Productivity Commission Inquiry into Tasmanian Shipping and Freight

Tasmanian Government Response to the Draft Report

February 2014

Tasmanian Government

1. Introduction

This submission responds to the findings and recommendations presented in the Productivity Commission's (PC) Draft Report on Tasmanian Shipping and Freight, released on 24 January 2014. In doing so, the submission reinforces and builds upon key positions articulated in the Tasmanian Government's initial response to the Inquiry's Terms of Reference.

The submission reflects the view that the schemes under examination – the Tasmanian Freight Equalisation Scheme, the Bass Strait Passenger Vehicle Equalisation Scheme and the Tasmanian Wheat Freight Scheme – regardless of their specific implementation arrangements, have served to address cost disadvantages that remain relevant with respect to the Bass Strait transport task in both the north and south directions.

In its initial submission, the Tasmanian Government provided the PC with a range of contextual information about the key strategic challenges facing Tasmania's shipping and freight sector and its economy more broadly. It explained the important work undertaken by the Freight Logistics Coordination Team (FLCT), and outlined the Tasmanian Government's commitment to improve land-side efficiency under the rubric of a new, integrated Freight Strategy.

Central to the Tasmanian Government's initial submission was its explanation of the ongoing need for Commonwealth assistance to address Tasmanian shippers' freight cost disadvantage via the Tasmanian Freight Equalisation Scheme (TFES), in recognition of Tasmania's unique geographic characteristics. Consistent with the FLCT's recommendations and existing Tasmanian Government policy, the initial submission advocated for the immediate extension of TFES to exports that are first transhipped via a mainland port. This also recognises the ongoing absence of direct container shipping services to Tasmania, which has had a major impact on the competitiveness of the State's exporters.

The Tasmanian Government argued strongly that any changes to TFES proposed by the PC should:

- Not undermine the fundamental freight cost equalisation objectives of the scheme, or alter the current uncapped, demand-driven design of the scheme;
- Be focused on improving efficiency and simplicity for claimants;
- Address current anomalies and inequities highlighted by a number of industry stakeholders with regard to shippers and goods who are eligible for assistance;

- Be introduced in a staged and sensible manner, with proper consideration given to the economic impact on Tasmania and to the provision of structural assistance to affected parties; and

- Provide Tasmanian investors with certainty by preventing the need for another wholesale Inquiry into the scheme in the medium term (i.e. the next ten years).

The initial submission also highlighted the importance of the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES) to the Tasmanian tourism industry via its increase in demand for accompanied vehicle travellers, who are shown to stay longer in the State, spend more money and visit more regional areas.

The Tasmanian Government's position on the PC's draft findings and recommendations are addressed in further detail below. However, in summary, the Tasmanian Government:

- Is extremely concerned that current recipients of assistance under TFES would be significantly disadvantaged by a number of the PC's proposed changes to the scheme;

- Strongly supports, the extension of eligibility for the Tasmanian Freight Equalisation Scheme (TFES) to northbound international exports that are first transhipped through a mainland port;

- Rejects the PC's suggestion that the extension to northbound exports should be funded through budget savings achieved by either adopting the assistance rates contained in the current Bureau of Infrastructure, Transport and Regional Economics (BITRE) parameter review or by eliminating the TFES southbound component, on the basis that such measures would have serious negative impacts on the Tasmanian economy at a time of transition and vulnerability and are inconsistent with the original intent of the scheme to address the two-way cost disadvantage of Bass Strait;

- Contends that the enhanced BITRE process recommended by the PC should be adopted, and a fresh parameter review undertaken using this process, before any consideration is given to transitioning away from the existing TFES parameters. There is conflicting evidence as to the current level of cost disadvantage that Tasmanian shippers face and the Tasmanian Government agrees with the PC that the BITRE process would benefit from greater industry consultation, including if necessary amendments to BITRE's current methodology and assumptions;

- Supports the proposed enhancements to TFES that improves its efficiency, equity and transparency – namely, public reporting and enhanced access to self-assessment and electronic lodgement;

- Requests that the PC directly address current TFES eligibility anomalies raised by the Tasmanian Government and industry stakeholders, including the inconsistent treatment of certain southbound inputs (e.g. re-usable vs single-use packaging) and difficulties faced by shippers with integrated business structures that may fall within more than on ANZSIC category;

- Remains open to the further consideration of a flat TFES rate, subject to industry consultation and the proper assessment of the impact of such a proposal at the company, industry and whole-of-economy level. A less disruptive alternative to – or potentially as part of a transition towards - a flat rate maybe the introduction of TFES assistance paid on verifiable wharf-to-wharf costs;

- Requests that if the Tasmanian Wheat Freight Scheme is abolished, the budget allocation for the scheme should be rolled into the TFES budget;

- Opposes the suggestion that wheat and grain assistance under TFES should be differentiated from other commodities and based on a notional 'least cost' option, on the basis that bulk wheat shipment is not currently a viable option for Tasmanian producers and because this action will add complexity to the current arrangements;

- Rejects the PC's suggestion that the BSPVES should be scrapped in favour of alternative – currently unspecified – tourism programs, noting the Australian Government's commitment at the outset of the Inquiry to retain the scheme. The current arrangements are supported by the tourism sector, albeit the sector argues strongly that the scheme parameters should be adjusted upwards to reflect inflation and therefore increased (on the basis that that indexation was only introduced in 2008);

- Acknowledges the strong views of the ACCC and a significant number of industry players in relation to the potential impacts of the *Coastal Trading Act 2012* on shipping competition and costs and notes the Australian Government's stated intention to review the current legislative framework;

- Re-iterates its commitment to the delivery of an integrated Freight Strategy based around the concept of a coordinated, whole-of-system transport network aimed at unlocking greater efficiency and productivity in the freight sector and driving economic growth. However, the strategy is a state policy and will not be developed at the specific direction of the Australian Government; and

- Questions whether the PC's recommendation regarding a stocktake of Tasmanian economic development policies is within the scope of the current Inquiry, and in any case if there is sufficient evidence that such a stocktake is necessary, given the PC does not identify or acknowledge existing policy settings and frameworks in the Draft Report.

In responding to the Draft Report, the Tasmanian Government expresses an overarching concern that a number of the PC's draft recommendations appear to be based on broad assumptions and the high-level application of general economic theory and/or philosophy, with little in the way of specific supporting modelling of economic costs and benefits of current and alternative freight and passenger assistance arrangements, as required under the Inquiry's terms of reference.

While this is no doubt symptomatic of the manifestly unreasonable timeframes within which the PC has been required to deliver its Draft Report, a number of the PC's recommendations, if implemented, would likely have significant impacts on important Tasmanian industries and the broader economy and it is critical that proper consideration is given to these impacts.

As noted in its initial submission, the Tasmanian Government firmly believes that, in light of the inadequate timeframes for the conduct of this Inquiry, implementation of any PC recommendations must be conditional on a detailed assessment of their impact on the Tasmanian economy and community and the development, in consultation with the Tasmanian Government and industry, of a detailed transition plan.

In the absence of any specific modelling being undertaken by the PC for this Inquiry, the Tasmanian Government has commissioned the Centre of Policy Studies (COPS) to undertake analysis of a range of change scenarios to TFES and BSPVES. The modelling will estimate the impact to the Tasmanian and Australian economy of a range of changes to the current equalisation arrangements, including:

- the implementation of the rates recommended by the 2013 BITRE parameter review;
- extension of eligibility to transhipped international exports;
- the application of a range nominal flat rates;
- abolition of the TFES southbound component; and
- abolition of the BSPVES.

This is a genuine attempt by the Tasmanian Government to quantify the potential impacts of the PC's recommendations. Unfortunately, the modelling results were not available in time to meet the PC's 7 February 2014 submission deadline but the Tasmanian Government is seeking to have this work completed as soon as practicable so the relevant economic impacts of proposed changes can be properly considered prior to the completion of the Final Report.

2. Tasmanian Freight Equalisation Scheme

Eligibility Extension to Northbound Exports

Since the cessation of the State's only direct international container service in 2011, Tasmanian exporters have had no choice but to incur the significant additional costs of transhipping via the Port of Melbourne. Without any TFES assistance, international exporters currently pay approximately double the Bass Strait shipping costs of a TFES-assisted domestic exporter.[1] As the PC notes, as well as being inequitable, export goods' ineligibility for TFES has created incentives for some businesses to move certain packing and processing activities off-island in order to attract TFES assistance, to the detriment of the Tasmanian economy.

As outlined in its initial submission, the Tasmanian Government strongly supports the extension of TFES eligibility to northbound exports that are first transhipped through a mainland port and welcomes the PC's active consideration of such an extension. The Tasmanian Government has steadfastly advocated for this outcome since 2011 and agrees with the PC that such an extension is consistent with the objective of the scheme, which is to address cost disadvantage and enhance Tasmanian businesses' access to markets.

However, it is important that the extension to northbound exports captures eligible goods transhipped via **any mainland port** and is not limited specifically to the Port of Melbourne. While the Port of Melbourne is currently the preferred transhipment point for Tasmanian containerised exports, development of Victoria's Hastings Port may in the future provide the main port option for Tasmanian shippers. In addition limiting the extension to a specific port could distort and/or limit future competition has no policy rationale, particularly in the event that TFES were to move to a flat rate arrangement, as the PC recommends.

The Australian Government has previously argued that such an extension of TFES to transhipped exports would be in violation of World Trade Organisation (WTO) rules. The Tasmanian Government remains unconvinced that this is the case. It is also understood that the Australian Government may have received updated advice from the Department of Foreign Affairs and Trade indicating that any WTO concerns around the extension of TFES can be appropriately managed. Given the centrality of this issue to the implementation of an extension to exports, the Tasmanian Government requests that the PC addresses WTO compliance arguments directly in its Final Report.

The Tasmanian Government does not support the PC's suggestion that the extension to northbound exports should be funded through savings achieved by either adopting the assistance rates contained in the most recent BITRE parameter review or by eliminating the TFES southbound component.

[1] Freight Logistics Coordination Team (2013) *Final Report*

The TFES southbound component represents around 30 per cent of total TFES assistance claimed per annum, and supports a number of Tasmania's significant industries, which rely on assistance on the transportation of key inputs to manufacturing processes. In many cases inputs are simply not available from on-island producers – or are not available in insufficient volumes - and must be sourced from mainland suppliers. The extent to which removal of southbound assistance would allow Tasmanian producers of these inputs to compete on a more even footing with currently equalised goods shipped from mainland Australia is likely to be very limited, assuming economies of scale exist in production. It is more likely that the elimination of southbound assistance would simply increase the cost of mass-produced inputs that would continue to be sourced off-island. The economic modelling that the Tasmanian Government has commissioned will shed more light on the net economic impact of a southbound withdrawal.

If the PC is concerned about a lack of equity, distortionary impacts and/or inconsistency in the application of current arrangements, extending the southbound component to additional industry sectors/goods should also be considered and quantified before determinations are made on this important issue. This outcome would be consistent with the concept that TFES needs to address cost disadvantage in both the north and south direction relative to a relevant notional road transport task. Addressing two-way cost disadvantage has been an essential element of the TFES for the past 30 years.

The Tasmanian Government believes the extension of TFES eligibility to transhipped international exports could already be achieved almost entirely within the Australian Government's current forward estimates budget envelope, while still retaining the southbound component and without the significant cuts in the rates of assistance contemplated by the 2013 BITRE review.

It is worth noting that actual TFES expenditure is currently in the order of $95-100million per annum, or close to around $20 million per annum under its budget allocation. The Tasmanian Government has previously estimated the cost of a TFES extension to international exports at around $25 million, which would mean that the 'headroom' in the current forward estimate allocations for TFES could potentially be utilised to fund the extension with only a minimal overall budgetary impact for the Commonwealth.

While not relevant to the PC's terms of reference, in considering the PC's Final Report the Australian Government should examine this proposition from the perspective of the national interest. A northbound exports extension to TFES would strengthen the Tasmanian economy and better equip the State to contribute to national economic outcomes.

As noted above, the Tasmanian Government's modelling work will estimate the economic benefits of an extension to exports, as well the likely additional cost to the Australian Government. The outcomes of the modelling should therefore provide a much clearer sense of what can potentially be achieved within the existing TFES budget allocation and the likely additional cost impost of an extension to exports based on the current assistance rates.

Adoption of BITRE Parameter Reviews

It is clear that, based on its existing methodology and assumptions, the adoption of the Bureau of Infrastructure Transport and Regional Economics' (BITRE) parameter reviews would lead to a significant reduction in overall equalisation assistance to Tasmanian businesses. BITRE's own estimates suggest that if the 2013 parameters had been adopted for 2010-11 and 2011-12, total payments under the scheme would have reduced by an average of $45 million per annum, or close to 50 per cent.

However, there is evidence that, contrary to BITRE's findings, the current TFES parameters have the effect, on average, of *undercompensating* shippers relative to the estimated cost of moving the same freight task on the mainland via road. For example, supply chain benchmarking work undertaken by Aurecon for the FLCT indicated that when wharf-to-wharf costs are converted to a 'per-twenty foot equivalent unit (TEU) per km rate' the cost of the crossing is approximately two to three times the road freight equivalent, with TFES – using current assistance levels- acting to bring the cost down 'closer to road freight rates', but necessarily to the point of equalisation.[2]

In short, the Aurecon analysis does not support BITRE's suggestion that TFES results in the significant and widespread overcompensation when current sea and road freight costs are taken into account. For example, Aurecon's benchmark Hobart to Melbourne cost of shipping was $1403 per TEU, which with TFES assistance can reduce to $853. Aurecon found that a comparable mainland road journey costs in the range of $564 and $799.[3] The Tasmanian Government understands that some large shippers, including Norske Skog, have provided confidential data on their own freight costs that could lend support to this analysis.

The PC concedes in its Draft Report that the current BITRE parameter process could be improved in terms of transparency and industry consultation. This suggests that greater industry involvement in parameter reviews would lead to a more comprehensive and accurate estimate of the actual average freight cost disadvantages faced by Tasmanian businesses. Therefore, the Tasmanian Government's view is that the enhanced BITRE process recommended by the PC should be adopted, and a fresh parameter review undertaken using this process, before any consideration is given to transitioning away from the existing TFES assistance rates. The new parameter review process must provide for amendments to BITRE's current methodology and assumptions in response to industry input.

As noted in the Tasmanian Government's initial submission, the Tasmanian economy is currently undergoing a period of significant structural change, at the same time as it is experiencing a number of very challenging cyclical pressures, most notably the persistently high exchange rate. A 'two to three year transition' to the revised parameters - as recommended by the PC - is unlikely to significantly dilute the overall economic impact

[2] Aurecon (2013) *Supply Chains in Tasmania* (Freight Logistics Coordination Team Major Consultancy)

[3] *Ibid*

when the transition end-point ultimately results in an almost halving of current assistance levels.

The actual impact of the recommended change is currently unknown, and the Tasmanian Government is concerned that the PC has not in the time available been able to undertake any analysis or modelling of how a significant reduction in overall TFES assistance would affect the Tasmanian and Australian economies prior to recommending the adoption of the revised parameters. As noted above, the Tasmanian Government has commissioned its own economic modelling to quantify the overall economic impact of adopting the 2013 BITRE parameter review, which it will provide the PC so that these impacts can be properly considered in the context of its finalisation of recommendations to the Australian Government.

Introduction of a flat per-TEU rate of assistance

Prima facie, the Tasmanian Government acknowledges that the adoption of a flat rate of assistance applied on a per-TEU basis has the potential to reduce administrative costs for both the Australian Government and shippers, improve incentives for shippers to seek out the lowest freight rates and address ongoing perceptions about alleged 'gaming' of the Scheme.

Tasmanian Government is extremely concerned a flat rate has significant potential to generate 'winners and losers' at the individual business level. In particular, a flat rate would likely impact negatively on smaller shippers who do not have either the requisite volumes or frequency of volumes to negotiate highly competitive rates.

It is not clear from the Commission's Draft Report whether the administrative savings generated from a flat rate administrative are significant enough to warrant the likely adjustment impacts on TFES recipients.

Any move to a flat rate should be based around the current funding envelope for the scheme and include an extension to eligible export goods, as proposed above. Any administrative savings realised through a flat rate could potentially be re-allocated to assist in the funding of the proposed northbound extension. Thorough industry consultation and impact assessment at both the industry and company level would be required prior to proceeding with a flat rate, along with sensible, staged transition arrangements – including consideration of adjustment assistance to affected firms - if this option were to be implemented.

The Tasmanian Government's overriding concern is that a flat rate could come at an overall cost to the Tasmanian economy and, as noted above, it has commissioned modelling to estimate the economic impact of a range of nominal flat rates. Any transition to a flat rate would need to be supported by analysis that showed the overall, long-term efficiency gains outweighed any short-term economic impacts resulting from changes in assistance distribution amongst recipients. The Tasmanian Government therefore reserves its final position on the potential introduction of a flat rate until this additional information is available. Given the PC's own assessment of Tasmania's economic parameters, it is argued that a negligible increase in national economic outcomes on a basis that would impede the economic performance of Tasmania is not in the national interest.

Improved administrative efficiency and transparency

Consistent with its initial submission, the Tasmanian Government supports enhancements to the existing equalisation schemes that improve their efficiency, equity and transparency, while providing enhanced certainty for Tasmanian industry.

Improved transparency in public reporting of TFES in particular – including the proposal for an annual report breakdown by company, industry sector and commodity type of TFES assistance paid - is strongly supported, as is improved access to self-assessment and electronic lodgement of claims.

Similarly, the introduction of a minimum claim threshold would yield benefits from an administrative efficiency perspective, but again this needs to be subject to further industry consultation. A potential variation on this option, however - rather than eliminating these small claimants' eligibility entirely - would be the introduction of a new, simplified self-assessment process for small claims up to a certain maximum value (e.g. $100).

In the absence of - or as part of potential transition towards - the introduction of a flat per-TEU rate, the PC's recommendation that TFES payments should be calculated on verifiable wharf-to-wharf costs also has merit. Such a measure may help address ongoing suggestions that Tasmanian shipping companies offer invoices that are structured to maximise TFES assistance payments and would therefore improve the overall transparency and integrity of the scheme. While the Tasmanian Government understands that a number of larger TFES claimants already claim on a wharf-to-wharf basis, consideration would again need to be given to a suitable phase-in period for the new arrangements to allow shippers to adjust to administrative changes.

As with any changes to administrative arrangements, it is important that industry is given certainty. As noted in the Tasmanian Government's initial submission, improvements to the operation of the scheme should be made on the basis that they are introduced in a sensible staged manner and, once implemented, are not then subject to further significant alteration in the short to medium term.

The PC has noted in its Draft Report issues raised with regard to eligibility anomalies, including the design of the scheme that requires separate entities to claim for commodities for use in different ANZSIC classified business activities covered under the scheme, that would otherwise, and more efficiently, be claimed by one vertically integrated entity. It also notes the disparate eligibility of goods under the southbound component, which includes the issue raised in the Tasmanian Government's initial submission of inconsistent treatment of single use vs re-usable packaging.

The PC does not, however, indicate any intention to make recommendations addressing these anomalies, instead suggesting that "…it is not feasible to address all the scheme's deficiencies through scheme redesign". While this may be true, the Tasmanian Government calls on the PC to consider in more detail key eligibility issues identified by industry which could potentially be addressed by way of relatively simple amendments to the TFES Ministerial Directions.

3. Bass Strait Passenger Vehicle Equalisation Scheme

While noting the Australian Government's intention to retain the BSPVES, the Tasmanian Government is concerned that the PC effectively uses its Draft Report to advocate for the abolition of the scheme and recommend the current funding be re-allocated to other programs.

Unlike its more detailed analysis of the TFES, the PC gives little consideration in its Draft Report to potential improvements to scheme design that might address its criticisms that the BSPVES is poorly targeted and provides only 'diluted support' for Tasmanian inbound tourism. Curiously, the Draft Report also offers no suggestions as to alternative uses of funding that would, in the PC's view, be more efficient and effective in supporting Tasmania's inbound tourism industry. Further, the PC suggests that that significant leakage of benefit of equalisation payments to TT-Line is 'likely', but again provides little in the way of persuasive and concrete evidence to support this contention.

The Tasmanian Government, the Tourism Industry Council Tasmania, Cradle Coast Tourism Executive, the Tourism and Transport Forum and AusTrade all highlighted in their initial submissions the critical importance of the current scheme in supporting Tasmania's self-drive tourism market, which provides a significant source of economic activity for Tasmania's regional communities, many of which are facing pressures as a result of structural economic change (e.g. significant changes in the forest industry).

The Spirit of Tasmania vessels carry 10 per cent of all visitors to Tasmania. These visitors account for 20 per cent of all visitor expenditure in Tasmania. In 2012-13, 151 800 visitors came to Tasmania via the Spirit of Tasmania, stayed a total of 1.85 million nights and spent an estimated $255 million. Over 80 per cent of visitors who travel to Tasmanian by sea bring their own vehicle.

It is misleading to suggest, as the Draft Report does, that the BSPVES narrowly targets 'grey nomads'. Grey nomads are an important but relatively small sector of the touring market, at around 12 per cent of the total market. Most of the visitor vehicles carried by Spirit of Tasmania are cars that make up Tasmania's traditional market, and should not be discounted as a market without growth potential or contribution.

In its submission, AusTrade suggests that BITRE modelling of the value of the BSPVES in terms of induced visitor numbers and associated spending is likely to underestimate the true economic benefits of the scheme. For example, AusTrade argues that in 2010/11 the induced expenditure could have been around $90 million – or a return of $2.45 on every dollar invested in the scheme – compared to BITRE's $36 million estimate. The discrepancy is due to BITRE's decision to include only a narrow definition of 'leisure' visitors, in its modelling while excluding a significant portion of visitors who travel to Tasmanian to visit family or friends or who travel for work, whose decisions to travel to Tasmania (or not) are also likely to be influenced by the existence of the BSPVES.

The above estimates do not capture the additional flow-on economic benefits to Tasmania of the additional tourist spending induced by the BSPVES. The Tasmanian Government's modelling will specifically address this issue by examining the economic impact of any withdrawal of the scheme.

The Tasmanian Government notes the strong view of the tourism sector that the equalisation objective of the BSPVES has been eroded in real terms since its introduction in 1996 due to indexation only being applied to the Scheme since 2008 and calls on the PC to carefully consider these arguments in its Final Report.

4. Tasmanian Wheat Freight Scheme

The Tasmanian Government does not oppose the PC's proposed abolition of the TWFS, but, consistent with its initial submission, requests that the budget allocation for the scheme is rolled into the TFES forward estimates.

The Tasmanian Government opposes the PC's recommendation that equalisation assistance for wheat and grains under the TFES should be calculated based on a notional bulk shipping cost. The last bulk shipment of wheat to Tasmania was in 2009 and the only suitable bulk wheat facilities at Devonport are currently for sale.

Hence, there are practical difficulties with this approach. More fundamentally, however, the proposal to treat this commodity differentially is opposed on the grounds that it would increase complexity and works against administrative efficiency and simplicity.

Notwithstanding the contribution that TFES eligibility may or may not have had in encouraging the shift to containerised wheat shipments, bulk wheat shipment is not currently a viable option for Tasmanian producers and reduced equalisation assistance calculated on a notional bulk shipment rate is therefore inequitable in the current circumstances and would negatively impact on producers. Such a change would also add complexity to the current TFES arrangements.

5. Coastal Shipping Regulation

The Tasmanian Government acknowledges the strong views of the ACCC and a number of industry players in relation to the potential impacts of the *Coastal Trading Act 2012* on shipping competition and costs and notes the Australian Government's stated intention to review the current legislative framework. It is understood that the former Australian Government's intention in introducing this legislation was to reinvigorate the Australian shipping industry and employment in that sector.

6. Freight Infrastructure Ownership, Planning and Delivery

As noted in the Tasmanian Government's initial submission, the largest cost component in the supply chain for most businesses remains the 'blue water' Bass Strait crossing, which is largely outside the direct control of the Tasmanian Government. The various land-side transport components, by comparison, provide limited potential for the realisation significant reductions in end-user freight costs. As the PC notes, the Bass Strait crossing can account for over 60 per cent of the total door-to-door cost of the typical freight user, while port costs, for example, represent only around 5 per cent of supply chain costs.

Notwithstanding this acknowledgment, the PC goes on to make a range of observations and draft recommendations relating to fundamental aspects of the Tasmanian Government's ownership, planning and delivery of land-side infrastructure. However, the PC provides no indication of the likely impact of implementing these recommendations in terms of reducing Tasmanian businesses' actual freight costs, nor does it recognise the potential transition costs. The above example highlights that a 20 per cent reduction in port costs, if it were achievable, would only reduce total transport costs by one per cent.

As noted in its initial submission, the Tasmanian Government has already committed to an integrated freight strategy, informed by the findings and recommendations of the FLCT. As noted in its initial submission, the Tasmanian Government is carefully considering and is committed to addressing a number of the key strategic issues highlighted by the PC, including:

- a long-term ports strategy that clarifies the future roles and functions of each of Tasmania's northern ports, taking into account their relationship with key road and rail links and specific freight needs;
- The ongoing strategic prioritisation of road infrastructure investment around a high standard, principal freight corridor and the development of a high-productivity vehicle access policy;
- The need for greater clarity on the role of rail in the context of Tasmania's contestable freight task; and
- A clear plan to better focus infrastructure investment on the optimal modal mix across both road and rail to meet Tasmania's future freight needs.

Direct involvement of the Commonwealth in the development of state policy such as a freight strategy – as suggested by the PC - is unusual (if not unprecedented) and this approach has not been undertaken in other jurisdictions. The Australian Government's role should be to set high-level objectives at the national level which states can support and progress with an appropriate degree of policy implementation flexibility. A good example of this approach was the National Competition Reform program. Another more recent example is the national Land Freight Strategy, to which Tasmania, along with other the other states and territories, is a signatory. The State's role to determine its transport infrastructure policies is a fundamental principle of federalism and the allocation of constitutional responsibilities of the Commonwealth *vis a vis* the states.

Similarly, future ownership arrangements of the State's major infrastructure assets, and the strategic ownership objectives with regard to the State-owned businesses, are a matter for the Tasmanian Government. It should be noted that the Tasmanian Government has shown a commitment to divest assets where the overall benefits of divestment are shown to outweigh the strategic or fiscal benefits of ongoing public ownership. Recent significant Government divestments include, for example, the Hobart International Airport, (2007) and TOTE Tasmania (2011).

However, the Tasmanian Government does not share the PC's apparent default ideological preference for privatising strategic infrastructure assets. It is the Tasmanian Government's clear position that none of its freight or freight-related assets are up for sale.

It is worth noting that the Tasmanian Government acquired the above rail business in 2009 to ensure the continuation of rail services to customers after the previous operator, Pacific National, decided to exit the market at short notice. The significantly degraded condition of the assets that were acquired by the Government reflected a short-term approach by the previous operator.

7. Alternatives to Equalisation Schemes and Broader Economic Development Policy

The PC suggests in its Draft Report that current expenditure-based equalisation schemes are not an efficient or effective way of promoting Tasmanian economic development. This view appears to be based on an underlying assumption that the objective of these schemes is economic development, rather than the equalisation of an inherent geographical cost disadvantage, the key outcome of which is to allow Tasmanian businesses to remain competitive with their mainland counterparts.

The PC therefore establishes a false dichotomy when it proposes alternative economic development policy mechanisms could replace the current equalisation schemes. In suggesting that the current equalisation schemes cannot on their own address the broader economic challenges facing Tasmania, the PC is testing TFES, in particular, against an objective it was never designed to deliver on.

The Tasmanian Government contends that equalisation can, currently does, and should continue to co-exist with other strategic policies that improve the competitiveness and productivity of the Tasmanian economy more broadly. This issue should not be viewed through a simplistic 'either/or' analytic lens.

The Inquiry's ToR require the PC to "…identify any alternative mechanisms that could more effectively address cost disadvantages, including assessing the full economic costs and benefits of any alternative mechanism". The Tasmanian Government believes that the PC has gone well beyond its remit under the ToR when it suggests the development of a broader economic development strategy that not only addresses freight and passenger transport efficiency but also "…other areas of economic and social policy in Tasmania."

The PC makes a number of high-level comments regarding the existence of a range of programs and policies designed to improve Tasmania's productivity and overall economic performance, suggesting that they are likely to be fragmented and lacking in strategic alignment. The PC acknowledges that the timeframes of the Inquiry have prevented it from considering these programs and policies at any level of detail. Notwithstanding this, the PC then goes on to recommend a wholesale stocktake of Tasmania's economic development programs and policies.

The Tasmanian Government is disappointed that the Draft Report contains no acknowledgement of Tasmania's achievements in delivering on significant micro-economic reforms over the past decade, which have included, as noted in the Government's initial submission:

- Rationalisation of four ports corporations into one entity;
- Significant upgrade of the National Highway;
- The creation of TasRail and associated investment in transport intermodal hubs and hard stands;
- Structural and pricing reform of water and sewerage infrastructure and service delivery;
- Significant structural changes to the electricity supply industry, including the planned introduction of competition for residential and small business customers from 1 July 2014;
- The largest expansion of irrigation infrastructure in Tasmania's history;
- Support for the National Broadband Network roll-out, and ongoing expansion of the natural gas network; and
- An ongoing program of land use planning reform.

Similarly, the Draft Report contains only a cursory reference to Tasmania's current Economic Development Plan and does not discuss either the current infrastructure strategy or the role of the Tasmanian Infrastructure Advisory Council, which has contributed to an increased state focus on a primary Burnie to Hobart transport corridor.

The PC contends that successful economic development strategies require the active involvement of all levels of government in a number of key areas, regarded as the core elements of successful economic development strategies, namely:

- improving employment outcomes through skilling and training;
- creating an environment for more private sector involvement in infrastructure provision and operation;
- improving coherence in the provision of infrastructure; and
- creating a regulatory environment that reduces the cost of doing business

The Tasmanian Government is actively pursuing a range of policies and programs targeted at these strategic areas under the banner of the Economic Development Plan. Under the Plan the Tasmanian Government is investing strongly in infrastructure and skills development by facilitating access to resources and finance, ensuring that small businesses have the skills and support to prosper, attracting and facilitating investment, coordinating trade promotion, branding and marketing, providing business development services, and encouraging information exchange and collaboration.

For example:

- The new integrated Freight Strategy will focus on delivering a coordinated, whole-of-system transport network that unlocks greater efficiency and productivity in the freight sector and drives economic growth;

- The completion of ten major irrigation schemes across Tasmania will see the potential to double the water available for irrigation and food production;

- The Tasmanian Government's Skills Strategy is providing business development skills programs to meet industry needs, while the Tasmanian Government's program for skills reform, Skills for Work, is addressing the state's changing skills needs by making the training and workforce development system more transparent, easier to access, quality driven and efficient. Key projects include activities related to the Tasmanian Implementation Plan for the National Partnership on Skills Reform;

- This 10-year Trade Training Centres program aims to support business growth and capacity in regional communities by increasing access to quality training in industry standard facilities. The funding goes to schools to build or upgrade facilities, to ensure that grade 9-12 students from disadvantaged communities can engage in vocational education and train in areas of national and local skill shortage. The centres also support mature-aged adults and rural or remote communities, by ensuring that students can acquire skills to enter the workforce or progress their career;

- A streamlined approach to providing business development services in partnership with the private sector will improve access to skills, build capacity and support the growth of Tasmanian mall business. This will be delivered through a coordinated, evidence-based approach to service delivery and support, including online resources, workshops, market intelligence and extended advisory and mentoring services;

- The implementation of the Business Tasmania website is streamlining and improving interactions between government and business in Tasmania, and is reducing the time and cost for businesses to comply with government regulations. It includes a new online portal and a systematic sector-by-sector review of the administrative burden of government regulations;

- The Red Tape Action Project is working together with industry and regulators, conducting a systematic sector-by-sector review of the administrative burden for business of complying with government regulations. The objective of this review is to identify practical and tangible ways to reduce the time it takes for businesses to meet their compliance requirements; and

- Sense-T is being progressed as a long-term collaborative project overseen by UTAS to create the world's first economy-wide intelligent sensor network. It integrates different data sources to build a digital view of Tasmania and help the state become more competitive, efficient and sustainable. One early focus is a $10 million 'pathways to market' project, to increase competitiveness and open up new growth opportunities in Tasmania's key food and agriculture sector by collecting real-time data about the conditions under which food is produced, processed, transported, stored and sold.

Further details on the Economic Development Plan, including all the priority initiatives, can be found at: www.development.tas.gov.au/economic/economic_development_plan

Tasmanian governments have no control over the global and national forces that have reduced competitiveness and worsened market conditions for many Tasmanian businesses. The State does, however, have a high exposure to exchange rate-driven reductions in export demand and reductions in GST revenue based on cyclical outcomes at the national and global levels.

State-level policies can make a difference to the future growth prospects of the economy – mainly through impacting the investment climate and the productive capacity of our economy. This is why the Economic Development Plan identifies and focusses on the key levers with which the State Government can support the growth of our economy, which is consistent with the PC's broad observations in the Draft Report.

The Australian Government has more capacity to manage the impact of global and national economic forces through its fiscal and monetary policy and through adjustment assistance to affected regions. Accordingly, the State Government will continue to work with the Australian Government, through its Economic Development Plan, to deliver, direct and implement assistance as required.