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Tasmanian Shipping Inquiry
Productivity Commission
GPO Box 1428
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Dear Sirs,

Tasmanian Shipping and Freight Inquiry
Submission to Public Hearing set for 6 February in Launceston

We refer to our initial Submission dated 12 December 2013 (recorded by the Inquiry as Submission number 7) and to the Commission's Draft Report of January 2014.

We welcome the opportunity to make further comment in relation to some of the Commission's draft recommendations and conclusions and to appear before the Commission in its proposed Public Hearing process.

We acknowledge the Commission, and its officers, have completed the Draft Report in a timely manner over the busy Christmas/New Year period with only a limited (and further constrained) time-frame provided. We congratulate all those involved in this process for producing such a broad and substantive piece of analysis and commentary.

In essence, our initial Submission sought to ask the Commission to give consideration to simplifying procedural aspects relating to the current Tasmanian Freight Equalisation Scheme, to address the various anomalies, complexities and exclusions inherent within the current Scheme, and to expand the Scheme's eligibility to cover industries not currently eligible and to cover goods, particularly bulk-goods, currently excluded.

We heartily support the interim recommendations made in the Draft Report which call for the simplification of the Scheme and which seek to address and simplify a number of the anomalies and complexities of the current Scheme.

In making this further Submission to the Public Hearing, we would like to address a number of issues brought up in the Draft Report.

Section 6 of the Draft Report

The Commission has raised the issue as to whether funds provided by the Commonwealth under the various transport cost equalization programs for Tasmania could be applied elsewhere to promote other programs to support the economic development and growth of the State.

We would argue against this in that the freight equalization programs are designed to offset freight disadvantages currently incurred by Tasmanian businesses and that they can be re-designed to do so in an effective and transparent manner. Further, the specific nature of the programs respond to a particular, and obvious, disadvantage suffered by Tasmanian businesses and that removing or reducing freight cost disadvantages to this sector is a valuable end in its own right, and one which has wide support within the Tasmanian business community.

Extension/Simplification of the Freight Equalisation Scheme.

Our initial Submission sought to highlight and explain the complexities of the current Scheme, and it is clear from the Commission's response in its Draft Report that this issue is an obvious one, and one deserving of urgent attention.

At page 14 of the Draft Report, the Commission ponders whether the existing Scheme should be simplified by treating all southbound goods in the same manner as northbound goods.

We fully support this concept, and as we did in our initial Submission, we would add that the Scheme in future should be amended to remove all current discriminatory support by extending the Scheme to cover all types of industries and all types of goods moving in all directions.

As set out in our initial Submission, regrettably, the current Scheme discriminates against industries which have developed, or are likely to develop, since the Scheme was founded by restricting eligibility to a number of favored industries. The current Scheme's biggest distortion is that many essential bulk-goods are not currently eligible (see below). The removal of this distortion would be a significant achievement for the Productivity Commission, and a significant benefit to all Tasmanian businesses.

Winners and Losers

At page 14 of the Draft Report, the Commission also ponders the impact of any changes which could be made to the Programs and that such changes may create "winners and losers".

The initial implementation of any new Government Program is likely to create winners and losers but where such a program is discriminatory, or where it creates unexpected and unwelcome distortions, we believe it is only fair to focus on the outcomes obtained by those the policy is designed to affect.

Our view in regard to "winners and losers" is that it is difficult to have much, if any, sympathy for individual business which would lose out from an improvement in a Program which results in the better achievement of that Program's goals and objectives.

<u>Inclusion of all freight cost, particularly the freight cost for bulk-goods, into the Scheme</u>

By far the greatest distortion inherent in the current Scheme is the exclusion of any freight equalization payments for the shipment of bulk goods. The ineligibility of bulk fuels and lubricants to attract equalization payments means the economies of King Island and the Furneaux Group in particular operate with a cost disadvantage not suffered by other rural communities well served by road transport.

On 24 January 2014 at Yarraville, Victoria, around 5 kms from the Melbourne CBD, unleaded petrol was available to the public from bowsers at 149.9 cents and diesel was available at 160.9 cents.

On the same day, in the rural township of Charlton in Victoria, unleaded petrol was available to the public from bowsers at 156.9 cents for unleaded petrol and 163.9 cents for diesel. Charlton is a township around 250 kms north-west of Melbourne on the Calder Highway and well served by road transport.

On 24 January 2014, petrol prices at the bowsers at Lady Barron on Flinders Island, less than 400 kms by air from Melbourne, were 199.5 cents for unleaded petrol and 206 cents for diesel.

For businesses operating on Flinders Island, the higher cost of fuel is an insidious additional impost impacting upon a broad range of their input costs. Whilst we acknowledge that a rebate is available under the Diesel Fuel Rebate Scheme, the rebate is paid at a flat rate and is the same as the flat rate rebate available to all eligible mainland businesses (which, in percentage terms, only exacerbates the differential between the net cost of diesel to Flinders Island businesses compared with their mainland business competitors).

Within a wider context, the high cost of fuel not only imposes an additional cost on those doing business on Flinders Island but also is a significant factor in reducing labour-market flexibility.

The higher fuel cost imposes higher living costs on those working, or wishing to work, on Flinders Island – directly upon them whenever they use a motor vehicle and indirectly upon them whenever they purchase any item transported around the Island by road from the Port of Lady Barron.

As such, the incentive for workers to migrate to Flinders Island, and for businesses to attract skilled and unskilled labour to Flinders Island, is diminished by virtue of the high cost nature of living on the Island itself.

Were the Commission to recommend that bulky goods, including fuels and lubricants, be eligible for freight equalization payments, and that such a recommendation were to be implemented, the economy of Flinders Island would receive a very significant and broad based fillip.

Method of Calculation of Freight Equalisation Payments

Our initial Submission offered a suggestion that for the sake of simplicity, payments under a revised Scheme could be calculated as a percentage of freight charges actually incurred.

We suggested that in calculating payments by this means, many of the complexities relating to costing the different types of freight, freight distances etc could be eliminated as these factors were already inherent and calculated by the shipper when they assessed the appropriate freight charge for a given consignment.

We note, however, that in their Draft Report, the Commission seems inclined to recommend simplification of payments under the Scheme by way of making flat payments based on shipment of 20 foot containers.

We would ask that the Commission review this recommendation and give further thought to our initial suggestion of applying a percentage based calculation for payments under the Scheme.

As outlined, we believe such a mechanism provides a simple and very transparent method of calculating the amount due under the Scheme.

However, such a mechanism also provides a more "dynamic" approach and one that is more readily able to adapt to market forces.

The Commission's Draft Report notes that, due to changes in shipping arrangements, the current level of payments to Flinders Island residents over-state the amount due to them whilst the current level of payments to King Island residents under-state amounts due to them.

Whilst we acknowledge that the Commission proposes regular reviews to adjust payment levels where appropriate, we would point out that reviews each two years, for example, are hardly dynamic responses to changes in market conditions.

If, for example, a percentage payment mechanism was adopted, any change in shipping costs brought about by external factors would immediately be reflected in the dollar level of payments being made to recipients. A review of the percentage factors could still be done as part of the overall and regular review of the Scheme.

One distortion which could arise with a flat container-based payment is that larger businesses, who can negotiate better freight rates, may inadvertently be "winners". This aspect could be alleviated if the payments were based on a percentage of actual freight costs.

For example, if the shipping freight rate between Melbourne and a port in Tasmania is calculated at $20.00 per container, and the equivalent road freight cost is calculated at $10.00 per container, idealistically the Scheme would suggest an equalization payment of $10.00 per container should apply.

If, however, a large Tasmanian business was able to negotiate a 20% freight discount, its actual net cost would be $16.00 per container (not $20.00) gross less the $10.00 flat-rate per container equalisation payment for a net cost of $6.00 per container. By comparison, a large mainland business, even after negotiating a 20% freight discount, would end up paying $8.00 per container. The Tasmanian business, calculated to be initially suffering a freight disadvantage of $10.00 per container, would actually end up with a freight advantage of $2.00 per container after receipt of a freight "equalization" payment.

Payment of an equalization payment by reference to a percentage factor would remove this potential anomaly.

Another complexity which would still occur if a flat container based payment was instituted is that, for Flinders Island and King Island in particular (as noted within the Commission's Draft Report), a significant amount of freight is non-containerised and/or is seasonal (both factors which, incidentally, may render such shipments subject to freight cost "loadings"). The movement of livestock, farm equipment etc across Bass Strait to these Islands (regardless of the direction it moves) would necessitate a conversion from a container based payment level to one which takes into account livestock transported (and the type of livestock transported) as well as items like farm machinery which are not in containers. A flat rate container based equalization payment would not address freight cost issues with respect to seasonal and non-containerised cargoes.

Clearly, in these types of situations, an equalization payment calculated by reference to a percentage factor would remove the need to calculate conversion factors, and would address the seasonality issue.

<u>Self Assessment for Claims under the Scheme</u>

As part of the overall simplification of the Scheme, the Commission has raised the prospect that more businesses eligible for payments are able to "self-assess" and has pondered what may be an appropriate level at which self-assessment could be accorded to them.

With the introduction of the Goods and Services Tax over a decade ago, Australian businesses have been self-assessing their GST liability ever since. It seems entirely reasonable that businesses eligible for assistance under the Scheme could also self-assess. Some quite small businesses, for example, are already self-assessing under the Diesel Fuel Rebate Scheme (also via their Business Activity Statements).

Admittedly, these forms of self-assessment are subject to audit and it would be appropriate if self-assessment is extended to the Scheme that it also be subject to audit.

However, if the Scheme is significantly simplified and is extended to all industries incurring all freight costs, the audit task itself, and the resources which would need to be devoted to that task, would be significantly simplified.

In this regard, we would recommend that all recipients be allowed to self-assess and that they calculate their entitlements, and lodge an appropriate (and very simple) Claim Form on the same cycle as they currently lodge their Business Activity Statements.

Conclusion

We reiterate our appreciation to the Productivity Commission for the opportunity to make this Submission in relation to the review of the Tasmanian Freight Equalisation Scheme and would be pleased to offer any further assistance the Commission may seek.

Regards,

Geoff Cossar
Director