

PRODUCTIVITY COMMISSION INQUIRY INTO TASMANIAN FREIGHT ASSISTANCE ARRANGEMENTS

June 2006

Tasmanian Farmers and
Graziers Association
and
Tasmanian Chamber of
Commerce and Industry



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EXECUTIVE SUMMARY

The Tasmanian Freight Equalisation Scheme "... assists in alleviating the comparative interstate freight cost disadvantage incurred by shippers of eligible non-bulk goods carried between Tasmania and the mainland. Its objective is to provide Tasmanian industries with equal opportunities to compete in mainland markets, recognising that, unlike their mainland counterparts, Tasmanian shippers do not have the option of transporting goods interstate by road or rail."¹

Following its introduction in 1976, TFES experienced a brief period of growth reflecting industry's adjustment to the assistance rendered. In the six years following this period of growth, the value of the scheme was rapidly eroded and hovered at less than 60% of current funding (in real terms) for well over a decade. The restructuring of assistance calculation implemented in 1999 has progressively restored the assistance delivered through TFES to historical levels.

Notwithstanding the decline in real funding during the two decade prior to 1999 the importance of the TFES continued to grow due and is an essential component in the cost structure of many enterprises shipping freight across Bass Strait.

While not as significant as TFES in funding terms, the assistance provided through TWFS is no less significant in that it provides targeted assistance in response to the sea freight cost disadvantage faced by shippers of bulk wheat.

The rationale for both schemes is equitable treatment of industry with respect interstate trade and specifically, access to production inputs, and the markets for goods produced. To achieve this, neutrality in terms of access to transport infrastructure is essential.

Federal Government initiatives targeted at improving mainland transport efficiencies such as AusLink, rail standardisation, waterfront and shipping reform have all served to progressively reduce the competitive position of Bass Strait shippers and their ability to compete equitably.

The freight assistance schemes remain as pertinent today as when established and are vital to enabling shippers to effectively participate in Australian markets.

The Economic Value of Freight Assistance

A preliminary assessment of some sectors of the TFES assisted economy, suggest that its value in terms of parameters such as employment and balance of trade are well in excess of mainstream perceptions. To the extent that the vegetable sector is dependent on TFES assistance, the impact is conservatively estimated to be the provision of 1,500+ jobs and a positive contribution of \$300m annually to Australia's balance of trade.

A comprehensive and detailed economic impact assessment of the true value and benefits of freight assistance needs to be undertaken.

¹ Department of Transport and Regional Services, <http://www.dotars.gov.au/transport/programs/maritime/tasmanian/index.aspx>, 9 June 2006

As a minimum, this needs to include detailed consultation with at least the top 10 assistance recipients to accurately establish:

- the true sensitivity of assistance recipients to cost structure variations equal to freight assistance received;
- the likely market response to any change in assistance levels i.e. the pass-through of cost increases/reductions including the impact of upstream price reductions on production activity;
- the likelihood that equivalent production capacity would be established on the Australian mainland in the absence of it existing in Tasmania; and
- quantify the competitive effects of global markets in determining where production occurs i.e. the import substitution benefits associated with continued Tasmanian production.

Calculation of Assistance

Reviewing and updating the key parameters used to calculate assistance is essential to ensuring the scheme tracks changes in the sea freight cost disadvantage and maintains its relevance. However, while recommended by the TFES Review Authority in 1998 and subsequently picked up in the Ministerial Directions governing the Scheme's operation there is no evidence that such a review has occurred since the revised scheme was implemented in 1999.

In its review of the schemes parameters, industry has identified and justified a need to:

- remove the 10% loading of the road freight equivalent for refrigerated freight movements;
- have a differential rate for assisting containers, which provisionally should be 75% the current Road Freight Equivalent;
- revise the current Road Freight Equivalent rate from \$281 to \$287 per TEU equivalent;
- regularly adjust the door-to-wharf parameter on the basis proposed by the TFES Review Authority (if this had been done on a regular basis potential distortions in the basis of claiming assistance because it was set too low would have been eliminated);
- recognise the reduced level of competition the Government has endorsed on Bass Strait with a consequent increase in the proportion of notional wharf-to-wharf entitlement paid to claimants with a wharf-to-wharf disadvantage lying between 0.5 and 1.0 times the median wharf-to-wharf disadvantage be set at 85%.

Tasmanian Wheat Freight Assistance

The Tasmanian Wheat Freight Scheme is a vital part of providing stability in the Tasmanian agricultural sector. However, in contrast with TFES, it suffers from the absence of a transparent methodology

and rationale for calculating appropriate assistance levels and has little certainty attached to its continued operation. It is suggested that a comparison with mainland rail operations provides an appropriated basis for identifying the disadvantage the scheme should be addressing. It is also observed that there is no rationale for treating various grains differently and that the scheme should apply to all types of grain movements.

To provide an appropriate level of certainty the assistance scheme should have a five-year term, with rolling annual reviews confirming arrangements for the subsequent five-year period.

Certainty and Planning

Tasmanian Industry regards TFES as a focussed and highly targeted program that addresses a specific objective, “the reduction of the sea freight cost disadvantage”, in a largely effective manner. However, there is scope for improvement especially with regard to setting the parameters for calculating assistance. With changes in vehicle productivity and the infrastructure available to support interstate trade, there will always be a continuing need to refine the scheme to ensure it continues to appropriately assist shippers who incur a sea freight cost disadvantage.

Periodic review of parameters will lead to shock changes in the level of assistance (down or up) and are counterproductive in terms of maximising the benefits of the scheme. The annual adjustments provided for in the TFES directions provide an opportunity for smoothing out these shocks through incremental changes but there is no apparent framework for undertaking this.

In consultation with industry, a framework should be developed for the annual adjustment of assistance parameters. This framework would identify and explain the methodology to be employed in adjusting the parameters, the supporting data requirements and how they might be collected, and determine the annual date on which the adjustment would be implemented.

Flat Rates of Assistance

A flat rate approach to providing assistance is opposed as an alternative method for delivering assistance as it wouldn't be responsive to fluctuations in freight rates or appropriately recognise the different levels of disadvantage faced by shippers.

However, there may be scope for some limited application of a flat rate assistance approach as a supplementary alternative for those shippers who find the current approach administratively onerous. This should only be an alternative for claimants to consider at their discretion.

Administration and Rorting

Tasmanian Industry broadly supports the current methods of calculating and delivering assistance and is comfortable with the simplicity of the current scheme. While recognising that there are administrative overheads these are not considered onerous in the context of the assistance provided. Notwithstanding this position, any improvements to the claiming process are welcome and the

recent procedural changes initiated by CentreLink are applauded for further reducing these overheads.

Allegations of abuse of the schemes are damaging to their integrity and measures to ensure compliance with the moral intent of the schemes are strongly supported. However, compliance mechanisms may have costs associated with their operation and enforcement. These costs should be included in the Fixed Cost component of assistance calculation to ensure those claiming within the spirit of the scheme are not disadvantaged.

Capped Assistance Funding

This would be inconsistent with the objective of placing Tasmanian industry on a comparable footing with its mainland counterparts. There would be adverse impacts on industry as the equity and certainty provided through the existing scheme structure is progressively eroded and with it, industry's ability to confidently plan future directions.

It is submitted that capping assistance levels is a mechanism to achieve certainty for Government in funding allocation and not linked to the merits of providing equity for Tasmanian industry.

Eligibility

It is observed that empty containers are an essential part of the complete supply chain for many industry sectors. Given the rationale of equitable treatment with respect to accessing the benefits of interstate trade it follows that containers shipped across Bass Strait for refilling should be classified as eligible to receive TFES assistance.

While it acknowledged that distortions have occurred in the Bass Strait wheat trade because of the different levels of assistance payable under TFES and TWFS this is squarely attributed to the absence of appropriate assistance on mini-bulk wheat shipments rather than the provision of assistance on containerised wheat.

Arguably there are other inputs to production for which these relativities are even more distorted because of the absence of any form of assistance on mini-bulk shipments. What is clear is that there is no basis for the treatment of mini-bulk shipments of wheat in a manner distinct from volume shipments of other grains or product types and it has been submitted that the eligibility criteria for mini-bulk shipments be broadened to provide for all types of mini-bulk movements (not just wheat).

For such mini-bulk movements the disadvantage should be defined as the difference between moving the freight from an origin on the mainland to a depot in Tasmania and the cost that would have been incurred transporting the freight over a comparable interstate distance on the mainland using the transport option that would have been employed for this scale and type of task.

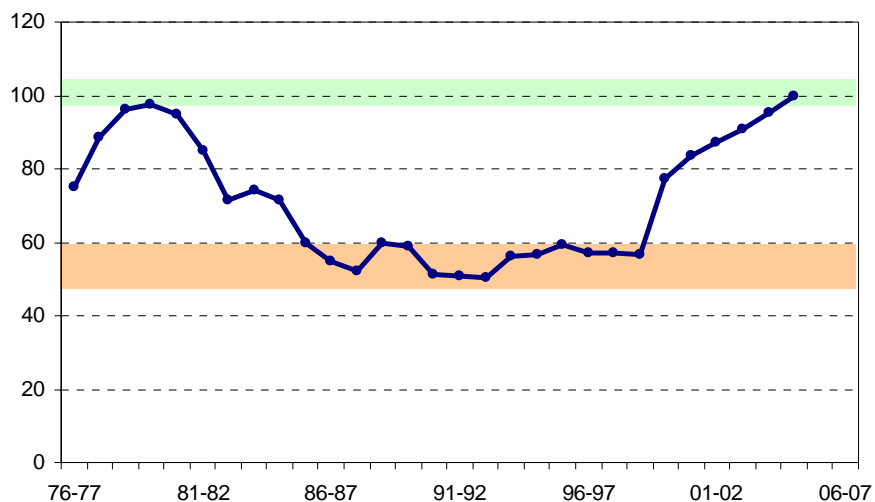
1. INTRODUCTION

Over 99% of Tasmania's trade arrives or departs by sea. Consequently the cost effectiveness of the sea transport system is critical to the economic development and stability of Tasmania.

The introduction of the Tasmanian Freight Equalisation Scheme (TFES) and the various schemes that supported wheat movements across Bass Strait recognised the trading disadvantage faced by Tasmanian shippers, but which is not faced by their mainland counterparts engaged in interstate trade.

Following its introduction in 1976, TFES experienced a brief period of growth reflecting industry's adjustment to the assistance rendered. In the subsequent six years the value of the scheme was rapidly eroded and hovered at less than 60% of current funding in real terms for well over a decade, Figure 1.

Figure 1- Real Movements in TFES Funding (2004-05 = 100)



Source: Department of Transport and Regional Services, Tasmanian Freight Equalisation Scheme Statistics 12 months ending June 2005, Report No.4

The restructuring of assistance calculation implemented in 1999 has progressively restored the assistance delivered through TFES to historical levels.

Notwithstanding the decline in real funding during the two decade prior to 1999 the importance of the TFES continued to grow. It is suggested that this increasing importance is due to a range of factors with the key ones being:

- the emergence of global markets and an increase in international competition for Australia’s domestic markets;
- the progressive achievement of substantial land transport reforms such as access rights to rail networks, the privatisation of rail systems and major road infrastructure investments which have outstripped the benefits of the limited reforms that have taken place in the maritime sector;
- technological innovation in land transport such as the emergence of B-double vehicles and road friendly air-bag suspension. It is suggested that these advances have outstripped similar developments in sea transport and are increasing Tasmanian shippers relative disadvantage; and
- narrower profit margins as price competition has increased and organisations have reduced their “fat”.

While not as significant in funding terms the assistance provided through TWFS is no less significant in that it provides targeted assistance in response to the sea freight cost disadvantage faced by shippers of bulk wheat.

This submission draws from previous industry submissions to review the TFES and the various assistance schemes that have supported the Bass Strait wheat trade. This information is supplemented with observations regarding the economic benefits of the schemes, shortcomings of the current assistance arrangements and provides suggestions on how these might be addressed in order to improve the equity of assistance provided and the efficiency with which it is delivered.

2. RATIONALE FOR TFES AND TWFS

The Tasmanian Freight Equalisation Scheme “... assists in alleviating the comparative interstate freight cost disadvantage incurred by shippers of eligible non-bulk goods carried between Tasmania and the mainland. Its objective is to provide Tasmanian industries with equal opportunities to compete in mainland markets, recognising that, unlike their mainland counterparts, Tasmanian shippers do not have the option of transporting goods interstate by road or rail.”²

The purpose of the Tasmanian Wheat Freight Scheme is less clearly defined as being “...established to subsidise the cost of bulk shipments of wheat from the mainland to Tasmania by sea.”³

The Tasmanian Freight Equalisation Scheme was instituted as a tool of economic development in response to the underlying trade barrier that Bass Strait presents. While the genesis of the Tasmanian Wheat Freight Scheme was as part of a marketing arrangement to

² Department of Transport and Regional Services, <http://www.dotars.gov.au/transport/programs/maritime/tasmanian/index.aspx>, 9 June 2006

³ Department of Transport and Regional Services, [Tasmanian Wheat Freight Scheme](#), April 2005

ensure that the administered price for wheat was the same for mainland Australian and Tasmanian users, implicit in this is the recognition of the same underlying trade barrier that is Bass Strait.

The rationale for both schemes is equitable treatment of industry with respect interstate trade and specifically, access to production inputs, and the markets for goods produced. To achieve this, neutrality in terms of access to transport infrastructure is essential.

The Australian Government has been actively engaged in pursuing this equity between mainland states on a number of fronts. These include identification and improvement of national highway infrastructure and the removal of barriers to trade such as the conflicts in rail gauge that existed at the time of federation. In Tasmania's case, the barrier to trade is Bass Strait and without the equity provided through TFES and TWFS, access to Tasmanian markets by mainland producers and the reciprocal access to mainland markets by Tasmanian producers would be severely compromised.

The rationale for the Schemes' existence is as pertinent today as it was at their inception.

However, it is observed that the policies of successive Federal Governments have continued to entrench practices that impose a disproportionate cost on the transport of goods across Bass Strait when compared with similar movements on the mainland. Specifically these investments are improving the distribution efficiencies of importers in the Australian market and progressively eroding the competitive advantage of production and manufacturing facilities located in Tasmania.

The impacts of some of these policies are highlighted below.

2.1.1 Investment in land transport

Through its significant direct investment in highways infrastructure, most recently using the AusLink program, the Commonwealth has provided evidence of the importance it places on regional and interstate transport linkages and is recognising the role of transport in the economic development of the nation. AusLink is "... supported by a \$15 billion program of Australian Government investment over the five year period 2004-05 to 2008-09 together with partnering funding from State and Territory Governments."⁴

Improved transport infrastructure, coupled with the development of national standards etc. for vehicle operations, has enabled land transport operators to make significant improvements in vehicle utilisation and productivity. These improvements have been reflected in significant increases in vehicle payloads and reduced transit times between major interstate destinations.

⁴ Department of Transport and Regional Services, [AusLink Home Page](http://www.auslink.gov.au/), <http://www.auslink.gov.au/>

There has been no comparable infrastructure, regulatory or standards based investment by Australian Governments to deliver performance gains for Bass Strait shipping.

2.1.2 Waterfront Reform

The Commonwealth Government has long recognised the importance of an efficient waterfront to Australia's economic performance. Significantly in 1998 it facilitated and supported significant restructuring of stevedoring activities through measures such as the funding mechanisms provided via the Stevedoring Levy and associated legislative support.

One of the seven benchmark objectives targeted through the Commonwealth Government's reform agenda was improved productivity through a commitment by major stevedores to a benchmark of 25 lifts per hour as a national five port average. At the time the Commonwealth Government recognised that the performance of Bass Strait shipping operators already far exceeded the productivity benchmarks being set for the stevedoring sector. Consequently the Stevedoring Levy was not applied to Bass Strait container shipping operations.

It is also notable that stevedores agreed to absorb the Stevedoring Levy within their existing cost structures with the expectation that the productivity improvements and reduced cost structures would more than offset these costs. The Commonwealth Government directed the Australian Competition and Consumer Commission (ACCC) to monitor the sector in relation to the progress of the reforms.⁵ In its November 2005 report⁶ the ACCC indicated that real costs have continued to decline and productivity continued to increase.

These Government supported reforms have had negligible impact on Bass Strait shipping operations but, as with land transport infrastructure, these investments have reduced the relative costs of importers to access Australian markets placing Tasmanian producers at a competitive disadvantage. It is pertinent to note that the Stevedoring Levy fully recovered the support payments made to Stevedores in May and with its removal affords importers another opportunity to negotiate an advantageous position in what are generally extremely competitive markets.

⁵ On 20 January 1999 the Federal Treasurer directed the ACCC to monitor prices, costs and profits of container terminal operators at the ports of Adelaide, Brisbane, Burnie, Fremantle, Melbourne and Sydney. The aim of the monitoring programs is to provide information to the Government and the wider community about the progress of waterfront reform at Australia's major container terminals. The monitoring program also provides information about the levy on the loading and unloading of containers and cars. The funds from this levy are used to ensure all stevedoring employees made redundant as part of the Government's reforms strategy receive full redundancy entitlements.

⁶ Australian Competition and Consumer Commission, Container Stevedoring Monitoring Report No.7, p.2, November 2005

2.1.3 Shipping

Bass Strait general freight shipping was characterised by the operation of two major cargo service providers, Toll and Patrick, with some additional limited scope for trailer freight being provided by regular TT-Line operated ferry services. For containerised movements these are also supplemented by the less frequent service provided by ANL. Mini-bulk⁷ grain shipments were typically transported in by a single relatively small bulk vessel but there has been limited bulk grain trade in the past year.

Structural reform of Australia's coastal shipping operations has been proposed on a number of occasions and it is observed that cabotage policies⁸ have been eased. However, overseas vessels operating on Australian coastal routes do not provide the type, frequency and scale of service required by most Bass Strait shippers.

The use of foreign flagged vessels is effectively restricted to the container trade. Where intermittent use could be made of such vessels, this would effectively only compete with the ANL provided service; regular high volume shippers would necessitate the establishment of new access arrangements at Swanston Dock as this is the location where these vessels would berth. These additional costs would in all likelihood be compounded by the attendant loss of scale efficiencies associated with using current ro-ro facilities at Webb Dock.

It remains that Bass Strait container shipping operates as an effective duopoly/monopoly with higher cost structures than domestic shipping in many other countries.

In August 2005, Toll Holdings Ltd announced its intention to acquire Patrick Corporation Ltd, including the latter's Bass Strait shipping operations. While initially opposed to the acquisition, the ACCC dropped action against Toll in March 2006 and accepted an offer of undertakings. This offer requires Toll to divest itself of Patrick's Bass Strait shipping operation. Pending the sale of the Patrick shipping interests it remains that the Commonwealth, through the ACCC, has endorsed the operation of a monopoly service provider for Bass Strait containerised shipping operations.

It concerns industry that, as Toll gains an increased knowledge of its former competitor's operations, the capacity to divest this asset as a viable and competitive shipping service will progressively diminish, ultimately leading to a situation where monopoly rents may be commanded.

It is apparent that notwithstanding the equity issues that underpin the continuation of the freight assistance schemes, the Commonwealth has continued to support land based transport investment and implemented transport policies that limit the capacity of Bass Strait

⁷ International bulk-grain movements are commonly moved in homogeneous lots of 40,000 to 50,000 tonnes and reflect the true scale at which bulk scale economies are realised. Mini-bulk shipments of 7,200 tonnes are typically effected through multiple rail movements.

⁸ Reservation of a country's coastal (domestic) shipping for its own flag vessels.

supply chains to deliver in a competitive manner without assistance to offset the sea freight cost disadvantage.

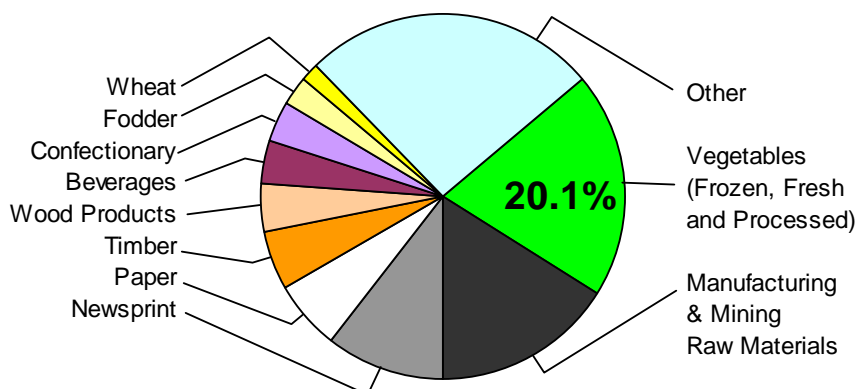
The underlying rationale for the Tasmanian Freight Equalisation Scheme and Tasmanian Wheat Freight Scheme remains as pertinent today, if not more so, than when they were introduced.

3. THE ECONOMIC VALUE OF FREIGHT ASSISTANCE

An accurate assessment of the economic benefits of Tasmanian freight assistance has never been undertaken and is outside the combined resourcing capability of the Tasmanian Farmers and Graziers Association (TFGA) and Tasmanian Chamber of Commerce and Industry (TCCI).

However, Figure 3 highlights the significance of the \$18.7 million in assistance paid to offset the sea freight cost disadvantage of interstate movements of vegetables.

Figure 2 - Distribution of Freight Assistance by Commodity



In recognition of the importance of this sector to the Tasmanian economy, the TFGA commissioned a specific study of the value chain for this product group. This study is attached as

Appendix 1 – The Potential Impact of TFES Removal on the Tasmanian Vegetable Industry.

The value of freight assistance was assessed in terms of its impact on vegetable processors and packing operations and concluded that any downward movement in assistance levels would be passed directly to farmers through lower farm gate prices. The key observations of this sectoral analysis are that:

- removal of TFES would be passed onto farmers as reduced prices with the impact on the mainstay potato crop being a reduction of 14 to 17 percent and significantly higher (71%) for some other crops);
- 04/05 average farm profitability was \$25k - substantially less than the \$37.5k per grower TFES represents;
- production falls would impact on processing factory viability, placing further downward pressure on farm prices;
- a substantial reduction in the output of both processed and fresh vegetables would occur and that any significant reduction in throughput would reduce processing viability and closures would most likely result (there are 3 plants); and
- there would also be impacts on the state's five major fresh vegetable packing operations as Tasmanian local demand wouldn't be sufficient to sustain them.

The economic impacts of such an adjustment are that:

- it is expected that reductions in Tasmanian processed production would predominantly be made up with increased imports. If Tasmania's three processing factories were to close around three-quarters of the output would be replaced by overseas imports into Australia estimated at \$300 million annually; and
- in the vegetable industry, the reduction in farm output and subsequent factory closures could conservatively lead to a loss of 1,500 jobs.

The significance of TFES assistance to the vegetable industry is reflected among other recipients of freight assistance.

It was observed that the value of freight assistance per TEU⁹ as a proportion of value of the freight being moved is not necessarily an accurate indicator of its importance. The importance placed on freight assistance is more directly linked to the competitiveness of the market for the goods being shipped and the cost structures underpinning the price of individual products. Conceptually, while a notional \$100 increase in costs on a product worth \$4,000 (2.5%) might be absorbed by one industry, a \$50 increase on product worth \$10,000 (0.5%) might be the "straw that breaks the camel's back" in another.

⁹ Twenty-foot Equivalent Unit, a standard unit used for the measurement of container activity. One TEU is equal to one standard 6.1m shipping container.

A number of companies have indicated that they operate in highly competitive global markets and that freight assistance and the equitable access it provides to interstate markets is essential to their continuing operation.

Importantly they have also identified that, in the absence of Tasmanian production capability, this capacity would not be developed on the mainland. These respondents indicated that they would respond in one of the following ways:

- ramp up spare capacity in offshore production facilities;
- establish new production capacity in offshore locations with cheaper labour costs, raw materials and greater development potential; or
- leave the industry in the knowledge that established foreign based production facilities have a competitive edge through sunken infrastructure costs etc.

Initial investigations have suggested that this import substitution effect for the non-vegetable related Tasmanian producers is worth well in excess of an additional \$300 million annually.

It is submitted that a comprehensive and detailed economic impact assessment of the true value and benefits of freight assistance needs to be undertaken and that, as a minimum, it needs to include detailed consultation with at least the top 10 assistance recipients to accurately establish:

- *the true sensitivity of assistance recipients to cost structure variations equal to freight assistance received;*
- *the likely market response to any change in assistance levels i.e. the pass-through of cost increases/reductions including the impact of upstream price reductions on production activity;*
- *the likelihood that equivalent production capacity would be established on the Australian mainland in the absence of it existing in Tasmania; and*
- *quantification of the competitive effects of global markets in determining where production occurs i.e. the import substitution benefits associated with continued Tasmanian production.*

Assistance recipients also identified a range of ancillary benefits and avoided costs to the Australian economy that are more difficult to quantify but which should be included in any economic assessment. These benefits include:

- Drought-proofing. Tasmanian wheat growing is seen as a potential drought proof area for production and multiplication of important seed lines. The sustainability and effectiveness of this activity is directly related to continuing activity during non-drought periods and the support rendered through freight assistance. In a similar manner, livestock dependent industries to able to plan for, and restock, in a cost effective manner;

- Smoothing of supply/demand fluctuations. The viability of many livestock processing activities are dependent on the constant and continuous presentation of stock. During periods when the local area may be incapable of meeting processors demand requirements freight assistance enables the cost-effective shipment of livestock across Bass Strait (in either direction). In the absence of freight assistance processors would be forced to close facilities during periods of low supply with the real risk that this would lead to the permanent loss of previously viable business activities.
- Alleviating pressure on scarce water resources. To the extent that, in the absence of TFES assistance, some fresh vegetable growing activity would be relocated to the mainland, this would most likely be through the expansion of existing areas in Northern Victoria. Production in these areas is already placing demand on limited water resources and the additional transplanted production requirements is likely to have adverse environmental impacts and/or impact on the cost structures faced by existing producers.
- Underpinning the viability of the King Island shipping service. This shipping service operates on a commercial basis with the main revenue source being freight assisted interstate exports of processed meat products, livestock, kelp and dairy products. These interstate export industries also generate the underlying demand for freight carried into the island such as fertiliser.

These exports sustain the operation of a weekly service to the island with attendant community benefits in terms of supporting regular imports of general goods such as fresh fruit and vegetables. Without freight assistance the shipping service's viability would be compromised and would cease unless some other form of government assistance was provided.

4. THE ASSISTED FREIGHT TASK

In 2004/05 TFES partially offset the sea freight cost disadvantage for Bass Strait freight movements amounting to:

- 102,000 container movements;
- 8,000 trailer movements; and
- break-bulk/LCL movements equivalent to 5,500 container equivalents.

On a TEU equivalent basis this is estimated to equate to 120,500 TEUs with 90% of activity occurring though containerised movements.

To provide a context for the significance of the volume of trade assisted, the total **coastal** container trade through the port of Melbourne during the same period was 401,000 TEU.¹⁰

While not exclusively, this is primarily Bass Strait related trade and it can be confidently asserted that TFES assistance partially offsets the sea freight cost disadvantage for one in three container equivalent movements across Bass Strait.

The manner in which this freight task is undertaken can differ markedly from product to product and between enterprises with fine tuning and variations reflecting a continual desire to improved supply chain efficiencies and reduce costs and risks. A typical containerised supply chain is described in Table 1. It is emphasised that this is conceptual only and that there are a range of costs and risk mitigation measures such as approaches to packing, insurance, customisation of containers, supporting information systems etc. that are not rendered in this table.

Table 1 - Comparison of typical land based and Bass Strait interstate supply-chains

¹⁰ Port of Melbourne Corporation, Annual Report 2004/05, p.25

Mainland Interstate Supply Chain	Bass Strait Interstate Supply Chain	Comments
	Container (TEU) positioned for loading	Higher strength hard stand area required
Pack/load onto final delivery vehicle	Pack to maximise stowage	May involve the use of slip-sheets to maximise loading
	Load TEU onto road transport	Requires heavy lift container handling capability
Long-haul door-to-door transport (high productivity B-Double tautliner)	Short-haul transport to wharf	Less efficient than linehaul operations due to extra weight of container & weight distribution
	Unloaded to hardstand area	Additional dwell time required to ensure product is presented in time for loading
	Transfer to MAFI/Cassette trailers	In preparation of efficient loading of roll-on roll-off vessels – additional handling has damage implications
	Load trailers on board vessel	MAFI/Cassette systems support roll-on roll-off operation and delivers loading/unloading efficiencies far in excess of lift-on lift-off methods
	Sea Journey	
	Unload trailers from vessel	
	Unload containers from trailers	Additional handling and associated risk of damage
	Load onto wharf-to-door transport	Additional coordination required and associated land transport costs for idle time etc.
	Short-haul transport to depot	Less efficient than linehaul operations due to extra weight of container & weight distribution
	Unload from truck to hardstand	Additional equipment/infrastructure costs and handling associated risks of damage
	Deconsolidation	Repackaging onto pallets to delivery to customer
	Load onto local delivery vehicle	Additional handling and associated risk of damage
	Short-haul local delivery transport	Less efficient than linehaul operations due to extra weight of container & weight distribution
	Unload at customer's door	Unload at customer's door.

5. CALCULATION OF TFES ASSISTANCE

The Tasmanian Freight Equalisation Scheme (TFES) provides assistance to shippers of eligible goods, transported by sea between Tasmania and the Australian mainland, with the aim of assisting

“... in alleviating the comparative interstate freight cost disadvantage incurred by shippers of eligible non-bulk goods carried between Tasmania and the mainland. Its objective is to provide Tasmanian industries with equal opportunities to compete in mainland markets, recognising that, unlike their mainland counterparts, Tasmanian shippers do not have the option of transporting goods interstate by road or rail.”¹¹

It is recognised that this comparative disadvantage is likely to change over time and in particular as:

- the relative transport efficiencies of road compared with sea transport change;
- the cost structures of road and sea transport change; and
- industry strives for performance improvements in how intermodal exchanges are undertaken.

That the environment is changing was recognised in the review of the Tasmanian Freight Equalisation Scheme undertaken by the Tasmanian Freight Equalisation Scheme Review Authority in 1998. Specifically the TFES Review Authority stated that *“... By reviewing and updating these key parameters as necessary, the scheme can continue to track sea freight cost disadvantage as it changes over time and thereby maintain its relevance”¹²* and explicitly recommended that *“Key parameters of the proposed scheme should be reviewed on an annual basis and updated as required.”* This recommendation was picked up in the Ministerial Directions governing the Scheme’s operation which identifies in section 26.1 that the *“... key assistance parameters ... will be reviewed on an annual basis and changes made ... where those parameters are considered to have materially changed...”¹³*

It concerns Tasmanian industry that there is no evidence that the key assistance parameters have been reviewed since the revised scheme was implemented in 1999, even if such a review resulted in them being maintained at their current levels.

While industry supports the concept of annual adjustments, for industry to be able to plan around them, the annual review process needs to be undertaken in a transparent manner which is clearly understood. This issue is discussed in more detail in Section 7.1.1 Certainty and Planning.

The Ministerial Directions identify the key parameters as:

- (a) road freight equivalent costs;
- (b) door to door adjustment;
- (c) fixed intermodal cost;
- (d) route scaling factor adjustment; and
- (e) median notional wharf to wharf freight cost disadvantage.

¹¹ Department of Transport and Regional Services, Tasmanian Freight Equalisation Scheme, Purpose of the Scheme, www.dotars.gov.au/transprog/maritime/tfes.aspx

¹² Tasmanian Freight Equalisation Scheme Review Authority, Advisory Opinion, 1998, p.30

¹³ Minister for Transport and Regional Services, Directions for the operation of the Tasmanian Freight Equalisation Scheme, April 2002 (updated August 2003) p.7

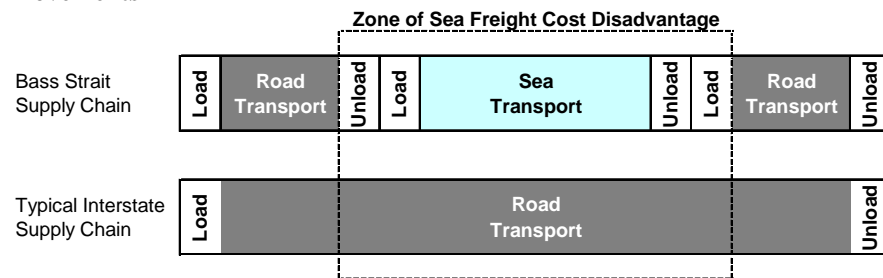
It is observed that the TFES Review Authority also identified as a key parameter “*the appropriate size and onset points of reductions in notional assistance entitlements to ensure incentives apply to minimise freight bills*” and this has been treated as an extension of item (e) above.

With the exception of (d), route scaling factor adjustment, these parameters are discussed below. This parameter is calculated using the relativities between the main Bass Strait route of Northern Tasmania to Melbourne and other interstate routes such as Sydney to Hobart. The calculation is based on a comparison of medians and is regarded as an internal calculation (the need for which is recognised) and the principle for which is supported.

5.1 Road Freight Equivalent Costs

The Road Freight Equivalent is the base determinant of the sea freight cost disadvantage. In determining the relevant applicable rate, it is pertinent to review how this parameter is appropriately identified. Bass Strait shippers are required to undertake two additional intermodal interchanges when compared with an interstate mainland freight operation. This is illustrated in Figure 3 below.

Figure 3 - Comparison of conceptual supply chains for interstate freight movements



It is apparent that the appropriate measure for determining the Road Freight Equivalent is the marginal cost of transporting freight by road over a comparable distance which is equal to the wharf gate to wharf gate sea freight component.

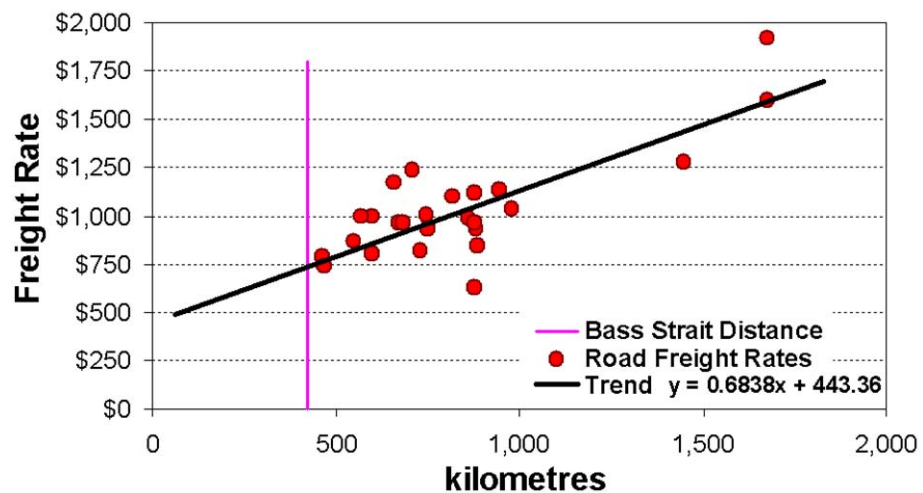
In the past eight years since the TFES Review Authority made its recommendations, there have been significant changes in the efficiencies with which land based interstate freight movements are undertaken. Specifically, there has been the widespread adoption of higher productivity vehicles and the introduction of mass management schemes which return a productivity dividend for improved regulatory and safety compliance. The industry standard for interstate road transport in southern states is now B-Double vehicles (either pantechnicon or tautliner) using air bag suspension with longer trailers and other design improvements that have allowed considerable productivity improvements.

By contrast, productivity improvements in sea freight movements across Bass Strait have largely been achieved through making improved use of existing infrastructure. These improvements are recognised through better stowage practices to maximise the

payload capacity of containers and through an increasing uptake of ‘taller’ containers. In some instances, such as where road vehicles are transported by sea, some of the productivity gains of the land transport sector have also been captured.

To determine what the current road freight equivalent rate should be, a sample of assistance recipients were contacted who had experience in linehaul operations for similar products over distances greater than the Bass Strait crossing distance. Freight rate data was collected for a variety of vehicle configurations, varying tonnages, over distances ranging from 465km to 1,675km. This was adjusted on a case-by-case basis to derive a TEU equivalent freight rate¹⁴ and plotted and analysed according to movement type (refrigerated, pantechnicon, containerised etc). Aggregate data is plotted in Figure 4.

Figure 4 - Industry Freight Rates



Source: Industry Consultation

Findings

In applying trend lines to the data, indications of the marginal haulage rates and flag-fall costs across various types of freight movements was able to be ascertained. The flag-fall costs are attributed to the costs of positioning vehicles to collect freight and the idle time associated with loading and unloading activities.

To the extent that the composition of these rates differs from that of the broader Australian industry is indicative of the composition of the freight task and the negotiating ability of shippers. While the

¹⁴ Adjustment methodology example: An assistance recipient advises their freight rate (\$x) for a given product for a land based transport task using tautliner B-Doubles. The typical shipment is 40 tonnes per trip. For the same product a Bass Strait related freight movement is executed in a standard container carrying 15 tonnes. The freight rate is factored down by 15/45 to derive a TEU equivalent rate. If pantechnicons are used for both land and sea crossings the land freight rate was divided by two to give a TEU equivalent rate.

confidence level in trend lines for smaller subsets will reduce with size, some broad observations are able to be made which will be explored further.

The data indicates that Bass Strait shippers moving freight in refrigerated transport are able to achieve marginal freight rates that are significantly lower than those using tautliner/pantechinon vehicles. While this may seem to be at odds with broader industry behaviour, it is pertinent to remember that this is the TFES subset of a broader industry and that the negotiating strength of refrigerated transport users receiving TFES may be significantly better than that experienced in the general population of Tasmanian shippers using tautliner vehicles etc.

While there is significant difference additional data will need to be collected to validate exactly what the Road Freight Equivalent rate for refrigerated movements should be. However, that there is a disparity in clear opposition to the current practice of loading the Road Freight Equivalent for refrigerated transport by 10%, indicates that some action needs to be taken.

It is submitted that the 10% loading of the road freight equivalent for refrigerated freight movements is inappropriate and the application of the premium should be eliminated in the absence of conclusive evidence to the contrary.

From the data, it is apparent that where sea freight is moved by container the comparable marginal road freight rate for such movements is much lower. While some differential is expected due the relative productivity advantages of moving freight by tautliner when compared with the limitations of containerised movements, the scale of difference reflects the significant market power these shippers are able to command in land transport. It is notable that these major shippers account for a significant proportion of containerised movements across Bass Strait. As such weighting freight rates by volume is likely to produce a measure closer to this than the current Road Freight Equivalent.

It is submitted that the a different Road Freight Equivalent should be applied to freight moving in containers, as compared with vehicles being driven on/off sea transport and, provisionally, this should be 75% the current Road Freight Equivalent.

At the aggregate level, a marginal freight rate per TEU of \$0.684 per km is indicated and is comparable with the current road freight equivalent rate of \$0.669.

It is submitted that the base Road Freight Equivalent rate used to calculate the notional wharf-to-wharf disadvantage should be \$0.684/TEU equivalent/km or \$287 per TEU equivalent.

5.2 Door-to-door Adjustment

The TFES Review Authority in its 1998 review "...recognised that the majority of shippers will continue to use freight forwarders and be billed on a door to door basis." To enable the translation of door-to-door invoices into a wharf-to-wharf format, the door-to-wharf adjustment principle was carried forward from the previous scheme structure but

its value was adjusted to reflect the recorded difference between the median wharf-to-wharf and median door-to-door claim.¹⁵

The appropriateness of the current level of door-to-wharf adjustment is considered to be a legitimate concern for the administrators of TFES.

With an increasing level of transparency in freight rates, partly facilitated by technological advances, shippers are now more readily able to assess the composition of their freight rates. In the pursuit of minimising their sea freight cost disadvantage, shippers will have sought to maximise their TFES assistance payments. In this regard, shippers who identified that a door-to-door adjustment of \$460 will have moved to claim on a wharf-to-wharf basis.

It is pertinent to observe that with an annual adjustment process employing the methodology outlined in the TFES Review Authority's 1998 recommendations, these claimants would have been removed from the pool of door-to-door claimants. This would in turn have resulted in a higher and more accurate median freight rate for remaining claimants. If the directed annual adjustments had occurred, an iterative process of adjustments over the past eight years would have seen the gradual erosion of TFES assistance being claimed on a door-to-door basis.

It is submitted that this parameter should be adjusted on a regular basis to reflect the difference between the median door-to-door and median wharf-to-wharf basis.

In keeping with the intent of the scheme, namely that assistance be paid on the basis of sea freight cost disadvantage, industry supports encouraging assistance recipients to move from claiming TFES on a door-to-door basis to a wharf-to-wharf basis.

However, it is recognised that an adjustment period will be required and the incremental approach, annual adjustments based on median difference referred to above, is expected to deliver on this fairly quickly.

5.3 Fixed Intermodal Costs

The basis of calculating assistance is the relative disadvantage of road versus sea over the distance that is Bass Strait. The Review Authority identified that the scope of the scheme needed to recognise "... other presently undisclosed costs incurred in getting freight through the wharf gates ..." and elaborated that these undisclosed costs include not only shipping consignment note costs, container hire and wharfage but other undisclosed costs incurred in getting freight through the wharf gates.

These undisclosed costs are being investigated and have been categorised them as being associated with:

- intermodal dislocation;
- additional dwell;

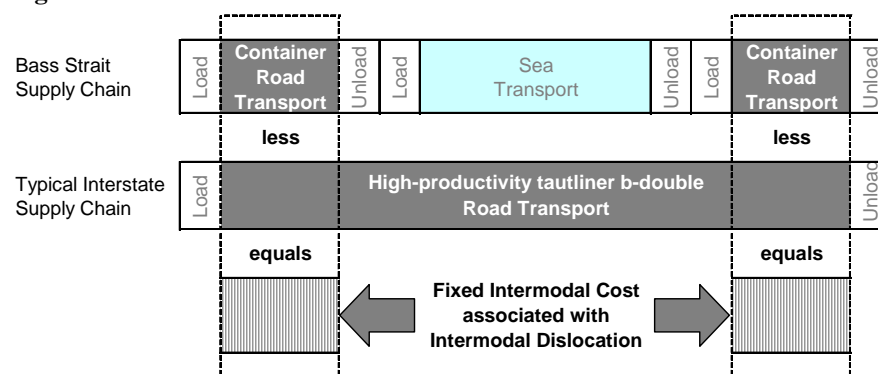
¹⁵ Tasmanian Freight Equalisation Scheme Review Authority, , p.14

- deconsolidation costs; and
- additional equipment and delivery costs.

5.3.1 Intermodal Dislocation

Intermodal dislocation manifests itself through the inability to operate a typical line-haul operation over the full length of the door-to-door delivery chain. Specifically, it is the additional costs incurred in needing to move product packaged (containerised) for efficient sea shipment over that which would have been incurred if higher productivity tautliner b-double vehicle were used for this part of the supply chain. This concept is illustrated in Figure 5.

Figure 5 - Identification of Intermodal Dislocation



It is recognised that this intermodal dislocation is only incurred where product is moved in containers and for which the comparable interstate land based freight movement would take place in tautliners, pantechnicos or some other form of purpose built vehicle.

5.3.2 Additional Dwell

To move product by sea, it is necessary to present freight in a timely fashion in order that it can be available at such time as stevedores commence loading and/or vehicles are instructed to board.

The notional cut-off point for presenting freight represents the point before which cargo must be lodged. In practical terms, for all shippers to ensure cargo is able to be appropriately marshalled and transferred to MAFI/Cassette trailers for loading, it is necessary to present product over an extended period preceding the scheduled sailing.

While the dwell time for freight carried aboard vehicles, such as where livestock trucks are driven aboard ferries, is considerably shorter but subject to the cost impacts of the need for drivers to remain with vehicles.

In addition there are ever present risks that due to unforeseen demand and associated loading constraints, there is a need to have extra product in the supply chain to meet these risks.

5.3.3 Deconsolidation Costs

The shipper's objective is to minimise the total freight cost of the door-to-door supply chain. This means maximising stowage/loading rates with the consequent combining where possible of part loads to achieve maximum loads. Where this freight is loaded directly into delivery vehicles, as is the case for land based door-to-door freight movements, this has limited impact as the contents are progressively unloaded at the customer sites.

However, for freight movements across Bass Strait, shippers are routinely required to unload containers and freight vehicles and reconsolidate freight on pallets and/or into other vehicles for final delivery. These costs are considerable and it is not unusual for these to range up to \$400 per TEU being deconsolidated.

5.3.4 Additional Equipment and Delivery Related Costs

In shipping product interstate between mainland origin/destinations, enterprises are able to make use of comparatively light weight equipment for loading/unloading, and are usually able to use the linehaul vehicle to effect delivery as well.

Where container movements are involved, there are substantial additional costs associated with providing heavy duty hardstand/staging areas and container lifting capacity equipment. These additional costs are invariably incurred at both the production and delivery ends of the supply chain.

In some cases the pursuit of productivity improvements has involved substantial investments in the development of technology that is able to shrink wrap container loads of product while others have improved stowage rates in containers through the elimination of pallets in favour of slip sheets.

For some containerised movements, shippers are also required to meet additional cleaning costs that would not be incurred if they had access to a door-to-door linehaul operation. These cleaning costs can vary from \$70 to \$300 per TEU.

A review of value of the components of Fixed Intermodal Costs, with adjustment to recognise that costs such as deconsolidation do not occur in for every movement, suggest that an appropriate value for this parameter averages in the order of \$150 per TEU movement.

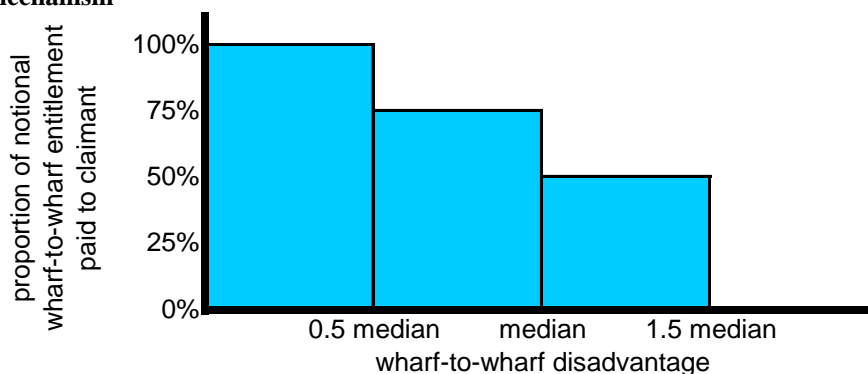
It is submitted that the fixed Intermodal cost be set at \$150 to reflect the current value of this sea freight cost disadvantage component.

5.4 Median Notional Wharf-to-wharf Freight Cost Disadvantage

In its 1998 report, the TFES Review Authority recognised that “*the starting point for assistance is the calculation of wharf gate to wharf gate sea freight cost disadvantage. The difference between wharf gate to wharf*

gate costs and road freight equivalent defines this disadvantage and the notional entitlement to assistance.” It went on to identify that there was a ‘basic incompatibility’ between the notion of full compensation based on this disadvantage and incentives to reduce costs. To some extent this notion has been captured in the declining rates of compensation associated with where an assistance claimant’s disadvantage sits relative to the median level of disadvantage (Figure 6).

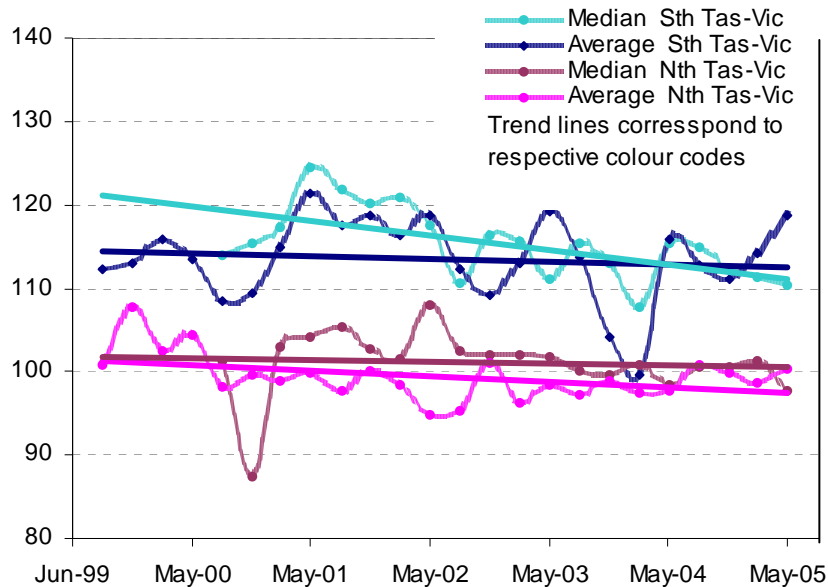
Figure 6 - Structure of the Tasmanian Freight Equalisation Scheme incentive mechanism



Some measure of the success of the incentive measure can be gauged by the movement in real door-to-door average¹⁶ sea freight rates since the revised method of calculating TFES assistance was implemented (Figure 7) which clearly shows that the movement in real average freight rates has remained relatively constant over the period while the median rate has progressively declined.

¹⁶ While the movement of wharf-to-wharf average and median freight rates would provide a better measure of the effectiveness of the incentive parameter this data is not publicly available.

Figure 7 – Real, median and average door-to-door freight rate movements, Tasmania to Victoria (December 200 Nth Tas to Vic =100)



Source: Department of Transport and Regional Services, Tasmanian Freight Equalisation Scheme Statistics

While industry acknowledges the need for appropriate incentives, it is emphasised that this must be based on equitable consideration of the capacity to negotiate lower rates; i.e. that those securing very low freight rates have marginal capacity to negotiate reductions compared with those on higher rates.

In this environment, it is of acute concern is that the recent Australian Government approved rationalisation of shipping service providers on Bass Strait (see section 2.1.3) will diminish shippers' negotiating power with respect to maintaining low sea freight rates where their market position requires the reliable daily shipping service for containerised product. The emerging reduction in competition brings with it scope for the single major containerised shipping service provider to exercise what is effectively monopoly power in the Bass Strait containerised freight market. By comparison, smaller volume shippers and those moving freight in final destination vehicles (livestock, pantechincons, etc.) generally incur higher freight rates on a per TEU basis, incur a higher wharf-to-wharf disadvantage and will continue to have an effective negotiating position courtesy of the TT-Line Spirit of Tasmania services.

It is submitted that the proportion of notional wharf-to-wharf entitlement paid to claimants with a wharf-to-wharf disadvantage lying between 0.5 and 1.0 times the median wharf-to-wharf disadvantage be set at 85%.

6. TWFS ASSISTANCE

Access to sufficient quantities of appropriate quality wheat is essential to the performance of many enterprises located in Tasmania including bakeries, dairies, poultry and egg producers, pork and bacon producers, feedlot operations, and even aquaculture.

The limited number of direct beneficiaries of the Tasmanian Wheat Freight Scheme belies the significance of the effects on related industries and which, in some instances, underpins their viability.

However, considerable recurring uncertainty surrounds the Scheme's continuity and the assistance levels it provides. The current scheme does not provide appropriate market signals regarding economic efficiency; for example, maintaining appropriate freight rate relativities between containerised and mini-bulk movements.

Geographic conditions preclude Tasmania meeting its own demand for wheat. Particular varieties cannot be grown in the state and while some varieties can be grown they do not meet the consistency and quality parameters across the volumes required.

The Tasmanian wheat industry is characterised by high yield farms that produce lower quality grains with a considerable level of inconsistency through crops. This reflects the geographic and climatic constraints of the State and effectively excludes the growing of key wheat varieties that are required in some industries. It is therefore necessary to import a large volume of wheat for flour milling and farm sectors including dairy, poultry and intensive feeding.

Varietal limitations are compounded by storage constraints and limited pastoral belt land where wheat cultivation represents the best alternative land use.

Consequently, the domestic wheat industry relies on mainland grain to provide the critical mass to sustain ongoing annual cropping.

It has been suggested that without freight assistance, the price of mainland grain shipped across Bass Strait would rise and support better returns and development of the domestic industry.

Unfortunately, the reverse is likely as an inability to pass increases on combines with higher input costs and interstate competition to force a contraction of wheat-processing industries and a collapse in demand for local wheat.

Wheat freight assistance provides a demand platform that underpins the wheat industry's existence.

It is apparent that there is scope for improvement in the existing assistance arrangements and the key features that need to be incorporated are:

- a clearly delineated rationale underpinning the Scheme's existence;

- a transparent basis for calculating and determining assistance that is consistent with, and supports, the Scheme's rationale;
- certainty regarding the continuity of assistance to encourage strategic planning within industry and investment in appropriate infrastructure;
- predictability of assistance levels to enable short-term planning, contract negotiation and access to financial markets;
- support of economic efficiency; and
- provision of appropriate signals and a stable platform on which the Tasmanian grain market can be developed.

It is submitted that an effective scheme would recognise that the movement of wheat across Bass Strait occurs in volumes that are more appropriately compared with rail transport than bulk shipping. This platform provides a basis for developing the rationale that the sea-freight cost disadvantage faced by Bass Strait grain movements is most appropriately based on a sea-freight cost disadvantage calculated using the existing freight costs and those that would be applicable where a notional land-bridge existed and grain was moved by rail.

The restrictions that preclude non-wheat grain from the existing Scheme suggest a sub-optimal outcome for the Commonwealth in terms of assistance payments. Ineligibility forces shippers of these grains to pursue less efficient container shipping in response to the assistance provided under the Tasmanian Freight Equalisation Scheme. This effect also encourages substitution of other grains for wheat thereby distorting industry's perceptions of cost benefit.

It is submitted that the scheme's eligibility criteria be restructured to provide for all types of grain movements.

It is submitted that the assistance scheme should have a five-year term, with rolling annual reviews confirming arrangements for the subsequent five-year period. Within the five-year period, assistance rates should continue to be determined on an annual basis. Together these features will provide a stable environment for strategic planning and infrastructure investment in both the short and long term.

7. ISSUES

7.1 TFES Performance

Tasmanian Industry regards TFES as a focussed and highly targeted program that addresses a specific objective, "the reduction of the sea freight cost disadvantage", in a largely effective manner. That there is scope for improvement is apparent from the preceding discussion regarding the calculation of assistance. With changes in vehicle productivity and the infrastructure available to support interstate trade, there will always be a continuing need to refine the

scheme to ensure it continues to appropriately assist shippers who incur a sea freight cost disadvantage.

The following observations are made on the delivery of the TFES program.

7.1.1 Certainty and Planning

The key principle missing from those outlined in the Issues Paper is certainty. The TFES Review Authority defined this characteristic as “*Sufficient certainty so that shippers and carriers are not faced with unpredictable changes in the likely basis for, and level of, assistance in the medium term (four to five years).*” Consequent to this, the Review Authority recommended that the scheme have a rolling five year term and that its parameters be reviewed on an annual basis.

Industry regards shocks to the level of assistance as being counterproductive. While the impact of a downward shock is readily apparent, an upward shock, (while welcome at the time) actually indicates that in the preceding periods, enterprises will have had an inappropriate basis for making investment decisions and consequently opportunities will have been foregone or suboptimal outcomes pursued. Annual adjustments provide an opportunity for smoothing out these shocks through incremental changes.

The methodology that might be employed to determine these parameter adjustments is a vital input for industry to consider in its planning. Major reviews such as that currently being undertaken are resource intensive, impose a burden on industry and detract from its core production and income generating activities.

With the benefit of a broadly understood adjustment methodology, industry would also be in a position to ensure that appropriate input data is able to be collected in a uniform manner on a continuous basis.

It is submitted that, in consultation with industry, a framework should be developed for the annual adjustment of assistance parameters. This framework would identify and explain the methodology to be employed in adjusting the parameters, the supporting data requirements and how they might be collected and determine the annual date on which the adjustment would be implemented.

7.1.2 Flat Rates of Assistance

The Productivity Commission queried the desirability of a “... *single dollar rate of subsidy per container, irrespective of a recipient’s actual shipping costs.*” While it is apparent that such an approach will reduce administration costs, current compliance costs are not regarded as onerous and must be weighed against the capacity a flat rate approach will have for addressing variations in the sea freight cost disadvantage that exists across Bass Strait shippers.

Specifically, it is unlikely that a flat rate assistance approach will endorse the overcompensation of any individual shipper. Consequently, by its nature, flat rate assistance would probably be aligned with the minimum level of sea freight cost disadvantage currently experienced by any Bass Strait shipper. As such, the level

of under-assistance would escalate at the same rate, in dollar terms, as the notional sea freight cost disadvantage that is experienced.

On this basis, a fixed rate approach is opposed as an alternative method for delivering assistance as it fails to recognise two key features embodied in the current scheme:

1. responsiveness to fluctuations in freight rates; and
2. the different levels of disadvantage faced by shippers.

There may be scope for some application of a flat rate assistance approach as a supplementary alternative for those shippers who find the current approach administratively onerous.

It is submitted that the basis of assistance calculation and delivery should be consistent with the current model and a Flat Rate of Assistance approach should only be pursued as an administrative alternative for claimants to consider at their discretion.

7.1.3 Administration

Tasmanian Industry broadly supports the current methods of calculating and delivering assistance and is comfortable with the simplicity of the current scheme.

While recognising that there are administrative overheads associated with the current requirement to provide physical evidence of invoiced amounts these are not considered onerous in the context of the assistance provided. Notwithstanding this position, any improvements to the claiming process are welcome and the recent procedural changes initiated by CentreLink are applauded for further reducing these overheads.

Industry would welcome additional refinement of the assistance claiming process, such as the introduction of electronic claims lodgement as a way of further reducing overheads.

As indicated in 7.1.2 Flat Rates of Assistance, there may be some scope for the introduction of claims on the basis of a flat rate where shippers regard the administrative overheads as too complex and/or onerous.

7.1.4 Rorting

Allegations of abuse of the schemes are damaging to the integrity of the TFES and TWFS. Tasmanian Industry strongly supports the introduction of measures to ensure compliance with the moral intent of the schemes. However, it is also apparent that compliance mechanisms may have costs associated with their operation and enforcement.

It is submitted that the costs associated with any proposed compliance measures be included in the Fixed Cost component of assistance calculation to ensure those claiming within the spirit of the scheme are not disadvantaged.

7.2 Capped Assistance Funding

The Productivity Commission queried whether expenditure under TFES should be capped rather than open ended. By implication, a cap on assistance levels would have the consequence that if the volume of eligible freight increased, the relative level of assistance per unit would decline.

This would be inconsistent with the objective of placing Tasmanian industry on a comparable footing with its mainland counterparts. There would be adverse impacts on industry as the equity and certainty provided through the existing scheme structure is progressively eroded and with it, industry's ability to confidently plan future directions. It would be expected that this would progressively jeopardise investment decisions predicated on a certain return on investment eventually eroding industry performance.

It is submitted that capping assistance levels is a mechanism to achieve certainty for Government in funding allocation and not linked to the merits of providing equity for Tasmanian industry.

7.3 Eligibility

7.3.1 Empty Containers

The aim of the Tasmanian Freight Equalisation Scheme is to “assist in alleviating the sea freight cost disadvantage incurred by the shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea.”¹⁷ It is observed that the determination of eligible southbound goods is based on the classification of the claimant's production activity and that it be used in a manufacturing or production process (for manufacturing and mining industries) or a material input (for agriculture, forestry and fishing industries).

While single use packaging materials such as padding and cardboard buffers receives freight assistance, Tasmanian manufacturers are also required to move empty containers south from the mainland for a variety of production and agricultural activities. Examples include kegs for beer, empty tankers for cider, plastic crates for vegetables (Coles' “one-touch” program). These production inputs do not receive assistance and are in effect excluded because they are recycled.

In addition to the cost penalties associated with not recognising the sea freight cost disadvantage for these items, the Bass Strait trade barrier also means these empty containers experience longer dwell times in Tasmania than on the mainland and imposes a significant additional cost on these industries.

Given the rationale of equitable treatment with respect to accessing the benefits of interstate trade, the exclusion of these empty containers from eligibility for assistance is unjustified.

¹⁷ Minister for Transport and Regional Services, Directions for the Operation of the Tasmanian Freight Equalisation Scheme, 2003

It is submitted that containers shipped across Bass Strait for refilling should be classified as eligible to receive TFES assistance.

7.3.2 Mini-Bulk Freight Movements

It is noted that this Productivity Commission review of Tasmanian freight assistance arrangement is concurrently examining the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Scheme. It is understood that the concurrent consideration of the schemes in this review is in part attributable to what is regarded in some circles as the distortion effects of TFES assistance for containerised grain movements on the volumes of bulk grain being moved.

While recognising that there has been a distortion, Tasmanian Industry regards this as being attributable to the absence of appropriate assistance on mini-bulk wheat shipments rather than the provision of assistance on containerised wheat. It has been suggested that, if given an option between a shipping service and a bulk road or rail operation over the same distance, a shipper would probably elect to take high productivity road or rail transport options in preference to sea.

Arguably there are other inputs to production for which these relativities are even more distorted because of the absence of any form of assistance. What is clear is that there is no basis for the treatment of mini-bulk shipments of wheat in a manner distinct from volume shipments of other grains or product types.

It is submitted:

- *that the eligibility criteria for mini-bulk shipments be broadened to provide for all types of mini-bulk movements (not just wheat);and*
- *that the sea freight cost disadvantage for mini-bulk movements across Bass Strait be defined as the difference between moving the freight from an origin on the mainland to a depot in Tasmania and the cost that would have been incurred transporting the freight over a comparable interstate distance on the mainland using the transport option that would have been employed for this scale and type of task.*

7.3.3 Air Freight

While assistance to Bass Strait freight movements increases the disparity between air and sea transport, the nature of the sea freight task's relatively low value and high volume is such that it would be uneconomical to transport almost all sea freight by air as the premium freight rate would not be recoverable in the sale price.

The determining factors in the use of air freight services are the relatively high value and time sensitive nature of the goods being transported. However, this remains secondary to the availability of capacity and the priority allocated to the movement of passengers versus freight. Historically the risks associated with freight being

'bumped' in the interests of making up lost time in airline schedules has caused some higher value product being shipped out of Tasmania to opt for the relative reliability of sea freight services.

It is submitted that freight assistance on sea freight has effectively no impact on the use of air freight services.

8. CONCLUSION

Tasmanian industry is broadly happy with the assistance calculation methodology and the administrative elements surrounding the Tasmanian Freight Equalisation Scheme. However, the Tasmanian Wheat Freight Scheme lacks the same integrity in terms of rationale for calculating assistance and suffers from an underlying uncertainty.

Freight assistance provided by both schemes is an essential component of the cost structure for shippers moving freight across Bass Strait and it is suggested delivers considerable economic benefit to Australia. An assessment of the schemes' benefits would be welcomed and to obtain a true picture will need to be undertaken with the participation of industry.

However, the full benefits of providing both mainland and Tasmanian industries with equitable access to Australian markets will only be achieved if the assistance provided reflects the actual level of sea freight cost disadvantage experienced. To that end calculation parameters should be adjusted as contained within this submission and a framework for ensuring their continuing regular adjustment should be developed in consultation with industry.

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APPENDIX 1 – THE POTENTIAL IMPACT OF TFES REMOVAL ON THE TASMANIAN VEGETABLE INDUSTRY

This document is tendered as a separate document.