on a percentage basis making the increase to King Island significantly higher than to mainland Tasmania).

The rates applied by SeaRoad have been rolled over to the Bass Strait Line, even though the costs associated with the Investigator II will be totally different to those calculated for the SeaRoad Mersey. TasPorts senior staff confirmed to the writer the SeaRoad charges had been adopted for the new service but that the new shipping service was hemorrhaging money.

Contact with the Australian Consumer and Competition Commission (ACCC) over the King Island freight rates has been made by the writer who was told monopolies are not illegal. Neither is price gouging.

But “unconscionable behaviour” and “cartels” are. The ACCC showed interest in the latter two points.

In the absence of details on new freight rates under the new TasPorts shipping arrangements the writer has been unable to follow this conversation through. It is hoped this freight inquiry will get to the heart of the matter.

The writer thanks the committee for initiating this inquiry into the cost of shipping freight to and from King Island and hopes the findings will result in an end to excessive pricing and restraint on trade and a better business climate.

This behaviour is crippling the King Island economy, has a major impact on the cost and standard of living on KI and is an impediment to productivity and profitability.

The retirement of SeaRoad Shipping’s SeaRoad Mersey was flagged more than two years ago by it’s owners.

A new service was negotiated with Sydney company Port and Coastal. This failed at the last minute.

It was claimed earlier this year by KI Mayor Duncan McPhie on KI Radio that Port and Coastal, which was to have taken over the shipping service to and from King Island requested a one month extension from the Tas Govt to get the last pegs in place before starting its proposed new service. This request was denied.

Some on KI believe P&Cs bank (Westpac) wanted the Tas Govt grant (believed to be \$3 million) included in it’s security on loans which was rejected by the Tas Govt.

Whatever the reason, King Island now has a sub-standard "temporary" service run by TasPorts for the foreseeable future. It is sub-standard because it is not delivering a service equal to or better than that which was operated by SeaRoad.

While this service is supposedly being run by TasPorts it is understood SeaRoad is still or has been heavily involved and that Jim McKenzie Agencies has been reappointed shipping agent.

TasPorts, SeaRoad and McKenzie are generally seen by many King Islanders as gouging the community and the island's industry.

While price gouging and monopoly behaviour are not against Australian law, the ACCC advises unconscionable behaviour and cartel activity are. The ACCC is interested in receiving more information on the King Island shipping service.

While we have been advised there will eventually be a triangular service between Tasmania, King Island and Victoria TasPorts say they will only service the Tasmania-King Island run with the Investigator II.

It is often said on King Island that "fix freight costs, you fix King Island".

End