24th September 2024

Select Committee on the Tasmanian Freight Equalisation Scheme
PO Box 6100
Parliament House
Canberra ACT 2600

Email: tfes.sen@aph.gov.au

Thank you for the opportunity to provide a submission to the recently established Select Committee inquiring into the Tasmanian Freight Equalisation Scheme (TFES).

About Norske Skog's Boyer Mill

Norske Skog ASA, formerly Norske Skogindustrier ASA, is a Norwegian pulp and paper company established in 1962. Norske Skog is a world leading producer of publication paper with strong market positions and customer relations in Europe and Australasia. The Norske Skog Group operates four mills in Europe, two of which will produce recycled containerboard following conversion projects now underway. In addition, the Group operates one publication paper mill in Australasia, located in Tasmania at Boyer.

The Boyer Mill is situated alongside the Derwent River, 36km upstream from Hobart and slightly below the regional township of New Norfolk. It produced Australia's first newsprint in 1941 and after more than 83 years of continuous operation remains one of Tasmania's largest employers, operating 24 hours a day, 7 days per week, 52 weeks of the year.

Norske Skog Boyer Mill is a significant contributor to the Tasmanian and Australian economies, with annual production of around 250,000 tonnes. This represents about 80% of the newsprint and 70% of magazine grades used in Australia each year. 66% of this production is transported to mainland Australia customers, around 2% is sold within Tasmania, while an increasing component of total production, today representing around 32% is sold into Asian markets in US currency against commodity newsprint supplies from major producers in Europe, North America and Asia.

Norske Skog Boyer Mill has clearly demonstrated a strong commitment to supporting local employment and to the Tasmanian and Australian economies. While total revenue is approximately $260 million pa, local expenditure on wages/salaries, goods and services is over $170 million annually. This includes $45 million on wages and a further $125 million on goods and services used in the manufacturing process, such as electricity, wood (royalties, harvesting and transport) and rail transport within the State.

The Boyer Mill directly employs over 330 FTE employees, with a further 90 FTE's in forestry contract operations solely employed to cultivate, harvest and deliver over 550,000 tonnes of certified plantation pine to the Boyer Mill each year. Related indirect employment in the Tasmanian economy is estimated to bring the total employment level to around 1,200 FTE's.

Norske Skog Boyer Mill operates as an integrated mechanical pulp and paper mill having three thermo-mechanical pulping plants and two paper machines, PM2 and PM3. (PM1, the original machine installed in 1941 was removed shortly after being de-commissioned in 1990). The paper machines are both approximately 6m wide and run at speeds in excess of 65km/hr, producing around 715 tonnes of paper each day. The daily production represents over 3,100km of paper, 6 meters wide which if rolled out would reach between Melbourne and Perth. It would take less than 2 weeks to cover the circumference of the earth.

Norske Skog Boyer Mill is a major customer of Tasmania's rail networks as well as Bass Strait shipping services, contributing significantly to the viability of these operations. With approximately 1 million tonnes per annum of raw materials and finished product transported into and from the Boyer Mill, the impacts of its operations on the transport and infrastructure sectors in Tasmania are significant.

Over more than 83 years of continuous operation the Boyer Mill has shipped in excess of 17.5 million tonnes of paper products across Bass Strait, with the majority destined for domestic markets, but increasingly shipping volumes to international markets, mainly in Asia. The Boyer Mill is currently the second largest 'claimant' (by $ value) under the TFES, shipping over 18,500 "TEU equivalents" from Tasmania each and every year. The dynamic nature of the domestic market for publication paper has seen a rapid shift towards international freight destinations in the past decade, and this trend is likely to continue. Today, the Boyer Mill ships about 10,000 TEU's to domestic Australian customers and around 8,500 TEU's to Export markets (including 1,500 TEU's to New Zealand).

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Norske Skog Boyer Mill relies on the support from the TFES to 'alleviate' (but not fully compensate for) the freight cost disadvantage for its products bound for both domestic and international markets. This reliance acknowledges that without this support, the Boyer Mill would no longer be able to compete in increasingly competitive national and international markets. Unlike mainland manufacturers that have the option of just using rail or road to transport their product to market, the Boyer Mill must include a sea leg which is more expensive and also requires additional handling and storage of its products onto and off from each ship.

Norske Skog Boyer Mill welcomes the Select Committee inquiry and strongly advocates for the retention and improvement of the Tasmanian Freight Equalisation Scheme (TFES) and its continued administration by the Commonwealth Government.

As the second largest participant within the Scheme, shipping over 18,500 TEU's each year to the mainland of Australia, the Boyer Mill has specific insights into the application of the Scheme that we feel will benefit the Select Committee's inquiry within its terms of reference.

These can best be summarised in three key areas where the Boyer Mill believes the TFES should be improved:

- Clear **"Class Slip"** (this is TFES's equivalent to the Federal Tax System's 'Bracket Creep')
- Fundamental **"Rate Equivalence Shift"** and resulting 'under-equalisation'
- Inadequate **"Intermodal Cost Compensation"** (both the quantum and the complete lack of indexation over the last 26 years).

As part of the Scheme's administration under Ministerial Directions, the Bureau of Infrastructure, Transport & Regional Economics (BITRE) conduct 4 yearly reviews of the Scheme's parameters, including the above factors and publish these in a report. BITRE are part of the Data, Analytics and Policy Division of the Federal Department of Infrastructure, Transport, Regional Development, Communications and the Arts. They are currently conducting one of these reviews, with the latest 'Tasmanian Freight Equalisation Scheme Monitoring Report', covering the four years up to 2022-23 due to be released for public review and comment around October this year.

As part of their current work, BITRE have recently released (August 2024) some preliminary statistical extracts from the forthcoming Report. These have provided some insights into what their report might highlight into at least two of the three 'key areas' mentioned above. These preliminary statistics are publicly available via the following link.

https://www.bitre.gov.au/statistics/maritime/tasmanian-freight-equalisation-scheme-monitoring-reports

In the following sections of this submission, we will refer to some of these recently updated and released 'preliminary' statistics.

<u>"Class Slip" – TFES's equivalent to the Federal Tax System's 'Bracket Creep'</u>

The latest BITRE data set (August 2024) highlights a significant issue that many Tasmanian TFES participants have long been reporting. The Scheme, as an important part of its design has a 'Class Based Framework' that is meant to act as an incentive to all eligible Tasmanian producers to continually put downward pressure on shipping rates across Bass Strait. The issue, highlighted in stark detail by the latest BITRE data, is that the 'Framework' by which the incentive operates has not been updated/reviewed for over 25 years and is now well and truly out of date, and is now largely ineffectual as it was first intended. This is a massive flaw in the Scheme as it operates today.

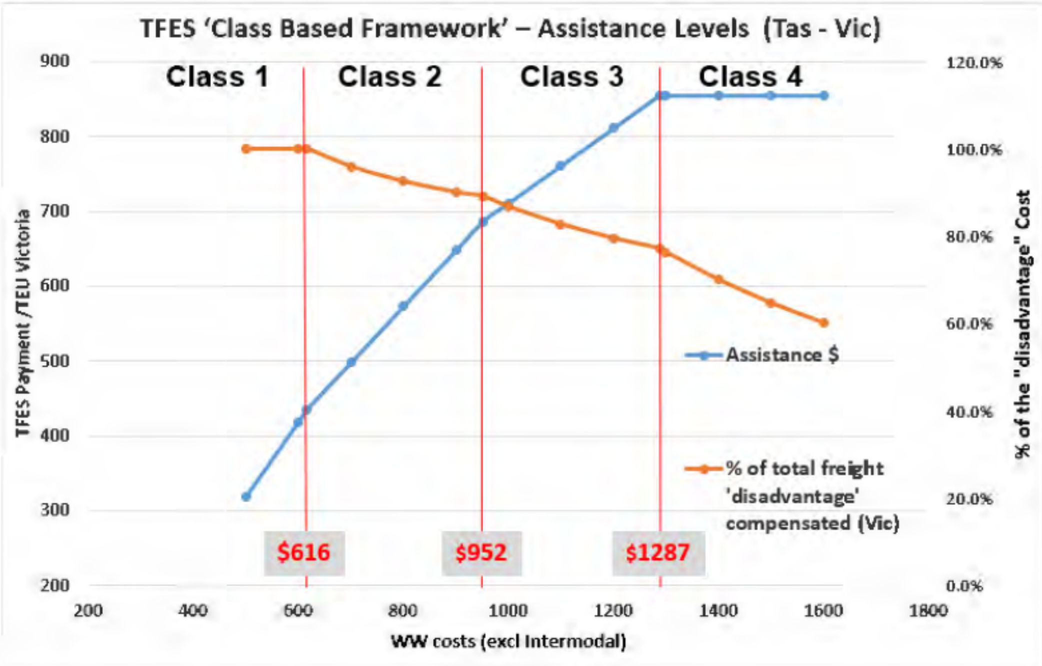
The easiest way to describe this issue at a high level is to draw a direct comparison with the Federal Tax Scheme and the 'Tax Bracket Framework' that applies within the Tax Scheme in order to fairly levy taxes across the population. These tax brackets are 'static' at any point in time, while wages tend to continually rise with inflationary pressures. As a result, the Government tends to see rising tax revenue purely as a result of more and more of peoples' wages falling into higher and higher tax brackets over time. To resolve this issue, and administer a fairer Tax Scheme, the Government periodically revises the tax brackets upwards, so as to deal with wage rise indexation, and by doing so limits the 'windfall' tax revenues that would otherwise be realised.

Within the TFES there is a very similar 'Class Based Framework' that is similar in nature to the 'Tax Bracket Framework'. The issue that presents itself for Scheme participants, is that despite the costs of sea freight costs across Bass Strait continually rising (like wages and most other costs in our lives), the Scheme's version of 'Tax Brackets', or more correctly 'Classes', have not been reviewed for over 25 years. The result of this is very similar to what would be the case in the Tax Scheme if 'bracket creep' were left to occur for that same period of time. The Government would see reduced payments over time, in the case of TFES through artificially/structurally diminished claims, by all claimants who end up slipping down the 'Classes' thereby receiving less support from the Scheme than originally intended… and for no fault of their own.

We will come back later in our submission to describe the full extent of this "Class Slip" issue, but first let us provide a brief description of how the 'Class Based Framework' within the Scheme is designed and operated.

Claims for assistance under the domestic part of the Scheme are first assessed on a 'Class Based Framework' which determines the proportion of assistance each eligible shipment is entitled to receive. This is fundamentally designed to ensure that all eligible Tasmanian producers are incentivised to negotiate the lowest possible freight arrangements for the transport of their goods across Bass Strait. It delivers a higher percentage level of assistance if lower freight rates can be achieved. This limits the risk that Tasmanian producers will not continue to focus on reducing freight costs across Bass Strait simply due to the presence of the TFES assistance.

This 'Class Based Framework' can be seen depicted below.



The orange 'percentage of total disadvantage compensated' line highlights the mechanism by which Tasmanian producers are incentivised to reduce their 'Wharf to Wharf Costs' (shown on the bottom axis). Eligible producers who have wharf to wharf costs (excluding any intermodal costs) lower than $616/TEU will be 'equalised', with 100% of their 'freight cost disadvantage' compensated by the Scheme (refer the right-hand scale). These shipments are classified within the Scheme as 'Class 1' claims. At the other end of the spectrum, eligible producers who have wharf to wharf costs greater than $1,287/TEU, are Class 4 claimants and receive less than 75% of the 'freight cost disadvantage' as compensation (refer right-hand scale). Class 2 and Class 3 claimants receive between 100% and 75% of their assessed 'freight cost disadvantage' on a diminishing basis, as highlighted by the orange line declining from left to right on the above chart.

The blue 'Assistance $' line on the chart describes the level of 'TFES Payment/TEU' (refer to the left-hand axis) based on an eligible Tasmanian producer's 'Wharf to Wharf Costs' (refer to the bottom axis) for a TEU (twenty-foot container equivalent unit). What can clearly be seen is that as a producer's costs for a TEU increase, so too does the dollar value of assistance paid under the Scheme. What can also be clearly seen is that Class 4 claimants have their assistance 'capped' at $855/TEU (ie. $755/TEU plus $100/TEU Intermodal). It is critical to understand what this means for Class 4 claimants. The result of this 'cap' for all Class 4 claimants is that any increase in shipping costs experienced over and above $1,287/TEU across Bass Strait are not compensated at all… zero compensation for the additional costs above $1,287/TEU with their compensation, being capped at $755/TEU (ie. $855/TEU total including Intermodal).

What can be seen in the latest BITRE data set is the following;

Percentage of TEUs moved by sliding scale Class, domestic component				
Year	Class 1	Class 2	Class 3	Class 4
2000-01	40.3%	39.7%	11.8%	8.1%
2001-02	34.6%	39.1%	17.2%	9.1%
2002-03	29.5%	36.4%	21.4%	12.7%
2003-04	28.1%	36.2%	24.9%	10.8%
2004-05	27.6%	36.2%	22.7%	13.5%
2005-06	19.9%	37.2%	28.2%	14.7%
2006-07	16.4%	35.3%	31.5%	16.8%
2007-08	11.6%	34.3%	34.0%	20.1%
2008-09	10.4%	30.1%	34.4%	25.1%
2009-10	8.3%	32.6%	34.4%	24.6%
2010-11	26.8%	24.2%	28.0%	21.0%
2011-12	8.4%	23.2%	37.3%	31.2%
2012-13	19.9%	15.8%	32.0%	32.4%
2013-14	2.1%	14.6%	35.8%	47.5%
2014-15	2.3%	18.0%	31.7%	48.1%
2015-16	3.3%	18.9%	36.6%	41.2%
2016-17	2.9%	16.4%	41.9%	38.9%
2017-18	1.5%	14.5%	42.8%	41.2%
2018-19	3.1%	10.3%	41.7%	44.9%
2019-20	3.2%	9.8%	34.5%	52.5%
2020-21	3.3%	11.1%	34.7%	50.9%
2021-22	2.3%	7.8%	28.9%	60.9%
2022-23	3.3%	5.1%	13.2%	78.4%
Note: Claims accepted and paid. Excludes entries with nil payments.				
Source: BITRE analysis of TFES database (August 2024 update).				
22 Year Movement	-37.1%	-34.6%	1.4%	70.3%

Note: The above is taken directly from the BITRE (August 2024) Preliminary data set, except for the lower table highlighting the "22 Year Movement" in each Class which has been added and is calculated directly from the data table above. Some reformatting of the original data table has also been made for 'publication purposes' using colour to highlight the key data points in each Class.

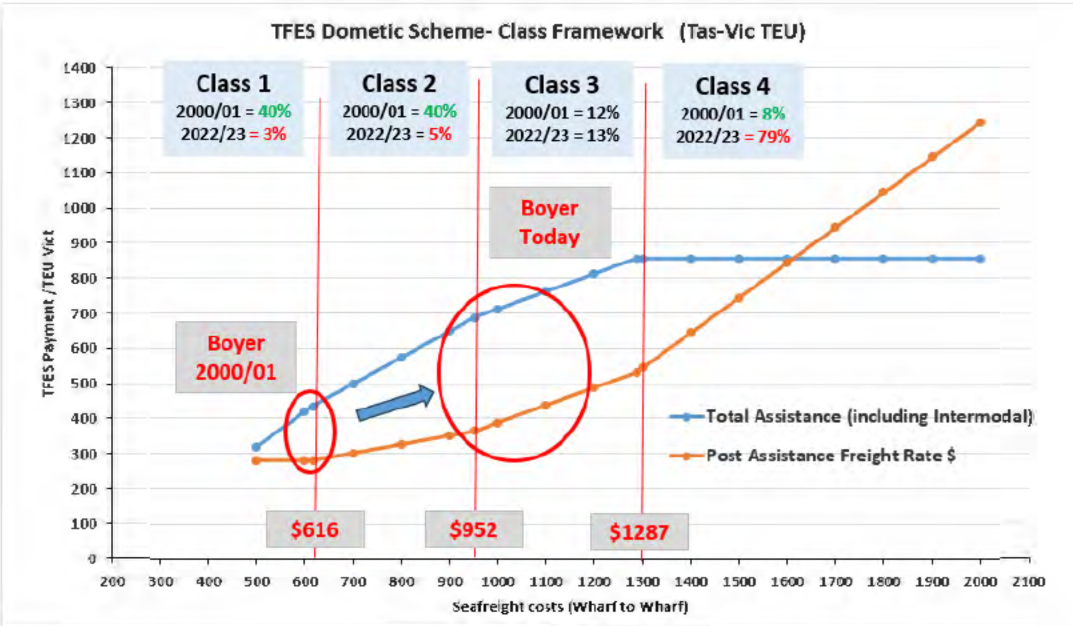
As can clearly be seen in the above table, there has been a MASSIVE shift over time in the amount of shipping claims being made within Class 4 of the Scheme. In 2000/01 around 8% of claims were in the 'capped' section of the Scheme, while today, over 78% of claims fall into the 'capped' classification. This means that over three quarters of all eligible Tasmanian producers who claim under this part of the Scheme now have their assistance capped. This is not because they are not as focussed on negotiating lower rates, nor because they have been delinquent in managing their businesses. It is simply because the static 'Class Based Framework' has gotten out of step with current sea freight costs across Bass Strait, and this is clearly because it has not been adjusted to cope with these changes in any way, shape or form for over 25 years. It is that simple. Imagine a Tax Scheme that hadn't had it's tax brackets adjusted in over a quarter of a century!

There have also been an almost identical and corresponding MASSIVE decrease in the number of eligible Tasmanian producers claiming freight under Class 1 and 2 of the Scheme. In 2000/01 80% of all claims fell into these combined Classes, while today these Classes represent only 8% of all claims. Again, this is not something those claimants intended or wanted to happen... this is purely due to the 'Schemes Parameters' not keeping up to date with real world costs.

So, what should be clearly evident from the above table is that there has been MASSIVE 'Class Slip' over the period 2001/02 to 2022/23, with more than 70% of claimants who in 2000/01 were in Classes 1 and 2, now being mostly represented as claimants in Class 4. Note that the percentage of claimants in Class 3 has remained relatively unchanged throughout, which belies the fact that all of them who would previously have been in Class 3 would now undoubtedly be in Class 4.

Norske Skog is a good case in point in this regard. Back in 2000/01 Norske Skog was a claimant who regularly fell near the changeover between Classes 1 and 2, as shown on the diagram below. It is maybe not surprising that Norske Skog would be 'in or near' Class 1 of the Scheme as it is the second largest Scheme participant in terms of the volume of freight shipped each year and has remained so over the entire 20+ years of this data set. As a result of the large volume of product shipped, it can negotiate lower rates compared to some of the less regular and smaller shippers operating in Tasmania.

Over the past two decades, Norske Skog's shipping rates across Bass Strait have increased. This may not be surprising in and of itself... but what should be glaringly obvious is that due to the 'static' Class Framework, Norske Skog is now firmly at the back end of Class 2, and in some cases a mid-Class 3 participant in the Scheme. If the second largest exporter of eligible goods out of Tasmania cannot negotiate sea freight rates low enough to participate consistently in the Class 1 and 2 'brackets' of the Scheme, then who can? Well, the answer appears to be "...not many", with only 8% of all claims now being recognised in those classes combined.



Can it be correct that there are now only 8% of the total Scheme's eligible claims in the lower half of the Scheme's Classes? The Scheme was originally designed so that the 'Median Shipper' would fall exactly at the $952/TEU rate, and therefore would fall on the Class2/Class 3 boundary (so the 'average shipper' would literally be 'in the middle' of the class structure as a fundamental part of the Scheme's design). Understanding this, and how this has gotten so far out of hand makes a recommendation to address this issue fairly simple.

It is hopefully readily accepted that the above circumstances cannot be allowed to continue. The Scheme's original design intended that there to be a more balanced level of claimants in each Class, with the 'statistical median' shipment being represented at the exact centre of the Class structure as originally implemented. Surely the only reasonable approach to rectify this situation in the first instance is to review the 'Class Framework' and adjust it so that today's 'median' shipper' falls on the 'Class Framework' literally at the centre, between Class 2 and Class 3, as originally designed. This will require the class 'breakpoints' (since 1998 being $616, $952 and $1,287) to be adjusted upwards to reflect the rise in costs experienced over the past 20+ years. Once this is done, there should also be a method implemented to ensure that this

'Class Slip' (aka 'Bracket Creep') doesn't just occur all over again, so consideration should be given to how best to implement a periodic review of these factors to ensure the Scheme remains relevant over time. Today it is not.

Rate Equivalence Shift – The Growing Gap between Road Freight Equivalent & Sea Freight

Fundamental to the Scheme's design since its inception has been the calculation of the actual level of 'disadvantage' a Tasmanian shipper of eligible goods experiences, compared to mainland-based producers who don't have to contend with higher 'per TEU' transport costs over Bass Strait. This calculation determines the level of disadvantage as the cost difference between the 'Road Freight Equivalent (RFE) Costs' and the 'Actual Sea Freight Costs' for eligible shipments across the 420km stretch of water, Bass Strait. This calculated disadvantage, which by definition is different for each individual shipment made by all eligible producers, drives the level of 'Assistance' the Scheme provides through what is a relatively complex calculation involving many other factors. For your information, the other factors involved include;

- Where each shipment/claim falls on a "Cost Class Incentive Structure" - with 4 classes specified to determine the base level of 'alleviation' the Scheme will provide, and which serves to incentivise all producers to negotiate the lowest possible cost for freight services. *(refer later comments on needed improvements)*
- "Intermodal Costs" (not including container hire, stevedoring, wharfage charges) – Currently 2 x $50/TEU = $100/TEU *(refer later comments on needed improvements)*
- "Destination Scaling factors" – adjusts the level of 'alleviation' based on final destination – Lower support the further away you ship things.... We have never really come to terms with the logic of this....
- "Other Adjustments" for different claim methods within the Scheme - Door to Door (D-D) or Wharf to Door (W-D) shipments, etc.

Referring to BITRE's recently released 'preliminary' statistics, we have seen that there has been a definite shift over time in the underlying gap between the 'Road Freight Producer Price Index' and the 'Bass Strait Freight Rate, Post Assistance Index' (for both measures between 2000/01 and 2022/23). This 'Rate Equivalence Shift' over time goes some way to confirm the view of most Scheme participants, in that it highlights the Scheme has increasing levels of 'under equalisation' over time, shown by the growing gap between 'Road Freight Equivalent' cost and 'Actual Sea Freight' costs borne by Tasmanian producers. The 'Post Assistance' gap has grown by a massive 60+% since 2000/01, with almost half of this gap, or 35+% occurring just in the last 4 years of the BITRE supplied data set (ie. between 2018/19 and 2022/23). It should be noted that this data set, and increased gap between these key indices, is based on tracking the 'Post Assistance' rates. It is Norke Skog's view that there are two primary reasons why these rates have shifted in comparison to each other to such a dramatic level;

1. The underlying 'Rate Equivalence Shift' being described here
2. The 'Class Slip' that is clearly evident in the latest BITRE data set, which reinforces the experience of the vast majority of Scheme participants seeing dramatically reduced levels of assistance.

In order to separate out the impact of these two factors, what is more important for Scheme participants and 'administrators' is the 'Actual Freight' rates over time. These are what the Tasmanian producers negotiate with transport companies, and it is these where the 'real world' cost increases can be most clearly seen. It is also these that the Scheme is primarily focussed on 'alleviating'.

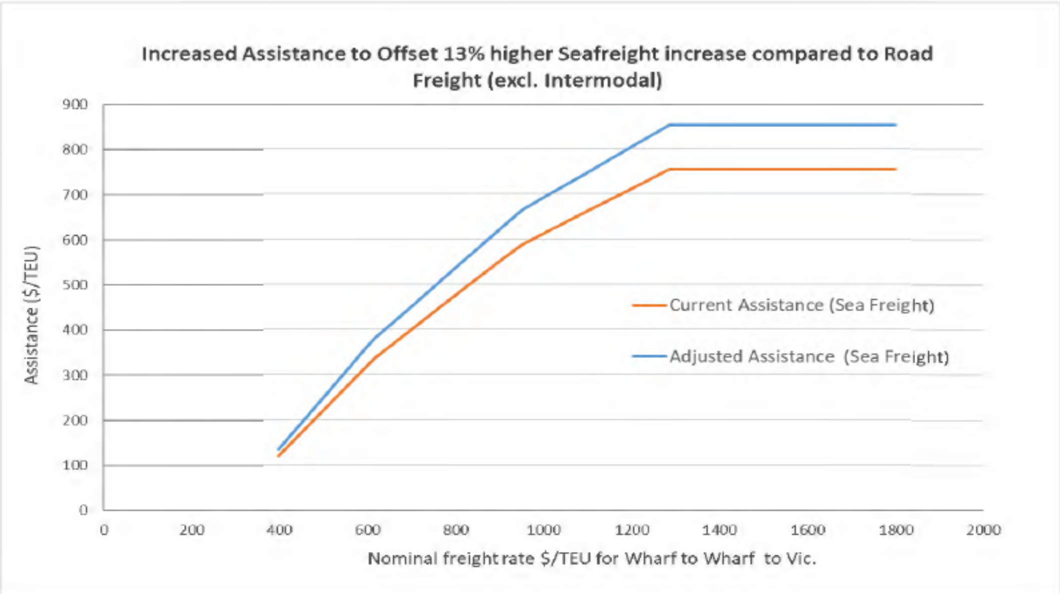
In order to assess the level of 'Rate Equivalence Shift' on its own, and therefore the actual 'under equalisation', so as to be able to make a recommendation to this Inquiry as to how to improve the Scheme, Norske Skog has back-calculated what it thinks is the movement in 'Actual Freight Rates' over time.

This calculation shows that there has been a 13% increase in the 'Actual Sea Freight' rates compared to the underlying 'Road Freight Equivalent' rates since 2000/01.

Norske Skog therefore recommends that BITRE conduct a targeted review of this aspect of the Scheme to confirm this level of 'Rate Equivalence Shift', and that the result of this review is then used to adjust all payments made under the Scheme by the same amount. For the sake of clarity, any 'adjustment' should be equally applied within both the domestic and international Schemes, requiring a review of the $700/TEU 'flat rate' for international shippers, as well as a review of the domestic stand-alone rates. This will ensure that Tasmanian businesses are not being 'under-compensated' for these eligible costs, as they have already increasingly been for over 25 years since the 1998 parameter review.

If Norske Skog's analysis proves correct, then this should lead to a 13% increase in the 'Wharf to Wharf' compensation under the Scheme to all participants, including an upwards revision of the Class 4 'capped compensation' level to provide them with commensurate levels of assistance. It should also see an upward commensurate adjustment to the 'international fright assistance levels' for those eligible Tasmanian producers exporting their goods overseas.

Shown below is what Norske Skog calculates would be the effect on the Scheme's level of assistance (assuming its own calculation of 13% relative indexation since 2000/01 is correct)



In addition to the above analysis, it is Norske Skog's view that there will likely always be a trend towards this 'Rate Equivalence Shift' accruing over time, because 'Bass Strait Sea Freight Costs' will increase at a slightly higher rate than 'Road Freight Equivalent Costs', resulting in increasing levels of 'under-compensation' for all Scheme participants over time.

While this trend might only lead to small changes year/year, the effects will compound over time resulting in significant disadvantage to Scheme participants. In fact, we believe that is exactly what has happened in this case. The last material 'Parameter Review' of the Scheme was conducted in 1998 (Productivity Commission Review known as the Nixon Report), over 25 years ago.

We believe this underlying 'Rate Equivalence Shift' is primarily due to;

- On one side, the similar nature of costs that make up both road freight and sea freight charges, meaning that the underlying levels of cost indexation might be expected to be similar over time.
- While on the other side;
    - The level of and opportunity for 'productivity improvement' in the road freight sector compared to the 'sea freight sector' is greater
    - The level of competition in the national road freight industry is much greater than the level of competition in the shipping sector across Bass Strait.
    - There is 'modal' competition between the road freight sector and the rail freight sector which serves to further ensure pressure on freight rates is constant.

The effect of this would go some way to explain why, over the past 25 years these two 'indexes' have moved apart on a fairly linear basis, resulting in a growing gap that has seen Tasmanian producers being 'under-compensated' compared to the level of compensation originally intended in the Scheme's design. If our analysis is correct, it would support the recommendation for a review of the Scheme's payments to ensure an adequate level of compensation is provided.

Intermodal Cost Compensation – Presently un-indexed and increasingly inadequate

The 'Intermodal Allowance' parameter is a key part of the Scheme and is intended to compensate shippers for additional costs, separate from and in addition to what any 'road freight equivalent' on the mainland would bear.

It is very important to understand that there is 'no equivalent' to this activity or cost in a road freight based task. Shippers on the mainland using road freight are not required to literally interrupt their shipment part way through, while they transfer their products onto another completely different 'mode' of transport chain, and then do the reverse again, before the final delivery of their products can be made to the intended destination. These additional 'intermodal' activities are however an integral part of all shipments for Tasmanian businesses importing and exporting eligible goods across Bass Strait.

Due to the presence of Bass Strait, Norske Skog Boyer Mill has no choice but to use a mix of 20-foot and 40-foot containers (18,500 TEU's in total each year) to distribute paper reels to its mainland customers. This imposes significant additional fixed/intermodal costs that similar producers on the mainland would not incur. These differences are summarised below;

1. **Additional cost of containerisation** and loading containers at the Boyer warehouse including:
   a. significant additional labour involved in multiple handling
   b. additional equipment in particular the very large forklifts to handle containers
   c. maintenance costs associated with the need for a larger and stronger warehouse "hardstand" area
2. **Additional product damage** to its paper reels. Deliveries from Boyer incur at least five additional handling stages, which has the potential at each handling to cause damage to the paper reels. An ongoing and significant focus by Norske Skog and its transport providers greatly reduces the level of damage experienced but there are still losses and damage is still higher than contemporary paper mill operations using only road freight.
3. **Increased 'Wharf to Customer' transport costs**. A lower overall finished goods payload is achieved when compared to use of "break bulk" trucking because of the additional tare weight of the containers (each container weighs at least 3.2 tonnes) which limits the amount of finished goods able to be moved within the same overall mass limit.
4. **Increased stock holdings**. Norske Skog Boyer Mill has considerably higher finished goods stock holdings when compared to its peers as a direct result of the 'more complex' transport network between its operation and its mainland customers. Norske Skog estimate that half of the cost of this additional stock holding can be attributed to the 'Intermodal' requirements of its Bass Strait connection.

Current compensation within the Scheme for the 'Intermodal Costs' is $100/TEU (made up of 2 x $50/TEU, one for each 'mode change' at each end of the Bass Strait crossing). This figure has not changed in any way, shape or form since 1998, and now represents a significant component of what Tasmanian businesses experience as increasing levels of 'under-equalisation' across Bass Strait.

In 2006, as part of our formal submission to the Productivity Commission's Review of the Scheme, Norske Skog highlighted that its own 'Intermodal Costs' had increased to a total of $122.20/TEU and requested that the Productivity Commission adjust this 'parameter' to include the cost indexation that had become obvious since it was set in 1998. Nothing was done and 26 years later the Intermodal Compensation remains at the 1998 figure of $100/TEU.

In 2013, during another Productivity Commission led formal inquiry, Norske Skog highlighted that its 'Intermodal Costs', like all other costs in our lives/businesses, had continued to increase and by December 2013 had reached $145.40/TEU. To further inform the Productivity Commissions 2013 Inquiry we provided a breakdown of the costs then being realised as follows,

Intermodal Costs	
Cost of Containerisation	**$/TEU**
- Additional Labor	[redacted]
- Additional Equipment	
- Additional Warehouse yard maint	
Additional Product Damage	
Wharf to Customer Disadvantage	
- Lower payload (3.2 tonnes)	
Increased Stock Holding	
TOTAL	145.4

... but again, nothing was done.

As part of Norske Skog's preparation for this Inquiry's submission, we have again calculated the actual 'Intermodal Cost' being realised in 2024, and show the result of that review below;

Norske Skog - 2024 Intermodal Costs	
Cost of Containerisation	**$/TEU**
- Additional Labor	[redacted]
- Additional Equipment	
- Additional Warehouse Yard Maint.	
Additional Product Damage	
Wharf to Customer Disadvantage	
- Lower Payload (3.2t/TEU)	
Increased Stock Holding	
Total $/TEU	**$197.23**

Note: Norske Skog has redacted the details of the above tables but would be happy to make these available in a separate 'Commercial In Confidence' Submission if that would provide more insight to the Inquiry.

The level of cost increases borne by Norske Skog in these compulsory 'Intermodal Costs' should not be of any great surprise. These are 'stand-alone' costs for activity that do not apply in any 'Road Freight Equivalent' Index or comparison of typical mainland freight tasks. As such, annual cost indexation, typical of most things 'in the real world', also applies to these discrete activities. The Scheme having a 'capped' level of compensation of $100/TEU for 26 years simply ignores what is clearly happening to these costs.

Shown below is what an annual indexation of 2.7% applied to the 1998 determination of the $100/TEU 'allowance' looks like for comparison purposes. (Note that the actual CPI over the same period was just over 3%, and that some years have been removed where shown for presentation purposes)

Claim Year	1998	1999	2000	2005	2006	2007	2008	2011	2012	2013	2014	2015	2022	2023	2024
CPI @ 2.7%	$100.00	$102.70	$105.47	$120.50	$123.76	$127.10	$130.53	$141.39	$145.21	$149.13	$153.15	$157.29	$189.54	$194.65	$199.91
Norske Skog's Costs					$122.20					$145.40					$197.20

From the above it can be seen that Norske Skog's actual Intermodal Costs have escalated at around the 2.7% per annum level, which is around 10% below the underlying CPI of approximately 3.0% over the same 25+ year period. What can clearly be seen is that the 'artificially capped' allowance in the Scheme of $100/TEU is totally unreasonable.

It is hopefully a straight forward and readily accepted recommendation to rectify this issue within the Scheme's current day parameters, that the 'Intermodal Allowance' should be increased to approximately $200/TEU and that an annual indexation should then apply to this parameter moving forward. For the sake of clarity, this 'Intermodal Allowance' should be equally adjusted within both the domestic and international Schemes, requiring a review of the $700/TEU 'flat rate' for international shippers, as well as a review of the domestic stand-alone 'Intermodal Allowance' This will ensure that Tasmanian businesses are not unfairly being 'under-compensated' for these eligible costs, as they have already been for the last 26 years since the 1998 parameter review. It should be noted for reference, that since Norske Skog first raised this issue in the 2006 Productivity Commission's Review, it has been undercompensated by the not insignificant sum of over $22 million based on this 'Intermodal' factor alone.

In Conclusion

Norske Skog would like to support this Inquiry to the fullest and looks forward to working with Select Committee members to ensure that our insights into the Scheme as a longstanding and large industrial participant can be fully understood and taken into account in any review.

We have been involved in every formal review of this vital Scheme since the 1980's and have done this with a view to ensuring the Scheme is well positioned to deliver on its objectives both from the Australian Government's perspective and also from the viewpoint of all Tasmanian exporters. We are proud to have always made recommendations that are in the common interest of all Tasmanian businesses who use the Scheme, rather than just those that would benefit only larger industrial participants. By doing so we recognise that this Scheme must remain effective for all stakeholders, from the Federal Government and large participants through to the smallest 'user'.

We have deep insights from a 'claimants' perspective in terms of the current day Scheme's "merits and weaknesses", its "fitness for purpose" and those underlying commercial factors influencing outcomes for eligible freight exporters operating in Tasmania. It is on this basis that we strongly suggest the Scheme is in urgent need of both 'structural' and 'parameter level' review.

We would also take this opportunity to extend a welcome invitation for Select Committee members and their support staff to visit the Boyer Mill at any time to review our freight arrangements and to raise any commercial, technical or other questions that they may have. Indeed, we would encourage the Senate Committee to visit a range of both large and small Tasmanian exporters to see firsthand the steps taken to achieve the lowest possible freight costs to compete and survive in increasingly competitive national and world markets.

Yours sincerely,

Patrick Dooley

General Manager

Norske Skog Boyer Mill