



September 2024

Select Committee on the Tasmanian Freight Equalisation Scheme
PO Box 6100
Parliament House
Canberra ACT 2600
Email: tfes.sen@aph.gov.au

RE: Tasmanian Freight Equalisation Scheme (TFES)

Wine Tasmania welcomes the opportunity to provide input to the Tasmanian Freight Equalisation Scheme on behalf of its 125 wine business members around the island.

Wine Tasmania has long advocated for removal of the freight disadvantage faced by Tasmanian businesses, including wine businesses. In addition to representation through the 2014 Tasmanian Shipping Enquiry and 2018 Green Paper on Agricultural Competitiveness, in 2020-21 Wine Tasmania investigated opportunities to improve freight competitiveness, particularly in direct-to-consumer shipments. These investigations provide the background to the input and recommendations below.

Tasmanian Wine Sector

The Tasmanian wine sector is in the top ten sectors contributing to the state's economy today, producing approximately \$420 million worth of wine annually. The sector encompasses agriculture (vineyards), manufacturing (wineries) and tourism (cellar doors, national and international visitors), as well as trade, hospitality, events and brand. Nearly every community in Tasmania is directly or indirectly linked to the wine sector. It attracts new arrivals to our island as well as high yielding visitors to our regions and cellar doors.

Tasmania has a strong and growing reputation for the quality of its wines. The value of both its wine grapes and bottled wine is among the highest in the country. In 2024, Tasmania's wine grape harvest represented 1.3% of Australia's total wine production, but 6.1% of its farmgate value.

Tasmania's strong reputation has led to significant investment in Tasmania's wine sector, at a time when there is little investment in wine assets nationally. Not only are existing Tasmanian wine producers expanding their investment through new vineyard area and infrastructure, many new investors have entered the Tasmanian wine sector in recent years.

Based on recent research and modelling undertaken by Wine Tasmania (summary available [here](#)), the sector is forecast to quadruple by 2040, to become the state's most significant economic driver. However, this accelerated growth comes with some risks which need to be carefully managed to ensure it is sustainable.

CONTACT US

L5/29 Elizabeth St, Hobart Tas. 7000
03 6223 3770 mail@winetasmania.net.au
WINETASMANIA.COM.AU

Freight - the issue for Tasmanian businesses

The costs of shipping across Bass Strait have long been recognised as a significant economic impact on the Tasmanian economy and businesses. Introduced in 1976 to help address the issue, the TFES was developed for larger bulk shipments of goods, however it has not kept pace with increased costs.

Additionally, economic activity, markets and consumer behaviour have changed significantly since its introduction, and this original structure does not support nor address the growing barrier of shipping costs for individual 'parcel' freight, which is fundamental in direct sales for Tasmania's small businesses.

The TFES is no longer effective in removing or levelling out the freight disadvantages of being on the island of Tasmania. Wine Tasmania's investigations found that Tasmanian businesses (in this case through the lens of wine) pay an average of 35% more to send ex Tasmania versus ex Melbourne - to some destinations it is as much as 70% higher.

Using wine as an example, sending a dozen bottles from Tasmania to regional SA would cost \$13.76 more than sending a dozen bottles from Melbourne. The TFES rebate would be approximately 80 cents - not coming close to equalling freight costs.

More than 40% of Tasmanian wine businesses are not claiming the TFES due to the onerous process and miniscule rebate amount. This is a lost opportunity and demonstrates the ineffectiveness of the TFES today.

Eligibility criteria, operation and administration

The TFES claims process is onerous, presumably developed for large scale, bulk shipments with high rebates, and could be easily streamlined, automated and allow for multiple claims to be made.

The complexity of claiming the rebate has led to the creation of commercial services, which submit claims on behalf of businesses but take a substantial percentage of the claim, thereby reducing the rebate amount for the individual businesses it is intended to support.

Shipping a single carton of wine can technically be claimed through the TFES. However, it is not practical to do so nor does the rebate come close to offsetting the freight premium. For wine, the rebate is only approximately 80 cents per carton, with each individual parcel/carton requiring an individual claim and detailed information.

Even for large scale palletised freight, feedback from wine businesses indicates that the rebate is equal to less than 15% and is not offsetting the freight premium.

Each manufacturer (winery) needs to register every product they use, even though there are limited suppliers and many products that are common to Tasmanian businesses (such as glass bottles for wine businesses). If a new glass bottle shape is released, every wine business needs to add it to their list of claimable products. This requires each to get a signed form from the manufacturer and a different signed form from the local distributor. Having a streamlined process, centralised register or certification of key and common suppliers would reduce the time and compliance burden.

Why does it matter?

Wine Tasmania's investigations predominantly focused on the major opportunity represented by direct/online sales and individual shipments, which are not currently serviced or supported by the TFES.

The size of the direct-to-consumer opportunity is significant and growing, and this is a critical area of growth, diversification, business resilience and profitability. Buying direct from producers is a growing global trend and one that has the potential to deliver enormous benefit for Tasmania's regionalised economy and small businesses. For wine alone, it is estimated that close to \$20M in wine value has been shipped to interstate customers over the past year.

Part of changing consumer behaviour includes an expectation for free or heavily discounted freight for online purchases, directly impacting the profitability of Tasmanian businesses operating in a highly competitive consumer market and with limited freight providers/options. The TFES is not currently supporting these businesses and is impeding their ability to grow and be competitive.

There is very limited information on the economic and employment benefits of direct-to-consumer sales for Tasmanian businesses or regional economies in general. Better understanding this hidden sector is essential in identifying new opportunities, possible barriers and developing long-term structures that support these businesses and the opportunities they offer to Tasmania.

Tasmanian businesses are predominantly small and micro and scale. Producing small volumes of high quality and high value products is Tasmania's key proposition and likely to be so for the foreseeable future.

In addition to individual shipments, it is also recognised that the increasing costs of larger shipments, including palletised wine freight, dry goods (bottles, barrels, labels, packaging) and equipment / machinery are a significant burden on businesses, and disincentivise businesses processing and keeping their full supply chain on the island.

For some wine businesses, the ~35% freight premium is forcing serious considerations, such as moving bottling or other supply chain operations to the mainland to reduce freight costs, which may have wider employment and industry economies of scale impacts.

With some 60% of Tasmanian wine being sold off-island, the economic impact of shipping into Tasmania dry goods and shipping back out full bottles of wine is unable to be realised in a price premium and is likely to continue leading to loss of on-island supply chains.

Wine Tasmania's strategic position is to encourage and capture as much on-island activity as possible, to build the wine sector's important presence and investment in regional communities and associated regional employment.

Alternative freight options

Wine Tasmania's research identified the opportunity to investigate a hybrid shipping model, with parcels consolidated in Tasmania prior to shipment, enabling cheaper bulk (palletised) transportation across Bass Strait and into Melbourne, where they would enter efficient and competitive existing distribution networks for end delivery.

Wine Tasmania identified two potential models, noting that further exploration of logistical, timing and economic considerations would be needed to determine the viability of either - (1) consolidation of packages in Tasmania to be palletised and shipped 2 or 3 times a week, or (2) development of a Tasmanian co-op (or private / public partnership) third party logistics (3PL) supplier.

Further investigation since this time has been undertaken through the Tasmanian Export Freight & Logistics Advisory Service, with a business case submitted to the Tasmanian Government by Northern Tasmanian Development Corporation to pilot a freight consolidation model. Wine Tasmania supports this consolidated freight model being progressed.

Potential solutions

Wine Tasmania recommends the TFES be reviewed, augmented or a new scheme developed to address the growing direct-to-consumer economic opportunity.

It is further recommended that the current scheme in place for bulk shipping to and from Tasmania is also reviewed to ensure Tasmanian businesses can improve competitiveness.

Options identified include:

- develop a specific parcel schedule (rebate rate) for the TFES;
- review, develop and index parcel rates to improve competitiveness on larger freight consignments and address the current price premium on parcels;
- develop a simple/automated claims processes for individual / smaller volume parcel shipments, including the ability for businesses to submit bulk claims (eg on a quarterly basis) and to utilise tax invoices from freight companies as supporting evidence; and
- explore the ability for collective claims to be made and administered on behalf of multiple businesses through industry bodies or other non-commercial third parties, ensuring the majority of the rebate is directed to the business it intends to support.

Summary of recommendations

- Review/augment the TFES or develop a new scheme to address the growing direct-to-consumer opportunity and remove the current ~35% cost disadvantage.
- Progress the business case submitted for a consolidated shipping model for individual shipments to the Australian mainland.
- Quantify the economic opportunity for Tasmania in the direct-to-consumer segment, including assessing how many businesses are currently claiming the TFES rebate to which they are entitled.
- Review the TFES rate, indexing and claiming requirements for bulk shipping to and from Tasmania to ensure Tasmanian businesses can improve competitiveness.
- Develop a simplified or automated claims process, particularly for smaller businesses or freight volumes, including:
 - Allowing bulk claims (eg quarterly);
 - Reducing the supporting evidence required, including the eligibility of existing freight/Australia Post invoices and allowing onforwarded freight charges from suppliers to be claimed; and
 - Simplify the process to update claimable products, including creating a centralised register or certification of common suppliers.
- Explore the ability for collective claims on behalf of multiple businesses by industry bodies or non-commercial third parties to ensure the TFES benefit is received by the intended businesses.

Wine Tasmania

Wine Tasmania is the peak, non-profit body representing the island's wine producers, with voluntary membership of more than 95% of wine production through 125 wine business members. Its principal role is to work with its wine producer members and key stakeholders, including government, to build Tasmania's reputation as a cool wine region like no other on the planet, with demand for its wines continuing to exceed production. All activities undertaken by the industry body are designed to generate value for its members in line with Wine Tasmania's Strategy.

Please contact me if you would like to discuss any further details.

Yours sincerely,

Chief Executive Officer