



Australian Government

Attorney-General's Department

Consideration of a permanent sea freight subsidy to the Indian Ocean Territories

At the recall hearing into the Changing Economic Environment on the Indian Ocean Territories (the Territories), a line of questions was asked of the Attorney-General's Department regarding a sea freight subsidy for the Territories.

On Wednesday 12 November, 2009, officers from the Attorney-General's Department met with officers from the Department of Infrastructure, Transport, Regional Development and Local Government to discuss a subsidy on sea freight to the Indian Ocean Territories.

While the Attorney-General's Department does not have any direct responsibility for sea freight policy, discussions were held to ascertain the feasibility of a permanent subsidy for sea freight.

A permanent sea freight subsidy for the Territories is not recommended for several reasons, listed below.

- The current sea freight subsidy model, the Tasmanian Freight Equalisation Scheme (TFES) used in Bass Strait, is designed to offset the high cost of short distance sea freight where there is no road or rail infrastructure. Road and rail infrastructure is more cost effective over short distances, while sea freight is more cost effective over longer distances.
- As the Territories are situated more than 900km from the nearest Australian port, sea freight is the more cost effective option.
- The TFES does not provide a subsidy for consumer goods or fuel. It supports business inputs for selected Tasmanian industries and their products only.
- To offset the increased cost of shipping any freight to the Territories, goods and services in the Territories are exempt from the Goods and Services Tax imposed on the mainland.
- In 2006, The Productivity Commission recommended the gradual phase out of the TFES as the benefits to Tasmanian industry were outweighed by the cost to Australia as a whole.

The Attorney-General's Department supports freight movement indirectly through a range of services, listed below:

- port charges on the use of port facilities on Christmas Island are well below the operating costs of the port;
- Provision of a port upgrade at Rumah Baru is underway on the Cocos (Keeling) Islands;
- The Australian Government underwrites air freight services from the mainland, which allows for fresh and consumer goods to be transported to the Territories in a timely manner; and
- The Australian Government waives landing fees for air services from the north, which supply both passenger and freight services.