TasFarmers
A UNITED VOICE FOR TASMANIAN FARMERS

Select Committee on the Tasmanian Freight
Equalisation Scheme
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To whom it may concern,

Please find below the submission of TasFarmers to the Senate Committee on the Tasmanian Freight Equalisation Scheme.

The Tasmanian Freight Equalisation Scheme

Developing a fairer freight system for Tasmanian agricultural businesses

TasFarmers is the peak advocacy organisation for farmers in Tasmania, dedicated to promoting the interests and sustainability of the agricultural sector. Representing a diverse range of agricultural producers, including those in livestock, cropping, and horticulture, TasFarmers provides a unified voice to influence policy and decision making to ensure that the needs and concerns of farmers are heard by government and industry stakeholders. Our efforts aim to enhance the profitability, productivity, and environmental stewardship of Tasmanian agriculture, leading to an agricultural sector with a viable and profitable future.

Background

The key intent of the Tasmanian Freight Equalisation Scheme (TFES), which was conceived and developed in the mid-1970s and subsequently introduced in 1976, was to ameliorate issues of cost and disadvantage experienced by Tasmanian exporters using Bass Strait to access markets outside of Tasmania.

The success of the scheme is fractured by the disparity in freight rates. Across the various commodities that are freighted across Bass Strait and between the islands, there are differences in rates charged by the shipping companies per commodity – for example onions are charged differently to carrots and so on. Critically, this is not reflected in TFES payments. The TFES is paid as a flat rate per twenty foot equivalent (TEU), however this rate does not take into consideration the different rates of freight charges being applied according to the commodity inside the TEU.

Despite this variance in freight charges, the TFES remains as a flat rate, significantly disadvantaging a large cohort of agricultural producers. This is an historical anomaly that has become entrenched in the current schedule of charges but, moving forward, should be reflected in the rate that the TFES is paid, which should echo the actual freight costs charged. Should a differential payment rate of the TFES be established, measures must be implemented to eliminate the possibility of price gouging occurring as TFES compensation levels increase.

The otherwise efficient Tasmanian agricultural sector has always been significantly impacted by a slow, ineffective, expensive and antiquated freight transport system, not just by the challenges presented by Bass Strait itself. Freight logistics across Bass Strait are some of the most expensive per kilometre in the

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developed world, contributing to Tasmanian farmers' material disadvantage when accessing mainland and overseas markets and participating in national supply chains for local business inputs.

This is exemplified by:

- At least two port infrastructures and associated bureaucracies for a relatively short stretch of water (270nm or 500kms from Devonport to Port Melbourne)
- Strongly unionised workforces in all commercial ports determining work practices that limit efficient and timely progress of freight through the various stevedoring functions.
- Shipping services that are not universally fit for purpose, such as the Spirit of Tasmania ferries serving dual purposes for tourism and commercial freight.
- Lack of sufficient economies of scale that provides for Tasmanian agricultural producers to bargain for better access, cost effective freight and faster transition through ports.

The intent of the TFES, as recommended by the Nimmo Commission, was that "the cost of transporting goods between Tasmania and the mainland is approximately the same as moving goods by land across the same distance on the mainland."

While there have been many additions to the TFES in the intervening decades, it has become progressively sub-optimal for Tasmanian agricultural businesses. Federal Governments and their political participants are constantly lobbied to improve the scheme, however, to date no real and material improvement has been seen towards reducing the cost burden and impact for farmers and place them on equal footing to their mainland counterparts.

TasFarmers believes that:

- The TFES should function from the business at the point of freight despatch to the point of freight delivery to the receiving business, where that freight journey involves transit across Bass Strait, irrespective of which state (or island in Bass Strait) that freight journey commences.
- The rate of subsidy should be such that the final cost of the freight should be no more than if the same length journey was made on mainland Australia using conventional road-based transport.
- The subsidy should accommodate the actual intermodal cost of freight logistics surrounding port infrastructure, including trans-shipping, periodic short-term storage as part of the freight journey and other costs associated with the successful completion of the freight journey.
- Payment of the subsidy should be streamlined into a fit-for-purpose online portal that pays on completion of the appropriate data entry rather than the current 30 days.

This would place Tasmanian farming businesses on the same competitive platform as their mainland counterparts who don't suffer the impediment of a significant sea journey.

TasFarmers is a strong advocate for the retention of the existing scheme, but with timely improvements. The TFES should be seen as a stimulus for Tasmanian business rather than simply as a subsidy. Tasmania is economically stronger with the TFES and will become more so with a scheme that recognises the shortcomings of the existing system with subsequent material improvements.

Addressing the terms of reference

The merits and weaknesses of the scheme and if it is currently fit for purpose

The scheme, as it is currently positioned, ameliorates some of the competitive disadvantages of conducted freight-reliant business in Tasmania. It does not address the key fundamental issues which the Nimmo Commission sought to address.

TFES is advantageous as it does offer some cost relief for farming businesses: some relief is obviously better than none. For some enterprises outside of agriculture, it is a predictable and essentially unremarkable scheme, however for those in the farming sector and in associated value-adding industries where products need to be transhipped and be multi-handled, the subsidy makes an increasingly small contribution to addressing the continual rising cost of transporting produce across Bass Strait.

Over the decades, the TFES has increasingly become abstracted to the point where different rates of compensation paid for different commodities makes the scheme difficult to access, hard to understand and makes Tasmanian commerce trading across Bass Strait uncompetitive.

For the scheme to be truly fit for purpose, it needs to provide compensation so that a freight journey from Tasmania to mainland Australia is of equal cost to that same journey made on mainland Australian roads. The Tasmanian Freight Equalisation Scheme does not currently do this and consequently not fit for purpose.

Has the scheme has kept up with increasing costs over the past decade?

It is self-evident that the TFES has not kept pace with increasing costs over the most recent decade. Critically, the scheme was significantly behind the actual costs of freight prior to 2014 and while sea freight costs have fluctuated over the decades, current forecasting indicates that sea transport costs will continue to rise as international factors increase their impact on local economic conditions.

Furthermore, the rates of compensation have not kept pace with the increases in inter-modal costs – that is, the cost of moving freight through port infrastructure and processes from truck to ship and then from the ship back onto a truck.

According to respected Tasmanian economist Saul Eslake, between 2013 and 2021, Bass Strait freight rates have risen in the order of 45% more than mainland road or rail freight rates which had increased only by around 2%. Mr Eslake formed this view according to estimates compiled by the Bureau of Infrastructure, Transport and Regional Economics (BITRE). The parameters used to determine the level of assistance payable under the TFES have remained essentially static since 1999.

Road transport has a perpetually competitive environment, where many different transport companies are contesting for business. Sea transport is much less so, and the port system is essentially a monopoly, where even though there are choices of port and stevedores, the restrictive unionised work practices eliminate the potential for competition.

It is self-evident the TFES no longer meets the objects of the scheme as articulated in 1976. Additionally, the contemporary TFES has only ever sought to cover the wharf-to-wharf element of the cost of moving goods between Tasmania and mainland Australia and has never comprehended the additional

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transshipment and warehousing costs associated with the numerous inter-modal tasks associated with the freight of goods from Tasmania to the mainland.

The cost and budget of the scheme

In the 2022-23 financial year, 16,975 claims were paid, an increase of 460 from the previous year. (Source: DITRDCA October 2022–23 Portfolio Budget Statements p. 50, DITRDCA Corporate Plan 2022–23 p. 26), and in the 2023/24 financial year, the Australian Government contributed $181.7M to the TFES. This is expected to rise as Tasmania's export productivity grows in line with the Tasmanian government's Agrigrowth strategic aim of $10B of agricultural productivity by 2050. By comparison, in the 2022/23 budget, the Federal Government allocated $586.4M on a 13km upgrade to the Bruce Highway through Brisbane's outer northern suburbs, a small proportion of the $9.6 Billion invested in infrastructure and support in the same budget.

As outlined earlier, the cost of freight across Bass Strait has increased beyond the comparable costs of road transport on mainland Australia, growing by 45.5% opposed to inter-capital city freight rates increasing by only 2%, due in part to the intensely competitive nature of road transport. This disparity was compounded by the cessation of international container shipping services to Tasmania, but none-the-less demonstrates the increasing gap between real costs and the level of scheme support.

While it is evident that the cost of support for Tasmanian freight has increased by virtue of increased freight activity, this has not kept pace with increases in shipping and inter-modal costs for containerised freight.

Shipping costs, competition and shipping industry competitive structures across Bass Strait, including alternative freight options.

Competition across Bass Strait is limited to the main freight-only companies and the Spirit of Tasmania ferries which offer tourist and limited freight capacity. While increased competition in the sea freight sector may reduce some costs, the ever-rising costs of moving freight through the wharf system in Australia is the key impediment to an efficient freight and inter-modal system.

Air freight is not considered to be a viable alternative to sea transport for the overwhelming bulk of exports and imports that are compensable under the TFES.

Competitive structures, or perhaps more correctly, non-competitive structures, contained within the freight journey are the key reason behind inflating costs for sea freight ahead of road transport. These escalating costs are primarily at the freight terminal and wharf in addition to the expected costs associated with shipping.

Eligibility criteria under the scheme

Currently, the TFES covers northbound freight, such as goods manufactured or grown in Tasmania for permanent use or sale on the mainland, with eligible goods further detailed in the Ministerial Directions. For southbound freight into Tasmania, for agricultural purposes, the scheme covers goods which will be used in agriculture, forestry or fishing. TasFarmers seeks to further extend eligibility for freight to and from King Island and the Furneaux group of islands to include all freight, not just that directly compensable under current arrangements. The fundamental focus should be on developing the rate and method of compensation to adequately reflect the contemporary costs and competitive impediments associated with all Bass Strait freight.

Consideration needs to be placed on the transport of empty trailers. While not ostensibly freight, it is a crucial link in freight efficiency on King and Flinders islands, where freight capacity and timing are limited by the availability of trailers combined with the reluctance of some freight companies to commit trailers to the islands without the prospect them being returned in a timely manner at reasonable cost.

The operation and administration of the scheme

The operation and administration of the scheme is outdated, slow and excludes some applicants because of the inefficient mode of accessing the scheme through Services Australia. Furthermore, those businesses who ship goods other than in a 20' container, such as high value exporters who ship either as pallets or part pallets, are significantly disadvantaged or excluded altogether.

The scheme needs a contemporary, specific portal that is functional through an app rather than the current Centrelink Business Online portal that pays on completion of the application.

How the scheme impacts businesses on King Island and Flinders Island.

The method of calculating support for businesses trading from King and Flinders islands is difficult for farmers to understand and to claim for. It can be confusing to understand whether freight directly from King or Flinders islands to mainland Australia is compensable under the scheme. On one section of the TFES (Services Australia) web site it specifies only freight between the islands and the main island of Tasmania can be claimed for, yet on another it states a 15% loading is applicable for freight shipped directly to mainland Australia from the islands. This further adds to confusion and distrust of the scheme. It is TasFarmers view that all freight to and from King Island and to and from the Furneaux group of islands should be included in the scheme.

Concluding remarks

The scheme, as it currently operates, significantly disadvantages Tasmanian farmers as the TFES no longer meets the initial first principles of the scheme developed and implemented in the mid-1970s. Tasmanian agricultural businesses, including those on King Island and the Furneaux Group, have been at a significant disadvantage to their mainland counterparts for many years through an inefficient and insufficient method of subsidy compensation for Bass Strait that has become increasingly fractured in its application.

TasFarmers strongly believes that a significant review of the current system is long overdue and should be undertaken as a priority for the Federal Government.

Yours Sincerely,

Nathan Calman

CEO, TasFarmers