



25 September 2024

Senator Tammy Tyrrell

Committee Chair

Select Committee on the Tasmanian Freight Equalisation Scheme

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Parliament House

Canberra ACT 2600

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Dear Senator Tyrrell

Please find enclosed a submission for consideration in your endeavour to review and make recommendations on the current and future structure of the Tasmanian Freight Equalisation Scheme.

We look forward to viewing the outcome of this review.

Kind regards

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The LANELA Group

The Freight Scheme Experts

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How to make the Tasmanian Freight Equalisation Scheme (TFES) better.

These are some, but not all, my thoughts with 17 plus years in the TFES arena, from both a bureaucrat's perspective of overseeing the TFES for Government and as a business owner assisting Tasmanian businesses claim TFES assistance as a registered Claims Agent; The Freight Scheme Experts (FSE).

1. Index the subsidy to inclinatory freight charges:

It would be fair to say the TFES subsidy has certainly not kept pace with inflation, freight costs, fuel costs, and changes to the way goods are transported over the years, resulting in a decrease in its "equalisation". Indexing the subsidy to an industry-based annual freight charge would ensure that its value remains constant in real terms, providing a more stable and predictable benefit for Tasmanian businesses.

The BITRE does a great job at reviewing the TFES every 4 years, however they are hamstrung by bureaucracy and the Government of the day and its machinations. Applying and external review of the same parameters the BITRE undertake would be beneficial.

The current funding model for the TFES is capped at a maximum of \$855 for domestic shipments of a full TEU and \$700 for the import and export of a full TEU. Increasing base funding that flows through to the assistance payable would allow for more assistance to claimants, providing greater support to Tasmanian businesses and their ventures.

2. Expand the scope of eligible products:

Currently, the TFES covers a range of industries; Manufacturing, Mining, Agricultural, Forestry, and Fishing (MMAFF) sectors. Expanding the scope to include Construction, would provide more support to a broader range of Tasmanian businesses and projects.

Construction industries have been defined on the basis of their own unique production practices. As with similar industries, the production processes in construction are distinguished by their use of specialised human resources, specialised equipment, and the expertise of the particular construction methodology. These undertakings are usually administered or managed at a relatively fixed place of business, but the actual construction work can be performed at one or more different project sites. This is distinctly similar to the 5 categories (MMAFF) of the southbound components of the TFES.

Construction materials have been rejected by the TFES as the TFES MD states in section 2.9.3 *However, the following are not eligible southbound goods:*

(a) **imported goods which:*

(i) *the *Secretary is satisfied have an *Australian equivalent; or*

(ii) *are listed in Schedule 1A; or*

(iii) *were loaded onto a ship for the journey to Tasmania at a port that was not on the *mainland; or*

(iv) *have a *date of shipment that is before 1 July 2021 or more than 6 months after the goods were imported to Australia from overseas;*

(b) *fuels and lubricants;*

(c) *goods of Tasmanian origin which have not undergone a manufacturing process on the mainland before shipment back to Tasmania;*

(d) building and construction materials and equipment;

(e) *motor vehicles for the manufacturing and mining industries, if they are to be registered for use on public roads;*

*(f) goods shipped as *bulk cargo.*

Including the construction industry in the TFES could offer several benefits that align with economic and social objectives. Here are some reasons to consider:

1. **Support for Economic Development:** The construction industry is a critical driver of economic growth. By including construction in the TFES, the government could facilitate the timely delivery of construction materials at reduced costs, encouraging more infrastructure projects and boosting local economies.
2. **Infrastructure Improvement:** Tasmania faces unique logistical challenges due to its isolation. Including construction in the freight equalisation scheme could enhance the ability to develop and maintain essential infrastructure, such as roads, schools, and hospitals, leading to improved services for residents.
3. **Job Creation:** Expansion of the construction sector through reduced freight costs could lead to job creation. Increased investment in construction projects can help alleviate unemployment and promote local workforce development.
4. **Equal Competitiveness:** The TFES aims to level the playing field for Tasmanian businesses competing with mainland counterparts. Including construction materials in the scheme could help ensure that local builders and contractors can compete more effectively with firms from other states, maintaining fair market competition.
5. **Enhanced Housing Supply:** A more affordable freight system for construction materials could facilitate the building of more homes, helping to address issues related to housing supply and affordability in Tasmania, which is particularly crucial given rising demand.
6. **Sustainability Objectives:** By fostering local construction and infrastructure projects, the state could potentially reduce the carbon footprint associated with transporting materials from the mainland, leading to more sustainable development practices.
7. **Encouragement for Investment:** With reduced transport costs, developers may be more inclined to invest in large-scale projects, potentially leading to increased economic activity in the region.
8. **Regional Development:** Specific areas of Tasmania may benefit disproportionately from increased construction activity, leading to more balanced regional development and alignment with government policies aimed at reducing urban-rural disparities.

In summary, including construction in the Tasmanian Freight Equalisation Scheme will provide significant economic, social, and infrastructural benefits, aligning with broader state and national objectives of growth, equity, and sustainability.

This does not give Tasmanian based businesses a stronger foothold when competing with Australian mainland and overseas companies awarded contracts of significant infrastructure located in Tasmania.

Situational case

Non more than a recent applicant utilising FSE as a Claims Agent. This applicant manufactures steel framed housing modules to their basic transportable form at their facility in Victoria. These road rated oversized modules are then transported to Tasmanian sites in Burnie and Risdon Vale, where they are kept until the need to be transported to their final site.

At the final resting place in Tasmania they are pulled together where finishing works are undertaken to make a weatherproof product. As these are mainly a rigid steel framed structure the modules need to be connected with specialised equipment and labour that only the applicant can undertake, hence the use of their own employees. Further works such as electrical wiring, plastering, cladding, and plumbing are performed to complete the house in its entirety at its final site. Without these services these modules would not be tenatable.

Based on our considerable experience in the TFES, investigative qualifiers, our extensive research, collaboration with another Commonwealth Government agency, the Australian Bureau of Statistics (ABS) we both feel the principal business activity is described under and adheres to the Australian and New Zealand Standard Industrial Classification (ANZSIC) as Group C Manufacturing, 22 Fabricated Metal Product Manufacturing, 222 Structural Metal Product Manufacturing 2222 Prefabricated Metal Building Manufacturing. Rather than classified as division 3011- House Construction.

- * The TFES utilises the ANZSIC to determine what business activity an applicant is defined under.

However the TFES and the Department of Infrastructure, Transport, Regional Development and Communications, (the titleholders of the TFES) both denied this application. We do not agree with the decision and have found flaws in their determination. However, it is untenable for us or the applicant to further pursue this application with the Commonwealth Ombudsman as this would involve considerable resources such as law firms specialising in legal representation to Government.

This claimant is providing some of the dwellings that Homes Tasmania, under the Tasmanian Government 10-year, \$1.5 billion plan to provide 10,000 new social and affordable homes by 2032.

Currently, this applicant has a contract to provide 120 modules for this project, with further work for the following decade to deliver affordable housing solutions across the entire housing continuum, giving priority to Tasmanians most in need.

However this is being reviewed as the freight cost of each module is usually \$7,500 with a return of approx. \$5400 in TFES assistance.

It is a long bow to draw that compares these steel framed modules to building and construction materials and equipment. Some examples of other southbound eligible goods that could be defined as building and construction materials and equipment.

The below table (extracted from the TFES Guide to lodging an online claim in the TFES claim portal– by entering shipment details - Pages 19-24) defines **eligible** southbound building and construction materials and equipment as raw materials.

There are 43 goods listed in the below table.

| TFES Commodity code | Good |
|---------------------|---|
| 15200 | Gypsum - limestone/other used for lime/cement |
| 15310 | Natural sands |
| 15320 | Broken Stone - pebbles or gravel |
| 16330 | Minerals - chalk and dolomite |
| 16390 | Minerals - other |
| 27200 | Textiles – floor covering |
| 27900 | Textiles - other |
| 31000 | Wood - processed |
| 31310 | Wood – rough |
| 31400 | Wood – processed |
| 31400 | Wood – hardboard |
| 31410 | Wood - plywood or sheets |
| 31420 | Wood - veneers/laminates/other plywood |
| 31430 | Wood - particle board |
| 31440 | Wood - fibreboard |
| 31600 | Wood - joinery and carpentry |
| 34100 | Organic chemicals - hydrocarbons/alcohols/enzymes |
| 34220 | Inorganic chemicals - titanium dioxide |
| 34230 | Inorganic chemicals - ferric and ferrous sulphate |
| 34240 | Inorganic chemicals - ferro silicon |
| 34250 | Inorganic chemicals - silica fume |
| 35100 | Chemicals - paints/varnishes/removers |
| 37110 | Glass - pressed/molded or construction glass |
| 37120 | Glass - fibres except woven fabrics |
| 37300 | Refractory products - bricks/blocks/tiles |
| 37400 | Cement - plaster or lime |
| 37500 | Concrete - manufactured products |
| 37580 | Cement or plaster - manufactured products |
| 37600 | Stone - building or monumental stone |
| 37950 | Non-metallic minerals - graphite/carbon preps |
| 38900 | Manufactured articles - furniture/other |
| 41100 | Metals - iron/steel or semi-finished products |
| 41200 | Metals - rolled/drawn/folded iron and steel |
| 41400 | Metals - unwrought copper/nickel/lead/zinc |
| 42100 | Fabricated metal - structural metal products |
| 42200 | Fabricated metal - tanks or similar containers |
| 42940 | Fabricated metal - fasteners/ wire springs |
| 42950 | Fabricated metal - welding wire/tubes/electrodes |
| 42990 | Fabricated metal - other metal goods |
| 44200 | Machinery - machine tools or powered hand tools |
| 44400 | Machinery - mining/quarrying or construction |
| 44900 | Machinery - other special-purpose machinery |
| 48200 | Machinery - precision instruments/control equip |

These goods are used in the following manufacturing process, which is also defined as building and construction activities.

- Metals for roofing, gutters, and garages
- Steel for columns, girders, and trusses
- Timber for building trusses.
- Timber for fabricated container type offices.
- Plywood sheets, particle board sheets for house framing.
- Doors for buildings
- Built in products such as kitchens and cupboards.
- Metal and aluminium materials for sliding shutters.
- Metals - iron/steel or semi-finished products for building facades
- Metals - rolled/drawn/folded iron and steel for building signs
- Metal parts for garage doors
- Screws, nails, and bolts for buildings
- Structural steel made into commercial buildings.
- Bulk shipment (containerised or transported in purpose-built trailer) of general-purpose cement dust for concrete.
- Aluminium extrusions for windows, sliding doors and mesh building doors
- Equipment for framing buildings
- Tools for drilling holes, welding steel
- Electrical wiring for plant and machinery
- Fiberglass for pipes used in commercial buildings

The list is endless regarding building and construction materials and equipment manufacture with the **eligible** goods under the TFES.

3. Improve administration and compliance: The TFES application and claiming process can be complex and bureaucratic, which can deter some businesses from applying or lead to delays in receiving assistance. Simplifying the application process and reducing administrative burdens on claimants would help to increase uptake and reduce red tape.

I suggest an ATO type of approach would be beneficial.

This type of function is already current in the TFES. Self-assessed claimants are allowable under the TFES. This is currently by “invitation only”. Instigating this type of claiming across the scheme would mean a claimant would need to provide an annual audit of their claims by a qualified and registered auditor. This would alleviate the claiming turnaround times and payment of assistance.

Another self-imposed and self-gratifying scenario could be to list the registered TFES Claims Agents on Services Australia, TFES website.

4. Payment letters:

Cease sending physical payment letters. Waiting 5 or more days for a payment letter is outdated. Changing this to online letters within the TFES online system (TBUS) portal is more effective and can drive immediate administration processes with claimants.

When you report monthly to larger national entities, payment and notification of that payment can be distanced due to the physical mailing of payment letters. It is disheartening to see a collection of other payment letters from other dates in the same envelope, this can have detrimental effects on internal reporting, especially end-of-month and EOFY.

The TBUS has the capacity to position payment letters within it. This type of facility has been available in other online systems for many years. Secure online posting is available in many formats, MyGov, WeTransfer, Teams, MS email structures, Dropbox, and OneDrive to name but a few.

5. Eligible good inclusion

Liquid Petroleum Gas (LPG) is used by many businesses in Tasmania, however the TFES have identified this as a fuel and therefore this good is not eligible under the TFES. The main use for business is to heat the goods during manufacture i.e. pastries and harvested materials, and not as fuel for vehicular transport in their engines. Which is where this ineligibility was derived.

Situational case

Stacking a harvested commodity 60cm deep on a drying floor, 2 metres above a furnace directly below, the heat to dry these hops is produced by ignited LPG. They remain on the drying bed for approx. 9hrs at a temperature between 54 and 63 Celsius, then they are turned and dried for another 3 hrs. This process is then repeated for the next batch on a continuing daily process post-harvest.

The process of drying the goods is a required input to the processing of the good. Without drying the good the output would not be a viable or saleable product.

Surely LPG used in a manufacturing or processing environment should be included as an eligible southbound good.

Kind regards

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