

23 September 2024



Cleaner.  
Smarter.  
Diverse.

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

Via email: [tfes.sen@aph.gov.au](mailto:tfes.sen@aph.gov.au)

**Re: Select Committee on the Tasmanian Freight Equalisation Scheme**

Dear Sir or Madam,

The Tasmanian Minerals, Manufacturing and Energy Council (TMEC) acknowledges and applauds the establishment of this Select Committee on the Tasmanian Freight Equalisation Scheme.

TMEC represents the sector which is accountable for 65 percent of Tasmanians mercantile exports which a portion utilise containers.

TMEC's submission is constrained to responding to items 1(a) and 1(b) in the Terms of Reference which addresses the most significant concerns held by this sector.

*1(a) the merits and weaknesses of the scheme and if it is currently fit for purpose.*

The scheme has merit. Given its intent is to alleviate the cost differential and it has bipartisan support remains a clear signal to current and prospective businesses in Tasmania the Bass Strait will not be a disadvantage to being equally competitive with other Australian businesses with a similar freight task.

The 2016 review resulted in the scheme being expanded for "eligible goods" – which now included goods destined for international export and transhipped at an Australian port; and for incoming international goods to Tasmania that had no Australian equivalent.

A headline weakness is since its inception in 1976, forty-eight years ago, it has not been formalised through being legislated. This fact has resulted in out-of-date variables being used to calculate the scheme payments because there are no inbuilt relativity mechanisms. If there is a suggestion the periodic reviews are designed to ensure relativity is maintained, acknowledging some changes for the better have occurred but this does not excuse or offset that many factors remain unchanged since 1976. It would appear TFES was introduced either in a hurried manner or with a view of being temporary. After being in operation for forty-eight years any argument of temporary has surely been demonstrated as not the case.

The absence of inbuilt relativity mechanisms and being at the mercy of the annual budget cycle serves as a sovereign risk for existing and prospective Tasmanian businesses. This situation is akin to the Commonwealth having the ability to close off the Pacific Highway or the Hume Highway – no businesses in mainland states would have that risk.

**Upon completion of this review and other more fundamental reviews and inbuilt relativity mechanisms agreed to, utilising existing bipartisan support and a forty-eight-year track record, the scheme should be legislated.**

The scheme is currently partially supporting businesses to incur similar freight charges compared with an equivalent mainland business – but the increasing gap between cost and the benefit from the scheme is placing cost disadvantage pressures on Tasmanian businesses. The scheme has not kept the degree of alleviation consistent which means businesses in Tasmania are progressively becoming more and more disadvantaged.

The freight systems utilised in other states now provide more advantage than Tasmanian businesses which rely on interstate and or international freight.

In terms of fit for purpose the development of freight handling in Australia is not adequately reflected in the scheme as it currently stands.

The rate used for intermodal costs was determined approximately twenty-five years ago and has not been indexed since then. Despite periodic reviews of the scheme this has still occurred, highlighting why inbuilt relativity mechanisms need to be identified and formalised via legislation.

The original scheme would be based on a ship being loaded in Tasmania, the ship traveling across the Bass Strait and then the ship being unloaded and the goods travelling via train or truck along the mainland roads. The “Wharf to Wharf” component would have been the substantive activity and cost.

The difference today is predominantly the additional activities (and costs) which have occurred in the transfer at the mainland port, the intermodal costs. With privatisation of mainland ports, port expansions and more intermediary steps, the act of unloading a container and repositioning it for the next stage of its journey has changed as has its costs. These intermodal costs have increased substantially and the TFES has not kept pace with those changes. Equivalent businesses on the mainland are not required to do the “double handling” step between ship and truck or train. This disadvantage is not adequately recognised in the scheme. The cost drivers in the intermodal are different to the drivers of shipping costs and therefore the intermodal costs may be suitable for an annual indexation factor, once the current cost versus scheme compensation has been reassessed and brought up to date.

**The scheme has not kept relativity with the escalation of the cumulative impacts on intermodal assets through privatisation and the expected subsequent financial returns, and expansion of landside port facilities.**

**The scheme should have the intermodal costs updated from 1998 and indexed for perpetuity.**

*1(b) if the scheme has kept up with increasing costs over the past decade;*

Noting comments above on intermodal costs, the other Parameters which have not kept up with relative costs include Incentive Classes and the Road Freight Component.

**Incentive Classes** – designed to incentivise obtaining the lowest possible freight rates but the boundaries have remained unchanged since 1976. As prices have increased, the shippers have been pushed towards or into Class 4, which provides a diminishing percentage compensation.

In financial year 2000-01 40.3 percent of Claims made were Class 1 while 8.1 percent were Class 4. Demonstrating the impact of increasing disadvantage due to not updating thresholds, in financial year 2022-23 a mere 3.3 percent of claims (down from 40.3) are in Class 1 and 78.4 percent of claims (up from 8.1) have ended up in Class 4.<sup>1</sup>

**The dollar boundaries of Class 1, 2, 3 and 4 need to be updated to reflect 2024 costs, not hold to the 1976 determination.**

*Note 1 Source: BITRE Website tfes-monitoring-report2024-preliminary-release-tables-and-figures.xlsx*

### **Road Freight Parameter**

Comparing Road freight rates and Bass Strait Container rates – post assistance shows an adequate relativity was maintained between 2000-01 and 2017-18 with a reset of indices back to 1 in 2018-19. From 2020-21 the relativity has changed dramatically again demonstrating the loss of relativity to market conditions.<sup>1</sup>

The increasing spread between Bass Strait shipping rates and Road Freight Rates equates to increasing disadvantage for Tasmanian shippers.

**The Scheme needs to be updated to ensure the relativity between sea and road rates are reviewed based on a quantum of change threshold and payment rates adjusted accordingly.**

*Note 1 Source: BITRE Website tfes-monitoring-report2024-preliminary-release-tables-and-figures.xlsx*

### **Executive Summary**

This submission makes five key points.

1. Upon completion of current reviews and updates confirmed, utilising existing bipartisan support and a forty-eight-year track record, the scheme should be legislated.
2. The scheme has not kept relativity with the escalation of the cumulative impacts on intermodal assets, privatisation and expansion of landside port facilities.
3. The scheme should have the intermodal costs updated from 1998 and indexed for perpetuity.
4. The dollar boundaries of Class 1, 2, 3 and 4 need to be updated to reflect 2024 costs, not hold to the 1976 determination.
5. The Scheme needs to be updated to ensure the relativity between sea and road rates are reviewed based on a quantum of change threshold and payment rates adjusted accordingly.

Yours sincerely,

**Ray Mostogl**  
**Chief Executive Officer**