Net Sea Freight – Tasmania Pty Ltd

Productivity Commission Review of Tasmanian Shipping Submission

NET SEA FREIGHT
TASMANIA P/L
'The Logistics Administrative Specialist'

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Executive Summary

Net Sea Freight – Tasmania (NSF-T) has considered the topics proposed for review by the Productivity Commission and has prepared a discussion paper based around these. We have not specifically referred to the Commission's request to investigate reforms to enhance investment and productivity growth, as we feel this falls outside the scope of NSF-T's activities.

Our response addresses firstly, and probably most importantly, the disadvantage of Bass Strait shipping vis-a-vis international shipping and has listed a number of reasons for Bass Strait shipping costs being greater than those on international, or more specifically, South East Asian services. We note that existing Bass Strait services are, within the constraints of their operation, efficient and effective because they provide high frequency services on both northbound and southbound freight.

There are uncertainties attached to the way in which the quantum of TFES assistance is to be determined for shippers, in part arising from the nature of the freight forwarders' charging process, in spite of the apparently well-defined structures of the assistance provisions of the TFES workings. Several examples are given showing the complexities in this determination facing both the users and the administrators.

We have also considered ways in which additional competition might be introduced to Bass Strait services and concluded there is little scope for an intensification of competition. The basic deficiency is one of trading volume. In the absence of growth in both directions, current circumstances are not favorable to introducing additional ships. In the same way, international shipping services are inhibited, in that current volumes are not sufficient to have a port-to-port service. For this reason it is unlikely for the foreseeable future that any change in the current arrangement of transshipment through Melbourne will occur. In this event we have proposed that serious consideration be given to extending TFES assistance to the Bass Strait component of an export freighting task.

Our study has concluded that the existing parameter-based scheme is workable but it appears to us that there is an urgent need to review the allowance for intermodal expenses. In practice, these expenses are far greater than the allowable $100 per voyage, and the deficiency in the allowance may well lend itself to less than auditable transparency. We have also looked at the maximum assistance per TEU and concluded it has been overtaken by shipping costs.

Another major deficiency we have uncovered is the use of the ANZSIC system to inflexibly prescribe the productive activities of those seeking assistance under the southbound component of the Scheme. The ANZSIC coding has been created for the purpose of presenting statistical collections in an internationally comparative format. This coding is being misused in determining TFES eligibility. We have included several case studies to illustrate this point.

We have also suggested some efficiency measures to assist the Tasmanian Transport Programs (TTP) by a way of expediting reviews regarding the eligibility of claims, and simplifying the claims process.

Introduction

This submission by Net Sea Freight – Tasmania Pty Ltd (NSF-T) refers to and offers comment on questions listed in the Productivity Commission's Review of Tasmanian Shipping in November 2013.

Role of Net Sea Freight - Tasmania

NSF-T is a freight administration company with over 300 clients ranging from large agricultural, mining and dairy producers to sole traders. In regard to Tasmanian Freight Equalisation Scheme (TFES) claims NSF-T submits over 100 000 lines per annum. NSF-T provides a specific service to shippers of northbound goods and eligible southbound consumables for manufacturing, mining and primary producers. NSF-T is not a freight forwarder, nor is it a competitor to freight forwarders or shipping companies. The NSF-T service removes clients' necessity to claim freight assistance directly, resulting in a number of advantages including:

- Clients maintain independence in selecting their chosen freight forwarders.
- Clients pay the net freight cost, northbound only, thereby providing their firm with additional working capital and relieving month-by-month cash flow pressures.
- With no requirement to claim assistance, administrative time and costs are eliminated.
- Clients capture the freight assistance benefit when paying a net freight invoice.
- Clients are provided with either generic or custom made management reports of a financial and operational nature.
- Clients receive the full benefit of freight assistance.

Management reports include analysis data which details the specifics of every shipment, including commodity, date of movement, reference numbers, quantities, net costs, GST and total cost and reports showing sea freight, interstate and intrastate road freight.

Aim of this Submission

The aim of this response is to support the ongoing operation of the TFES while acknowledging and discussing holistic freight issues, as outlined in the inquiry.

Glossary

ANZSIC	Australian and New Zealand Standard Industrial Classification
FLCT	Freight Logistics Coordination Team
NSF-T	Net Sea Freight - Tasmania
RFE	Road Freight Equivalent
RORO	Roll-On Roll-Off
TEU	Twenty Foot Equivalent Unit
TFES	Tasmanian Freight Equalisation Scheme
TTP	Tasmanian Transport Programs

Scope of Inquiry

1. Examine shipping costs, competition and shipping industry competitive structures across Bass Strait.

1.1. NSF-T is a member of the Freight Logistics Co-ordination Team (FLCT). This body was established as part of a $20m Australian Government funding package to assist Tasmanian exporters following the cessation of international container shipping services to Tasmania in 2011. As a member of this Team, NSF-T endorses the findings and recommendations that have been included in FLCT's reports. We have referred to these findings within this document.

1.2. The FLCT is an independent expert advisory body comprised of 19 senior representatives from logistics industry stakeholders including major shippers and producers, infrastructure providers, freight logistics companies and peak industry bodies. The FLCT has a clear focus on outcomes that deliver improved freight efficiency for Tasmanian businesses and support business growth.

1.3. As part of FLCT's work, Aurecon[(1)], a global logistics consulting firm, was engaged to undertake a major study on supply chain quality, cost and benchmarking. One of the objectives of this research was to make a detailed examination into the cost of shipping as a modal component of the supply chain. The investigation uncovered a number of key findings, one of which is pertinent in the context of this Inquiry. Aurecon concluded it is not appropriate to make a comparison of the costs of liner services to Asia from the Australian mainland, with the costs of shipping across Bass Strait from Tasmania to the mainland for a number of reasons:

1.3.1. Compared to Bass Strait services, international liners carry significantly greater volumes, have a higher degree of uniformity in the presentation of freight, have longer delivery windows and lower service frequency. In addition, the Australia-to-Asia freight rate is substantially less than the Asia-to-Australia freight rate due to the imbalance of containerised freight on this trade route on account of Australia being an import-oriented nation. Australian export volumes are largely of bulk shipments, and our imports are largely of containerised manufactured goods. The effect of this imbalance is that pricing for shipments to Asia is effectively on a back-load rate due to the need to return otherwise empty containers.

1.3.2. Bass Strait shipping costs per TEU appear to be higher by approximately 24% in comparison with similar short-haul roll-on, roll-off (RORO) services in other international regions, however input costs are estimated to be 23% higher for Australian-flagged ships in the same comparison.

1.3.3. Costs of shipping services for Australian-flagged vessels would be expected to be higher because wages and crew costs for Australian vessels are three to six times higher than crew costs of international-flagged vessels, and Australian fuel costs are substantially higher than bunkering costs from main ports in the Asian region. It is understood that Tasmanian port charges are higher than those of their mainland counterparts.

1.3.4. For RORO vessels in general, shipping services cost more than international long-haul container shipping due to RORO vessels being subject to daily

loading and unloading, with more wear and tear, and also spend more time in port incurring higher port and stevedoring charges compared to longer distance liners.

1.3.5. Each Bass Strait operator provides an overnight inbound and outbound service which integrates with road transport, allowing daytime deliveries to Mainland and Tasmanian destinations. While these services are efficient, timely, frequent and reliable, they do not cater for shippers seeking a cheaper, less frequent and not-time-critical service.

1.3.6. The three service operators across Bass Strait have market shares as follows: Toll-ANL 54%, Searoad Shipping 25%, TT Line 21%. These numbers suggest a relatively high degree of concentration within the industry, which implies the level of competition is lower than for international services. A counter-view is that the low volume of trade is likely to dictate that the present number of operators is about appropriate, given the relatively high fixed costs operators incur; fragmentation of the market may well require higher prices for services to ensure sustainability of operators.

1.3.7. The service provided by TT-Line is often referred to as an express service due to its faster travel time. It is important to move food and agricultural produce, fresh and refrigerated seafood, expeditiously, and premium freight charges are explained by this feature of TT-Line services. Of all freight users, about 50% want an overnight service, while some 15% require it, because of the perishability of their freighted product and because of the nature of their business practices (such as Just In Time stocking systems which eliminate high warehousing expenses) which have been built around a high frequency of deliveries.

1.3.8. Many individual groups' supply chains are very efficient as a result of reliable shipping services and transport services that co-ordinate with shipping.

1.4. In identifying the freight task, it may be difficult to determine the exact breakdown of costs involved in all components of a door-to-door operation involving sea freight; in particular, what part of the total cost should be attributed to the wharf-to-wharf component. Only if this element can be identified can we determine the actual cost disadvantage compared with road freight. Because many freight forwarders express their invoices in terms of the total door-to-door movement, the actual wharf-to-wharf cost is uncertain. Relying on the TFES allowance of deducting $460 for door-to-door costs can be misleading. This point can be illustrated by real-life examples:

1.4.1. Example 1: Consider a sawmiller who transports 24 cubic metres (m^3) of sawn timber from Northern Tasmania to a destination 35km from the Port of Melbourne. The transport task is relatively straightforward. Timber is loaded on a flatbed trailer at the sawmill, transported directly to Devonport, unloaded onto a 6.1m base on the wharf and moved by RORO infrastructure onto the ship. In Melbourne, the reverse occurs. For this movement, whilst there is obviously an intermodal cost, handling on the wharf is minimal.

1.4.2. Example 2: If this sawmiller transports the same timber from Northern Tasmania to the same destination, but using a different freight forwarder, a

different process must occur. Because the ship to be used prefers to move containerised freight, the goods are loaded onto a flatbed trailer at the sawmill and transported to the freight forwarder's depot to be containerised. The container is transported to the wharf for shipment, unpacked in Melbourne and delivered to its destination via a flatbed trailer. Given this scenario, it could be argued that any cost relating to containerisation, including transport back to the depot, container hire and handling at both ends, demurrage, should be included in the wharf-to-wharf cost as if this had been a mainland origin to mainland destination job the goods would have been delivered on the flatbed trailer.

1.4.3. Example 3: If this sawmiller transports the same timber from Northern Tasmania to South Australia, then because the timber would most likely be containerised for rail in Victoria, there is less of a disadvantage in loading into containers in Tasmania.

1.5. These examples illustrate that the calculated value of disadvantage experienced by transporting the same $24m^3$ of timber can vary greatly. The true wharf-to-wharf costs, including any intermodal allowance, vary and can be complex to calculate. In the first example, the only disadvantage is in moving the load off the flatbed onto the ship and back onto the flatbed. In the second example, the only reason for containerisation was to enable shipping; therefore all of the expense incurred should be attributed to the intermodal costs. In the third example, the timber would have needed to be containerised in any case, so the fact that this occurred in Tasmania was of no disadvantage.

1.6. There is a maximum rate of assistance payable of $855 per Twenty-Foot Equivalent Unit (TEU) regardless of the calculated disadvantage. This creates inequity between larger and smaller shippers. Because larger shippers are able (as might be expected) to negotiate volume discounts based on the frequency of their usage of a service, and in consequence receive a lower TFES rebate, they are less likely to 'cap out' as freight costs increase over time. Smaller shippers who do not benefit from the same volume discounts have already experienced freight cost increases pushing rates beyond where some of the increase is offset by the TFES rebate.

1.7. To illustrate, the cost of transporting sawn timber from Northern Tasmania to Western Australia in 2012 was approximately $4000 per TEU, excluding GST. The cost to move timber from Victoria to WA was approximately $3000. With freight equalisation the Tasmania to WA rate (post-TFES benefit) becomes 4000 – 855 (maximum assistance) = $3145 per TEU. In this case the TFES rebate effectively offsets the disadvantage of shipping across Bass Strait. With recent freight rate increases the cost to deliver from Tasmania to WA has risen to $5250. The net cost after the maximum $855 assistance becomes $4395. In contrast the Victoria to WA rate has risen to just $3200. With no additional freight equalisation rebate for the Tasmanian shipper, the net rate is $1195 greater than the rate from Victoria. The increased rate is largely a result of increased shipping costs across Bass Strait, but with the limitation of the cap, the disadvantage is no longer being addressed.

1.8. It might be suggested that one method of increasing competition and putting downward pressure on shipping costs is to introduce additional players into the market. It is not a simple matter to enter the Bass Strait shipping trade due to high

barriers to entry arising from the need to gain access to ports, the high cost of assets, relatively low and irregular volumes, the high cost of infrastructure, and the need to have the benefit of complete supply chains enjoyed by existing operators, such as the existence of vertically integrated services. The attempt by Agility Logistics to overcome these entry barriers and introduce a weekly service from Bell Bay to Melbourne failed in August 2011, not being commercially viable. It might also be argued that an attempt to introduce too much additional capacity in the Bass Strait run could undermine the viability of existing operators and put Tasmania's efficient and reliable shipping services at risk.

1.9. Another way to increase competition is to encourage volume growth, which would make shipping capacity increases viable. This clearly is largely a function of the general level of economic activity whose growth can be encouraged by actions of governments and private enterprise operators. As economic activity gradually recovers to its normal growth rate, and private sector developments appear on the scene, there will be opportunity for a greater level of competition.

1.10. There has been significant investment in the state–owned rail network in Tasmania, including the construction of an intermodal hub at Brighton in the south of the State, substantial track upgrades, investment in new rail assets as well as upgrades to Burnie and Bell Bay ports. For rail infrastructure to contribute to a truly competitive freight system, shippers must be able to choose their preferred carrier. Because not all ports can be accessed equally via a rail service, shippers' choices are constrained. The investment by Toll in the Brighton hub gives them a preferred and fortified position as the port of Burnie is well serviced by rail, while Devonport is less well equipped.

2. Identify the factors inhibiting the provision of international shipping services to Tasmania.

2.1. A recent study[2] into the viability of an international container service established that international exports represent about 17% of overall container movements from Tasmania and is comprised of a diverse range of commodities and destinations. Approximately half of the exports are destined for the Asia region. It is estimated the total international market in Tasmania is 48 000 TEU comprising 37 000 export and 11 000 imports. An implication of this imbalance is that there will be a need to access empty containers in excess of those arriving with imported goods so that exports are facilitated. It is difficult to be more precise as to the number of containers and their destinations as the availability of freight data is scarce. Reliable and reportable data does not exist in the public domain at a level that is helpful for analysis of the freight system.

2.2. There is a challenge of insufficient volume to attract a viable service for both imports and exports and with seasonality. It would require an ongoing commitment from all exporters to support the volumes required to establish a commercially viable service. With just 37 000 export containers per year, it is realistic to expect that a direct international service with a relatively small container ship, of approximately 1500 to 2000 TEU capacity could only call on a fortnightly basis. This implies an approximate two-week delay between sailings, and would immediately exclude a number of exporters where this timeframe is not appropriate, especially if goods are of a time-sensitive nature, such as fish and vegetable products. With the diverse destinations to which Tasmanian businesses export, there is also the challenge in determining to which port the ship would call, recognising that at least 50% of the freight would need to be transshipped to other global destinations.

2.3. Tasmanian exporters face significantly higher costs following the cessation of direct shipping. Goods must be transported to either Devonport or Burnie for transhipment through Melbourne. These steps add to the complexity and cost with an estimated additional cost of $1000-$1300 more per TEU. In addition, Tasmania's ports face challenges regarding access by larger ships, more common in international container lines. For example, no northern Tasmanian ports are capable of handling ships which could carry 5000-plus TEUs. We observe that international container ships of 10 000-plus container capacity are quite common.

2.4. There is an argument that a commercially viable service is not possible, as evidenced by the cessation of the AAA service that operated until April 2011. A number of factors led to this service pulling out, including reliability, aggressive competition and logistical factors. However, the fact remains that if the service was commercially viable, it would still operate in Tasmania.

2.5. The most logical hub for all Tasmanian exports is Melbourne, with its large number of international calls, daily services to Asia and every other day services to Europe and the Americas. However, this is not the cheapest option because it involves shipment across Bass Strait. If the only way a direct export service from Tasmania can be encouraged is via a large subsidy, and this service cannot support all exporters (because of the diversity of destinations), then the preferred option is to allow a TFES rebate for export goods to be transshipped.

3. Examine the competitiveness of Tasmania's freight industry, economic infrastructure and possible reforms that would assist in enhancing effective competition, investment and productivity growth.

3.1. The Aurecon Report[(1)] into Tasmanian Supply Chains uncovered the following key findings:

3.1.1. An efficient, timely, reliable and frequent service is provided by three shipping providers. The existence of three providers is a benefit as it enables a degree of contingency should interruptions occur.

3.1.2. Individual supply chains are very efficient as a result of reliable shipping services and co-ordinated transport services to meet shipping. Goods produced from almost anywhere in Tasmania on one day are able to be shipped that evening and delivered into mainland markets by the following day.

3.1.3. Tasmanian businesses have adjusted their supply chains to take advantage of the frequency and reliability of freight services. While only a small percentage of freight users (15%) need an overnight service, about half of the freight from Tasmania takes advantage of it. Some Tasmanian businesses derive no particular value from an overnight shipping service, but in the absence of an alternative must pay for this service level and use these services.

3.1.4. The benchmark Hobart to Melbourne cost of shipping is $1403 per TEU. With TFES assistance this can reduce to $886 (assuming the benchmark is a door-to-door rate). A comparable journey on the mainland using road transport costs between $564 and $799. Tasmanian road freight is priced similarly to mainland road freight. An indicative freight rate for a two TEU load is between $1.09 and $1.25 per km per TEU. There are several road freight providers and this market is competitive.

3.2. Freight users with low volumes or who have highly seasonal requirements will pay more than large-volume consistent shippers. Large freight users enjoy considerable discounts to nominal rates. There has been a reduction in costs and improved service through shortening lead times, removing logistics steps, improving asset utilisation and introducing automation where appropriate. There is evidence of planning shortcomings across Tasmanian supply chains and this is where opportunities for improvement lie, e.g. collaboration in filling containers.

3.3. The movement of empty containers appears to be excessive with more than 25% of the total freight task being empty containers. Sourcing empty international shipping containers can be difficult. Tasmania faces an imbalance of freight. Fewer international imports arrive than leave Tasmania, which means that empty containers must be brought in. Shipping providers always favour full containers over empties and when capacity is tight fewer empties are shipped. This can create difficulties for exporters and their customers. In this situation exporters must either stockpile export containers during a less peak time, which implies a cost to store, or adopt an alternative and delay the export of goods. Bass Strait shipping capacity is constrained at times. In the lead up to Christmas it can be difficult to move inbound

freight and around harvest time in Tasmania (February to May) some freight is not shipped because of capacity constraints.

3.4. There are competing plans for the development of Tasmanian ports. Some interests wish to see Bell Bay developed, whilst others advocate development at Burnie. The existence of competing development plans creates uncertainty for business investment. Shipping options are constrained. Should rail be the preferred form of linehaul from Hobart, as is the case with heavy freight, the only shipping option is to send freight via Burnie. This would then dictate that all containerised freight utilising rail must use the Toll Shipping service.

3.5. When considering reforms that would enhance investment and productivity growth for Tasmania it is important for these reforms to offer confidence for future investment. In evaluating the economic cost-benefit analysis, it is necessary to look beyond the direct implications to individual firms, and to look at the economic benefit to Tasmania as a whole. Although possibly beyond the scope of this review, consideration should be given to the long term social and economic benefits that increased economic activity generates for a small community such as Tasmania. If freight challenges are the only barrier to new business developments, will relief from those encourage broader development in the state, employ more Tasmanians, and reduce reliance on welfare payments. The flow-on effects that meaningful employment brings in the form of reduced health costs and greater social inclusion are an addition to strictly economic benefits. If so, the cost of extending freight support to exports will generate additional externalities that improve the underlying economic value flowing from such an extension.

4. Assess the merits and weaknesses of the current arrangements for supporting freight and passenger services between the mainland and Tasmania and provide recommendations on an appropriate future approach and/or arrangements.

4.1. The current mode of assisting freight services across Bass Strait is via the Tasmanian Freight Equalisation Scheme (TFES). This scheme, established in 1976, is designed to provide an offset to cost disadvantage faced by Tasmanian shippers in comparison with their mainland counterparts who have available a variety of ways in which freight can be moved, and for which, in general, lower costs prevail. The scheme's justification, the need to provide assistance payments to shippers who must employ sea transport for most northbound and southbound goods, arises from an inability to utilise road or rail transport for goods transport as Australian mainland producers are able to do. This fact introduces some cost disadvantage, in comparison, which is faced by Tasmanian producers. Only very valuable, and/or perishable, goods will be freighted by air.

4.2. TFES provides a rebate based on a notional road freight cost over a distance of 420km, with an additional allowance for inter-modal costs of $100 for transfers to or from a land-based transport facility for each sea voyage. The 420km land distance is comparable with the shortest sea journey between the north of Tasmania and the Mainland.

4.3. Current assistance payments are calculated on a standard twenty-foot container (TEU) based on a variety of parameters that were established by the Nixon Review in 1998, which found a median wharf-to-wharf shipping cost to be $671 per TEU. A scale of assistance payments was established which was intended to provide an incentive for shippers to seek lower freight rates, and set a maximum rate of assistance per TEU at $855.

4.4. The scheme thus provides some degree of offset to freight cost disadvantages incurred by Tasmanian producers selling on mainland markets. It has been suggested the road freight equivalent (RFE) figure of $281 per TEU over a distance of 420km is still a reasonable approximation to current road freight costs due to technical improvements in road freight operations, such as the use of multiple container loads, higher capacity utilisation of vehicles, and a more efficient standard of vehicles. However, it can be (and has been) argued the inter-modal allowance has become increasingly anachronistic and fails to reflect actual on-the-ground costs of intermodal transfer.

4.5. Claims are made by shippers, with supporting paperwork, and assessed by Tasmanian Transport Programs (TTP), which handles the TFES administration in accordance with Ministerial Directions[4] issued by the Department of Infrastructure and Transport. An advantage of its administration is that funds are delivered to intended recipients directly, and are not filtered through an additional bureaucratic, or freight forwarding, mechanism. Because the claims process is independent of freight forwarders, TFES assistance is delivered to shippers incurring the cost disadvantage at arm's length from the freight charge, based on a wharf-to-wharf cost, and excluding other charges relating to the freighting exercise, such as a loading for door-to-door service.

4.6. The current assessment process for claimants other than self-assessors is robust, as each individual consignment is assessed for its eligibility. This can be time consuming. Instead of the scrutiny of every line of a claim, a sampling process could be adopted for claimants with a track record of lodging accurate claims. It should be sufficient to examine, say, one in every ten claims. This would permit assessing staff to concentrate on claimants with more difficult claims, saving both time and resources for the TTP and expedite assistance to the claimant.

4.7. TFES assistance does not extend to exports. Tasmanian export goods transshipped through Melbourne or any other mainland port do not attract assistance for the Bass Strait component of the voyage. NSF-T asserts that paying assistance on account of a freight cost disadvantage (which is the purpose of TFES) would not contravene WTO rules as the assistance is not a subsidy payment related to the production cost of the good. A subsidy payment would be aimed at lowering the revenue required from the good's sale in order for the good's producer to be enabled to sell it competitively on a foreign market. At present, in order for an export good to be eligible for TFES assistance, it needs to be 'value added' on the Australian mainland. This nonsensical notion insists that a trivial manufacturing process needs to occur to eliminate the disadvantage to a Tasmanian producer.

4.8. Based on Aurecon's assessment[(1)] that exports comprise 37 000 TEUs and the current average assistance per TEU is $706 (based on the domestic scheme), then extending the Scheme to include exports would cost approximately $26m per annum. Considering that the assistance paid on a significant proportion of exports (e.g. zinc and newsprint) would be substantially less than the $706 per TEU, we estimate that the inclusion of exports into the scheme would cost less than $20m per annum.

4.9. Southbound freight assistance is complicated by two criteria. The first criterion is that the receiver of the goods must have an Australian and New Zealand Standard Industrial Classification[(3)] (ANZSIC) relating to manufacturing, mining or primary production. The second criterion is in identifying the eligibility of the goods used in these sectors.

4.9.1. Determination of the sector to which an inwards shipper belongs is by reference to the Australian Business Register (ABR) which identifies its ANZSIC code. This code is the one used by the Australian Bureau of Statistics (ABS) in collecting data for publication, and its primary rationale is to, ". . . identify groupings of businesses which carry out similar economic activities, (so that) any individual business can then be assigned an appropriate industry category on the basis of its predominant activities[(3)]." The aim was to make published statistics comparable internationally.

4.9.2. Whilst the ANZSIC can correctly identify a business in terms of its predominant activities, problems can arise in applying the ANZSIC coding for other purposes, in the present case to determine the type of activities carried on within a firm for which TFES assistance is available. Each firm is allocated only one ANZSIC, even though the firm's activities may have changed since the code was first allocated. It is possible for a firm to change its code, but only to one within the confines of a single activity specified within the ANZSIC, even though its productive operations range over more

than one classification. This means the firm will be precluded from applying for TFES assistance for any associated, non-predominant, productive activity, for example if it is vertically integrated in both agricultural and manufacturing operations.

4.9.3. Consider a joinery and construction firm, which is predominantly involved in construction of homes, but also has significant joinery operations. If the predominant activity of this firm is construction then the firm is not eligible for Southbound TFES assistance, as construction is not classified under mining, manufacturing or primary production. However, if their predominant activity was joinery they would be eligible for TFES assistance on imported inputs (subject to eligibility) into activities relating to joinery, as joinery is classified as manufacturing.

4.9.4. Consider a firm which grows vegetable products and further manufactures them with some additional imported inputs. If this firm is classified as a primary producer, inputs into the growing of the vegetable produce (fertiliser, seeds) are eligible for TFES assistance. However, inputs into the manufacture of the value-added product (capital expenditure on plant and equipment, additional imported vegetable product), are not eligible for assistance. Conversely, if the firm is classified as a manufacturer, then inputs, such as capital expenditure on plant and equipment and additional imported vegetable products, become eligible for assistance, but inputs such as fertiliser become ineligible for assistance. Perversely, both activities of the integrated firm would be eligible for assistance if they were undertaken independently of each other.

4.9.5. In each of the two above case studies, the firm concerned could create a new business by hiving off the activity which is disqualified for assistance if it were within the integrated firm, and carry on that activity in the new business. However, this would be (and in practice is) regarded as being an inefficient way to organise activity, as well as making the firm liable for a variety of additional expenses and statutory fees which would be likely to exceed the marginal benefit gained by becoming eligible to claim TFES.

4.9.6. The point of the above discussion is that a classification system designed for a completely different purpose has been grafted into a new and unintended usage. It is questionable whether it is legitimate or appropriate that an industry classification system, developed to ensure that published statistical collections are comparable across international borders, should be applied in the rigid and inflexible manner for some exercise completely different from the original intended application of the system, as is now the case. It is clearly possible for a firm's productive activities to range over several industrial classes. It is illogical to deny such a situation.

4.9.7. NSF-T recommends that a firm should be able to claim on the basis of its activities, as opposed to its predominant ANZSIC classification. Consider a firm involved in an agri-tourism venture that grows berries and produces jam. Under the current interpretations of the Ministerial Directions[(4)], if this firm were classed predominantly as a tourism venture, this firm is not eligible for assistance under the Southbound component of the Scheme.

Under NSF-T's recommendation the imported inputs into the berry-growing operation would be eligible for assistance under the agricultural component, the inputs into the jam making process would be eligible under the manufacturing component, while none of the inputs into the tourism venture would be claimable.

4.10. Assistance under the TFES is capped at $855 per TEU. As freight costs have increased over the years since this limit was set (in 1998) smaller shippers have become disadvantaged by its existence. Over the past five years, in the experience of NSF-T, freight costs faced by smaller shippers have risen on average by 21%, such that the door-to-door cost has risen to (and sometimes above) the capped amount, which passes any cost disadvantage entirely to the shipper. Small shippers do not have the capacity to negotiate preferential rates as do larger shippers, and many have accordingly reached the maximum rebate. An increase in the cap would have a relatively insignificant impact on the Scheme's annual expenditure, as the larger shippers whose claims represent 75% of the total TFES expenditure are yet to reach the cap.

4.11. NSF-T recommends the cap should be increased in line with annual shipping cost increases.

4.12. There is a lack of transparency in reviewing a claim which has been rejected, or reviewing the eligibility of goods deemed ineligible for assistance. At present, a request for a review is submitted in writing to the TTP, which conducts an internal review. Should the initial decision to reject a claim not be overturned, a second request for a review must be submitted, again to the TTP, which will escalate the review to the federal Department of Infrastructure and Transport. At no point in these processes is there an opportunity for a dialog between the claim submitter and an assessor to resolve the issue. This is frustrating for claimants, as reasons for rejection are not identified, and the onus is on the claimant to provide additional information without the benefit of knowing the context of the requirement.

4.13. NSF-T recommends that once a process of review has been undertaken and is not solved by the initial review, claimants have the opportunity to engage directly with a senior assessor to expedite the clarification process. This introduces transparency into the review proceedings so that both the aggrieved claimant and the Scheme's administrators can more efficiently resolve the issue. Such a procedure will save time, resources and expense for claimants and the TTP.

NSF-T makes the following recommendations:

1. Retain the current system maintaining the arm's-length relationship between freight forwarders and shippers [Para 4.5].
2. Claimants should be able to claim for eligible activities, and not be restricted to only those within their defined predominant activity under ANZSIC [Para 4.8].
3. The maximum TFES assistance per TEU should be increased in line with annual shipping cost increases [Para 4.9].
4. The claims process should include an improved review system [Para 4.11].
5. The intermodal allowance should be substantially increased to reflect real and unavoidable costs [Paras 1.4, 1.5 and 4.4].
6. TFES should be extended to include transhipped exportable goods to mainland Australia [Para 4.7].
7. Adopt a sampling-based procedure for assessing claims [Para 4.6].

References

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For Further Comment

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