TASMANIAN FARMERS & GRAZIERS ASSOCIATION

Submission to:

Productivity Commission Inquiry into Tasmania's Shipping Costs and the Competitiveness of the Tasmanian Freight Industry

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ABOUT THE TFGA

The TFGA is the peak body representing farmers and, more broadly, agriculture across Tasmania. It is one of the state's foremost and respected lobbying and advocacy organisations. TFGA members are responsible for generating approximately 80% of the value created by the Tasmanian agricultural sector. The TFGA also takes a keen interest in the well-being of the rural communities within which members live and work, as well as member enterprises themselves.

Operationally, the TFGA is divided into separate councils that deal with each of the major commodity areas. As well, we have a number of standing committees that deal with cross-commodity issues such as climate change, biosecurity, forestry, water and weeds. This structure ensures that we are constantly in contact with farmers and other related service providers across the state. As a result, we are well aware of the outlook, expectations and practical needs of our industry.

TFGA is dedicated to proactively generating greater understanding and better-informed awareness of farming's modern role, contribution and value to the entire community. The keys to our success have been our commitment to presenting innovative and forward-looking solutions to the issues affecting agriculture, striving to meet current and emerging challenges, and advancing Tasmania's vital agricultural production base.

AGRICULTURE IN TASMANIA

The total Tasmania gross state product (GSP) was $23.9 billion for the 2012 year. The GVP of agriculture, forestry and fishing collectively amounted to almost 9% of this total, which is well above that for the nation as a whole.

In 2010/11, the farm gate value of production (GVP) of agriculture, forestry and fishing was $1.98 billion. This comprised:

- agriculture - $1.150 billion;
- forestry - $235million; and
- fishing - $597 million.

This is before considering input supply services and value-adding. Taking into account basic multiplier factors, this means the farm-dependent economy contributes more than $5.0 billion to the gross state economy - in spite of adverse pressures on the forestry industry.

Over the past 25 years, the average annual rate of increase in farm gate GVP has been close to 4%. Average growth in the farm GVP over the recent past has been slightly slower than in past years. This reflects reduced export returns due to the high value of the $A and increasing cost pressures along the value chain.

Milk and milk products followed by livestock and livestock products were the main sector contributors to farm production value.

However, this was partly offset by reduced vegetables output associated with severe wet weather at harvest in the first quarter of 2011.

The preliminary Tasmanian government Scorecard data for 2010-11 (prepared by DPIPWE) indicates the wholesale value of food and beverage production has remained steady, roughly in line with the previous year at $2.7billion This demonstrates the important role that the processing sector plays in adding value to farm gate returns and the fortunes of those who live and work in the farm dependent sector.

Furthermore, the inclusion of forestry as a long cycle crop enterprise in farming businesses in the state means that the overall economic contribution must include these figures too. Our best estimate is that in 2009/10 this added a further $400 million to farm gate income. Clearly, as a result of the uncertainty currently evident in this sector, that figure has fallen significantly since then. Nonetheless, on a long term outlook, forestry remains an integral part of a diversified farm business. Compared to the previous year, growth in agriculture GVP has broadly offset the fall in forestry GVP.

The vast bulk of our agricultural product is sold interstate and overseas. Farm exports in 2010/11 easily exceeded $550m (farm gate equivalent value) when account is taken of pharmaceutical products. The share of exports to Asian destination exceeded 50%. In addition, it is estimated that a further $1.8 billion of raw and value-added product was shipped to the mainland.

In 2011/2012, total exports from Tasmania were valued at $3.196 billion. Agricultural products represented some 30% of that total – approximately $1 billion. Almost 25% of total exports ($502 million) were destined for ASEAN countries. Agricultural products valued at approximately $121 million represented 25% of that total. ASEAN countries have become increasingly important destinations too, with overall exports increasing marginally over the past three years; and food exports alone increasing significantly from $71 million to $96 million over the period 2009/2010 through 2011/2012. Major products exported to ASEAN countries included dairy ($42 million); seafood ($32 million) and wood products ($20 million estimated from private forestry sector). Key destinations included Japan (35%), China (21%), and Hong Kong (21%).

Some 10,500 people were employed directly in agriculture forestry and fishing. A further 8,500 people were employed in services to agriculture and food and fibre value-adding. This is close to 9% of the working population in Tasmania.

Farmers are also significant land managers in the state, with almost a third of Tasmania's land area of 68,300 sq km committed to agriculture.

These figures clearly confirm the importance of the sector as an economic driver for the state's economy – and also demonstrate that agriculture is a more significant contributor to the Tasmanian economy than in any other state. With this in mind, it is clear that Tasmania needs to ensure that the agricultural base of the state remains competitive and profitable.

OVERVIEW

This submission is made against the background of the December 2006 PC consultation and analysis detailed in 'Tasmanian Freight Subsidy Arrangements', Report No 39 and BITRE – Tasmanian Freight Schemes – Parameter Review, 2013.

The Terms of Reference for this inquiry cover many of the issues and the consultation that took place in 2006. Given the short notice for submission and industry consultation, TFGA's comments are essentially made in the context of the 2006 PC findings and the latest 'parameters' data.

GENERAL COMMENTS

By way of opening comment, it is first necessary to define what exactly *a subsidy is* and what *is not* a subsidy. The TFGA believes that the Tasmanian Freight Equalisation Scheme (TFES) and the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES) are not subsidies.

These schemes exist to address specific freight and people movement disadvantages across Bass Strait on terms that seek to 'equalise', offset or compensate to a level that equates with the cost of conducting the same activity over a similar 420 kilometre distance by road or rail on the Australian mainland. The justification for doing so is underpinned by Australian federation of the states. There are a number of precedents in similar circumstances in the UK, US and Canada.

The Australian Government spends in excess of $3.0 billion a year on construction, upgrade and maintenance of highway road and rail infrastructure on the mainland. In the context of Tasmania, where there is no inter-capital-city road or rail link, the annual upgrade and maintenance costs that apply to mainland road and rail infrastructure are avoided over the 420km of Bass Strait. The TFES and BSPVES are thus seen as the equivalent annual recurring Australian government expenditure on the mainland, in the absence of feasible infrastructure alternatives.

The Bureau of Infrastructure Transport and Regional Economics (BITRE) has recently updated road and rail freight parameters applied to calculating the freight disadvantage across Bass Strait. TFGA is not in a position to judge whether the road freight equivalent (RFE) determined by BITRE is representatively based on "a B-double truck carrying three TEU's to estimate the land transport freight equivalent for TFES RFE parameters with a level of empty running of 30%" (BITRE 2008, 2010).

This definition, and the resultant road cost calculation, underpins virtually all sea freight disadvantage calculations. So it is important that this data is correct. This also highlights the shortcomings of a 'notional' calculation.

It is evident the Productivity Commission (PC) considers that the TFES is not well-targeted assistance or justified on the basis of recognised cost disadvantages that mainland users do not suffer. It is also clear from the 2006 inquiry that the PC considered such funding would be better spent on more tightly measureable regional projects.

While this is easily said, the TFGA believes that many such projects must be evaluated in the context of a relatively small and static population and the added difficulty of achieving a return on such projects.

It is inferred from the previous PC findings that the main focus of the current review is on cutting the cost of the TFES and this appears to be supported by the implementation of new rebate payment systems, with reference to recently updated and publicly released BITRE freight rebate parameters.

However, it is important to recognise the steady 'real' decline in the cost of TFES assistance over the years.

Although the Inquiry Terms of Reference (TOR) concentrate more heavily on current Bass Strait freight and TFES arrangements, the TFGA believes that the TFES should be broadened to cover imported and exported freight. These activities are currently excluded from coverage within the TFES, supposedly on the basis of potential breaches of World Trade Organisation (WTO) rulings.

Since May 2011, when direct shipping from Tasmania to international markets ceased, export and import freight must (for the most part) enter and leave Australia through Melbourne port – especially if delivery is time sensitive. This sensitivity applies to close to 90% of the mostly perishable product freight that leaves Tasmania.

TFGA believes that the loss of this direct shipping option for freight that is exported through the nearest mainland port from northern Tasmania to qualify for TFES without undermining WTO compliance. This is based on the view that obligations under state federation take precedence over international trade obligations under WTO. However, and more importantly, the application of TFES to exports would help to encourage current and new industry value-adding in Tasmania, thereby reducing the level of what is often expensive product freight that is shipped for processing on the mainland.

More broadly, the TFGA believes that a 'one-in all in' freight and passenger scheme based on the concept of a 'notional land bridge' for all users would, in the long run, serve the Tasmanian state economy and community better than the "current discriminatory TFES arrangements" (PC Report 2006, page 98) under current TFES and BSPVES.

The cost of passenger and vehicle entry and exit is as prohibitive as that for freight. Access availability is variable and logistically demanding compared to travelling over a similar 420km distance on the mainland road highway system.

Since 2006, significantly lower airfares have supported time-poor business and short-term travel users to and from Tasmania. In contrast, the sea-based traveller and visitors with vehicles (especially recreational vehicles) are deterred from entering the state by the high relative cost compared to mainland land-based travel.

This must surely be of greater concern in the face the metrics now dominating the Tasmanian economy. These include unemployment 30% higher than the mainland average, lower GSP per capita, significant labour fly-in fly-out workforce, and high rates of asset under-utilisation, especially in the tourism industry.

While difficult to demonstrate, it is believed that the Bass Strait barrier to state competitiveness may be under-estimated and not helped by coastal shipping policy. The PC 2006 report (page 68) referred to the Interstate Commission (ISC) 1985 view "… a case for subsidies to be paid to Tasmania shippers to offset the adverse affect on them of government transport policy decisions that kept the cost of coastal shipping higher than would otherwise be the case". This applies as much to the movement of passengers and vehicles as to goods freight.

It is further noted from the 2006 inquiry that the Victorian government "saw an overlap between AusLink (infrastructure) objectives and those being pursued by Tasmanian freight schemes" (page 98). Put another way, the competitiveness of much of the economic activity that takes place in Tasmania revolves around Bass Strait freight and passenger delivery as a key link in the national infrastructure highway.

Although the PC has previously questioned any parallel between assistance programs and infrastructure, the significant recurring budgetary expense in TFES and BSPVES avoids the capital maintenance and upgrade cost of the national land-based rail and road highway system.

The TFGA agrees with the PC view (PC 2006, page 103) that assistance may be better targeted at specific regional infrastructure projects. However, we remain concerned that the payback on those projects hinges on (and is perhaps even undermined by) the competitiveness of Bass Strait for all but very high-value product that can be despatched by air. This concern extends to those contemplating commercial investments in the state – including the relative attractiveness of foreign investment (all other things being equal).

Also, relative to the Australian mainland, the priority that state highway road and rail infrastructure would ordinarily attract needs to be balanced off against investments that possibly contribute to a better Bass Strait outcome at port in intermodal flexibility or scale, or in the efficiency of the shipping service itself.

There is less to be gained from putting bitumen on the road if a little further along that road is impassable because of a landslide.

In the above sense, the TFES and BSPVES are only there to offset a disadvantage that is not easily addressed with upstream infrastructure.

However, to the extent that infrastructure can assist, there would seem to be a reasonable argument for concentrating the infrastructure effort on versatile goods handling at port and multi-part vessel technology that supports improved practices and shipping efficiency.

In the 2006 Inquiry, the PC went to great lengths to assess the efficiency of the TFES assistance model and came to the view that a much tighter focus on and transparency of wharf-to-wharf costs (and unbundling) was needed to clearly identify the shipper freight disadvantage.

As this is the basis of shipper rebates under the Ministerial Direction, the TFGA concurs with this view and supports itemised invoicing of the unbundled wharf-to-wharf shipping cost from which the notional 'equivalent' land based freight cost for 420km is deducted so as to determine the rebate.

The TFGA also supports increased DHR (Centrelink) scrutiny of northbound freight invoicing along similar lines to the review procedures that now applies to southbound freight invoices – under the Ministerial Direction.

As was the case in the 2006 inquiry, the TFGA stops well short of supporting a flat rate rebate per TEU due to the variability in freight rates, range of freight activities and uncertain impact, especially on small or irregular shippers. As shippers of highly perishable product generally face relatively higher shipping freight rates, a flat rate structure is likely to hit such shippers harder.

Nevertheless, the higher shipper freight cost that small and irregular shippers have to pay (as confirmed in the PC data analysis) would seem to justify greater billing transparency. Larger regular shippers can be expected to negotiate lower sea freight costs than smaller less frequent users. The question of whether smaller shippers that comply with effective ship loading (full container) utilisation should be unduly penalised – needs to be monitored and open to review – possibly on a confidential basis.

In the 2006 Inquiry report, the PC indicated a view that, if the desired level of wharf-to-wharf pricing transparency fails to be achieved, the case for applying a flat rate rebate payment to shippers would be significantly stronger. The TFGA does not consider this follows or that this is a realistic alternative option.

In relation the Tasmanian Wheat Freight Scheme (TWFS) applying to southbound wheat freight, the TFGA believes that the reduced scheme complexity (applying to wheat only) and the consistency of container volumes enables the application of a flat rate price structure.

The flexibility of container movement of grain product means that there is a basis for their use in preference to bulk shipping in most circumstances – other than drought. However, the TFGA agrees with the PC that the most accurate data should be applied to the calculation of the Bass Strait freight disadvantage in setting the TWFS rebate.

It is anticipated that BITRE's recently updated road transport and shipping parameters will be argued in the course of the current inquiry. This obviously will include those for container wheat freight. However, apart from the rates themselves, the TFGA considers that levels must aim to achieve minimum distortion in production decisions and product flow between Tasmania and the Australian mainland.

It is not clear from the 2006 Inquiry as to whether the PC had a view as to how empty containers should be treated under the TFES into the future. Nevertheless, it is clear that the shipping/return of empty containers is an increasing cost to the scheme. This is particularly the case for international containers. While this cost must obviously be paid for, the way in which it is recovered should be known and shown in a transparent way. To the extent that there are measures that would help to standardise container configurations in both container sizes and heights, operational efficiency would be assisted in a number of areas.

The issue of refillable containers does not seem to be fully addressed in the 2006 report. It is noted that single use containers and packaging are eligible for TFES; but that multi-use packaging and containers are not. TFGA believes there should be no discrimination between single and multi-use containers and packaging. This is especially important for fresh produce, as the market has moved strongly over recent years from single use cardboard cartons to multi-use plastic crates.

Regarding regularity of road and rail freight rate reviews, the TFGA does not consider it acceptable to have three (initially five) year reviews. We are supportive of the concept of a moving average to even out short term variability.

COMMENTS WITH RESPECT TO TERMS OF REFERENCE

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

The 2006 PC Inquiry established that Bass Strait freight rates were at the time equal to or higher than most other short haul sea freight distances around the world. This continues to be the situation today – with sea freight rates from northern Tasmania to Melbourne port being similar to the freight rates for the same product from Melbourne port to Asia shipping hubs and beyond.

As the PC has previously pointed out, the relatively short distance across Bass Strait does not suit a shipping efficiency mode, which, for the most part, favours longer hauls with weight being less of a constraint than for road transport.

Further, the PC has pointed out that Australian coastal shipping policy does not assist competitiveness in respect of manning, wage rates and access by international flags and consultation at the time identified that overhaul of this policy area is long overdue.

On the product supply side, as much of cargo is perishable food that goes to predominantly mainland markets, shipping timeliness and quality control are integral to the service.

The loss of a regular direct shipping service to international markets from Tasmania further hinders shipping competitiveness. The Port of Melbourne (with its associated freight and port costs) now effectively controls Tasmanian exports to international destinations.

While recent discussion has pointed to the potential for increased air freight, this will only ever be a realistic option for high-value and generally perishable products.

Agricultural produce accounts for some 30% of total northbound freight; and it tends to be perishable and subject to seasonal demand.

From a farming viability perspective, farm production is necessarily diverse in order to manage and mitigate risk management. Apart from generally variable demand and uncertain prices in niche markets, high-value production generally accounts for a relatively small proportion of product supply.

From a freight shipper perspective, the demand for freight service into the future reflects a significant element of 'chicken and egg'; that is, it is contingent upon Bass Strait service cost, reliability and competitiveness. This means that shipper demand projections are hard to make with absolute confidence.

On the infrastructure side, it is fair to say that the Bass Strait shipping service is delivered with relatively old shipping technology. Against this, with ship size and scale increasingly dominating over port capacity and timeliness – at an international level, there is an emerging demand for faster, versatile, energy smart, short haul feeder vessels to facilitate efficient freight service delivery. This is evident all around the world.

All of these factors affect the competitiveness of the shipping service across Bass Strait. New investment upstream from key northern Tasmania ports would seem to be only part of the solution. As evidenced by under-utilisation of key new tunnel and connector corridors in Australian mainland cities, projected infrastructure utilisation appears easily over-estimated.

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

The Tasmania-based Freight Logistics Co-ordination Team (FLCT) – working with consultants Juturna and Aurecon – reported in December 2013 on this area as part of an internal review.

Under the heading 'The viability of a commercially sustainable international shipping service must be determined by the market', the FLCT said:

"For international exporters/importers, transhipping through the Port of Melbourne adds significant complexity and cost compared to the direct service out of Tasmania. However, it also provides important service choice to exporters.

"Tasmania's international carrier volumes are low, at around 40,000 TEU out of a total container task of 450,000 TEU. Tasmania's exporters are diverse, with different service needs related to their product, cost structures and end destinations.

"The FLCT recognises that while there are market challenges, there is a need to definitively prove or disprove the viability of an international service.

"Initial contact has been made with a number of potential shipping service providers that already operate in Australia. Their feedback indicates that any commercially sustainable service will require a clear commitment from exporters that is large relative to the potential international trade."

The TFGA considers these FLCT observations convey a probable lack of product scale and timeliness of the previous international shipping service – seemingly the main reasons why the service ended in May 2011.

For these and other reasons – including access to containers – the TFGA believes that product destined for export from Tasmania is likely to remain heavily reliant on the Port of Melbourne to gain access to export shipping destinations.

In such circumstances, and until such time as direct shipping can be re-introduced, the TFGA does not consider there is any WTO conflict with the application of TFES to products that are exported and/or imported through the Port of Melbourne from northern Tasmania ports. However, in the event of re-introduction of direct international shipping to Tasmania, it would be anticipated that TFES on products imports and exports would be reviewed.

Conversely, without the application of TFES to exports (in particular), the TFGA believes that value-adding in Tasmania is being disadvantaged. This also potentially increases the level and cost of sea shipment for processing on the mainland.

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.**

In 2006, the PC went to great lengths to point out that the TFES would ideally be replaced by better targeted regional infrastructure projects. More recently, the FLCT report implied that the high level of government ownership of Tasmania's logistics – ports, road and rail – may not have served the state well in achieving increased logistics efficiency.

On the other hand, the TFGA believes that the 2006 inquiry did not demonstrate for Tasmania that infrastructure could fill the competitiveness gap that is otherwise provided by TFES and BSPVES assistance. Rather, the PC appeared to focus on the opportunity cost of the schemes to mainland taxpayers and, on that basis, suggested the funding could be better spent elsewhere.

There seemed to be little understanding of the fact that the Australian government commits more than $3.0 billion per year to highway road and rail on the mainland to help deliver productivity and efficiency gain; yet makes no similar commitment to Tasmania. Inexplicably, this investment does not appear to be equated with the expenditure under the TFES.

It is TFGA's view that the rationale for the introduction of the TFES has not changed and, in fact there is strong argument for expansion of the Scheme coverage in light of changing market dynamics. On that basis, we would argue strongly that the TFES must at least be maintained until better infrastructural solutions would enable it to be removed.

The FLCT observed that internal road and rail infrastructure need to compete harder for freight business, especially on parallel road and rail routes.

Notwithstanding this, the TFGA believes that, at this stage, it is uncertain whether a quantum leap in Tasmania's internal infrastructure would deliver a competitiveness improvement sufficient to eliminate the need for TFES for agriculture sector activity. Of course, this situation may change in the future and we would reassess our views in light of new market arrangements for products.

Further, considering the size, population and economic diversity of the state, the TFGA believes that increased internal infrastructure investment may well under-deliver if it is not closely aligned to achieving a significant improvement in freight intermodal efficiency and scale at (inevitably) fewer northern Tasmanian ports.

The point was made earlier that short shipping routes around the world are increasingly becoming "feeders" to major shipping routes, larger ships and ports. Shipping 'feeder' service infrastructure – including vessels that can provide a high-speed, multi-faceted delivery that substitutes technology for manning and demarcations (and consistent with coastal shipping reform) – could perhaps deliver a more efficient service across Bass Strait.

Streamlining operating infrastructure, such as container standardisation (domestic versus international) and intermodal linkage, would add to potential efficiency gains.

While perhaps helping to access investment funds, it is not currently clear whether alternative privately driven investment and infrastructure models would deliver competitiveness enhancements for the state that would eliminate the need for TFES. There are currently two private operators and one government-owned freight carrier competing for freight business so the focus needs to be on encouraging increased investment in shipping technology – possibly under government purchase and lease-back arrangements that define the terms of freight service delivery.

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 appropriate future approaches and or arrangements**

Weaknesses – TFES

The shipper rebate structure for freight under the TFES is complex. Combined with uncertainty surrounding the impact of applying a more simplified structure, has remained unchanged since it was introduced in 1996-97. As stated earlier it needs to be more transparent and easier to assess compliance.

As the PC observed in 2006, the rebate must have a greater focus on the wharf-to-wharf cost between northern Tasmania and the mainland. The concept of a notional 'one size fits all' road freight mode and rate to calculate the sea freight disadvantage has serious limitations, given the myriad of transport options.

However, the TFES has now been in place for some 15 years – a sufficient length of time to test the assumptions that make it up, including the 4 step calculation of the rebate and the intermodal payment. However, if the cost components that make up the rebate are not unbundled, the potential exists for cost shifting.

The TFES model applied to wheat (TWFS) overcomes the complexity of the pricing system because the shipper rebate is applied as a flat rate per TEU. However, with respect to general freight, without significantly more data that helps to clarify the wharf-to-wharf cost, there is reason to be concerned about whether a single freight rate is appropriate.

TFES Exclusions

There are many exclusions and exemptions in the TFES scheme; with little apparent consistency or logic behind many of the categorisations. Although covering all southbound wheat (primarily as a fodder supplement), the scheme only covers some 25% of southbound freight and some 75% of northbound container freight.

The aims and benefits to the Australian mainland states and Tasmania of equalising the cost of moving people and freight are not dissimilar to those advocated by the Australian government in relation to the flow of same between Australia and the rest of the world – and commonly discussed in the context of the WTO.

Underpinned by the Australian Constitution, the economic basis for free trade between Australian states is virtually identical to WTO aims and obligations. Tasmania is part of Australia and, since the loss of direct shipping from the state to international markets in 2011, there is not considered to be any sound argument for Tasmania fending for itself in order to comply with WTO.

However, in a broader context, if the aim of TFES is to address an acknowledged sea freight disadvantage, as the TFES is currently structured, it fails this test for both importers and exporters of goods and services. This disparity has resulted in freight cost becoming a significant consideration in location of primary production, processing and other industry infrastructure. The PC noted the discriminatory nature of the scheme in 2006 when considering the rationale behind the TFES.

This is resulting in further perverse outcomes, as many Tasmanian producers see that they could achieve better financial outcomes from re-locating elements of their enterprises and supply chains to the mainland. For example, a specialist Tasmanian producer of skins and hides is not eligible for TFES on product it exports through Melbourne; nor is it eligible for TFES on input materials (mainly salt) that it imports, again through Melbourne. Despite the company's long history in Tasmania, and their wish to continue to be part of the Tasmanian industry, there is almost irrefutable logic in the firm relocating to Victoria. That would be a serious blow to Tasmanian farmers, as it is the last local destination for skins and hides. It would also be a blow to the local community and the State's economy.

On that basis, additional north and southbound categories that should be considered eligible for TFES include: containerised processed outputs (meat, vegetables, vegetables, skins/hides and pharmaceuticals); imported product for assembly and further value-adding (salt, motor vehicles, machinery tractors and building materials); and product inputs used in further production of outputs (fuels and lubricants).

Currently, the reference point for product exclusion from TFES is whether the goods are shipped or not shipped for further value-adding. A far more robust application of the TFES qualifying rules would be whether it places the producer or manufacturer at a competitive disadvantage, thereby possibly causing a distortion to production location or further investment.

Weaknesses – BSPVES

The BITRE Monitoring Report Number 13 (2012), states: *"The scheme is intended to increase demand for travel across Bass Strait, with direct benefit to the tourist industry and potential growth in jobs, investment and population for Tasmania".*

There is potential for more tourism in Tasmania if the structure of passenger and vehicle pricing and rebates is worked harder to equalise ferry passenger costs to mainland road costs.

While time poor and business travellers will chose to fly – especially at a generally lower fare scale since the mid-2000s – the current ferry price structure does not serve caravan and recreational vehicle travellers well. According to Tourism Australia, such travellers generally spend longer and are prepared to spend more en route. They see the state entry fee as prohibitive, compared to alternative Australian destinations. A further aspect of the prohibition is the highly variable scale of pricing and the relatively complicated logistics associated with ferry travel.

BITRE data indicated that the average return fare for two people with a recreational vehicle or caravan in the off-season was $1,256 – including an average rebate of 23%. The comparable fare during peak season after rebate is closer in excess of $1,600, although it is much higher for longer vehicles.

Against this background, to travel an equivalent 420km distance by bus on the mainland will cost between $60 and $80/head. The cost of travelling an equivalent distance by car using current government rates (ATO 2012/13) would range from $0.63c/km for a 1.6 litre vehicle to $0.75c/km for a vehicle with an engine size greater than 2.5 litres. On an average 1.8 litre sedan, the cost of a 420km road trip would be $310.60c.

Based on data which is now 12 years old, the TT Line refers to those travellers wanting a 'travel experience' and who are willing to pay for it, including cabins. For those who see a visit to Tasmania as a 'once in a lifetime' experience, this may be true. However, for many the desire for a cabin is linked to the more than 8 hours that it takes to do the Bass Strait crossing.

While seasonality of travel is a major issue, potential passenger numbers could be significantly enhanced if the target market focus shifted from a ferry travel experience to an on-the-ground experience in Tasmania. This would capitalise on the many and varied advantages that recreational travel vehicles and under-utilised tourism resources provide.

It is proposed that an improved service be delivered through a combination of expanded passenger and vehicle numbers, lower and more consistent pricing and follow-on carrier savings.

BITRE has pointed to the relative elasticity of ferry prices which indicate that ferry travellers will respond, given the opportunity.

However, in face of capacity shipping issues, this is also likely to require improved and more flexible delivery of the ferry service based on the 'feeder' model referred to previously.

5. Assessments in relation to Paragraph 4.
(a) Freight and Passenger Tasks and Costs – Tasmania, Islands and Australian mainland; between Tasmania and international ports.

Island Shipping Services

TFGA recognises that, while the shipping service between Tasmania and the outlying islands is a state issue, federal support is nevertheless provided under the umbrella of TFES. However, this is at a level of rebate that does little more than help to maintain access of predominantly livestock and fish produce to processing and end-product markets.

In relation to Flinders Island, the assistance facilitates one delivery of produce per week in good weather conditions. The service to King Island does little more than allow shippers to access beef processing in Tasmania since closure of the Swift meat works. However, the freight rates being charged are considered to be prohibitive and need to be analysed to ensure they are competitive.

While some produce from the islands attracts some brand premium, it is not sufficient to support increased output or scale that would enable increased carrier interest or promote greater competition. This said, King Island currently supplies more than 20% of the state's beef.

As with shipping between Tasmania and the Australian mainland, it is short haul and high cost. As such continued shipping service delivery revolves around ensuring that services are delivered cost-efficiently on behalf of Australian taxpayers.

The BITRE should have access to data that ensures provision of a competitive service.

Tasmania and Export Destinations

As previously indicated, the FLCT has gone to considerable lengths to investigate the terms under which re-introduction of direct shipping from Tasmania to international markets might take place.

It would seem though that the changing structure of shipping around the world – larger ships, fewer ports and economies of scale will increasingly force the use of more efficient port and 'feeder' vessel infrastructure. As a result, it is anticipated that delivery of a competitive shipping service to international markets will require increased emphasis on higher speed shipping technology and efficiency gain in service delivery between Tasmania and Melbourne port.

More than 90% of freight movement between Tasmania and the mainland is destined for mainland customers. Much of this is time-sensitive and seasonally produced fresh product. So it is anticipated that export freight will need to be incorporated into this shipping movement. On that basis, the application of TFES to exports and imports is clearly justified.

(b) Quantity and Freight Cost Disadvantages for goods eligible under the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Scheme, identify their primary causes and assess the impact on Tasmanian business.

The model for determining the freight cost disadvantage is established with respect to the cost of moving sea freight over a similar distance by road or rail on the Australian mainland. However, it is a complex model that would ideally need to be refined to increase simplicity in the determination of and transparency of shipper disadvantage and resultant rebates.

To this end, a greater focus on wharf-to-wharf pricing and unbundling of cost components is necessary, supported by reliable data on shipping service delivery.

The recently updated BITRE Parameters incorporate a number of assumptions to calculate the 'notional' mainland road freight rate. This analysis points to the extent of freight disadvantage across Bass Strait being less than in 1997 when the current rates were introduced.

However, the key assumptions on which these rates are based should be tested in the current inquiry for their accuracy.

In the 2006 Inquiry, the PC recommended a move to a flat dollar rate per TEU as a basis for rebate payment to shippers. However, the complexity of the model suggests that, without significantly more data surrounding the wharf-to-wharf cost and reassurance, this initiative could not be supported.

(c) Quantify any cost disadvantages for passengers travelling to Tasmania who are currently eligible for support through the Bass Strait Passenger Vehicle Equalisation Scheme.

As indicated under Heading 4, there are considered to be significant weaknesses and shortcomings in the operation of TFES and BSPVES.

If Bass Strait is viewed as the gateway to and from Tasmania, the width of the gate is determined by policy in respect of the level of free and competitive access, while the hinges of the gate are influenced by the operational capability and flexibility of vessels and manning practices.

From a goods freight perspective, the discriminatory nature of the TFES affects costs of production, value-adding location and competitiveness of inputs. Suppliers to value-adding businesses in Tasmania that have an export focus suffer lower prices received as a result of the exclusion of exports; while those businesses seeking to access imported machinery and technology must pay higher capital costs.

From a tourism perspective, the current ferry price structure deters potential visitor entry to the state. Only after travellers arrive is spending unlocked to the regional business community. This points to the need for competitive and consistent fare pricing on which speciality services can be built, not the other way round.

(d) Assess effectiveness of current schemes as a mechanism for addressing cost disadvantages, including identification of the cost and benefits, the impact on stakeholders and, any unintended consequences of distortionary effects of the current arrangements.

As outlined above, the TFES exemptions (in particular) are considered to have unintended effects which distort business operations in a number of ways. However, this derives in part from the perceived nature of the assistance being a subsidy at the expenses of mainland taxpayers rather than assistance that generally seeks to address disadvantage caused by Bass Strait.

Business operating costs are higher than would otherwise be the case and the level of investment – including foreign investment – is considered to be lower. There are limits to how far Tasmania logistics infrastructure can address the competitive consequences due to state demographics. However, there are areas in which existing road and rail service delivery could be made more competitive.

A much tighter focus on infrastructure that supports the efficiency of service delivery across Bass Strait is warranted. This should include building economies of scale with respect to port and shipping capability.

(e) Identify any alternative mechanisms that could more effectively address cost disadvantages, including assessing the full economic costs and benefits of any alternative mechanism

Alternative mechanisms have been discussed above. An attempt has been made to assess the costs and benefits of proposals outlined above but this analysis lacks the sophistication of a much more detailed econometric model and of an assessment of economy-wide impacts.

In the event a one-in, all-in approach to industry assistance was to be implemented, it is estimated that benefits would outweigh cost after three years.

The limited time to respond to the TOR has precluded the gathering of further detail or the development of more sophisticated modelling before the submission deadline.