

Cement Australia's Submission to the Productivity Commission's enquiry into current arrangements for subsidising containerised and bulk shipping between the mainland and Tasmania

1. Origins and intent of Freight Equalisation Scheme (TFES): quote.

Established in 1976 the scheme is aimed at allowing Tasmanian companies compete on a level freight playing field with mainland producers. The Productivity Commission's issue paper describes the underlying rationale of the TFES as:

- To "...provide Tasmanian industries with equal opportunities to compete in mainland markets." (page 7)
- A means of achieving "the underlying regional development goal" for Tasmania (page)

2. Aims of the Productivity Commission's enquiry into TFES

The overall context of the Productivity Commission's enquiry - as stated in its issues paper - is to:

- Examine whether a subsidy on freight costs is an efficient or effective way of achieving the underlying regional development goal for Tasmania.
- Assess alternative means of achieving this goal.

3. Southbound TFES

The aim of the southbound Freight Equalisation scheme is to lower the cost of imported components in Tasmanian manufacturing, processing and agriculture. But as the Productivity Commission's issues paper notes, it is important to be precise about its effect on the Tasmanian economy.

Given the subsidy can be applied to any components imported by container from the mainland irrespective of whether the end product enters interstate trade, its effect will vary. Where TFES allows a Tasmanian producer to replace an equivalent Tasmanian component with a cheaper mainland component a negative effect on the Tasmanian economy could ensue through lost production and lost wages, state taxes, and retained profits.

If, however, lower component prices have a significant effect on the finished product's price and its competitive position in the market, this may generate offsetting higher production to meet increased exports to the mainland or internationally. Where the producer does not export, or does not increase exports, the southbound subsidy would lead to a net fall in Tasmanian output and thereby detract from the regional development aims of TFES.

Lower mainland produced input prices will mean Tasmanian producers of these inputs will also have to accept lower prices. On a price averaging basis (to the extent the local producer is dependent on the local market – or seeks to expand its local market share) lower Tasmanian prices may also reduce their ability and/or potential to compete on mainland and/or international markets. Conversely the ability to increase local market share and enter the export trade can provide economies of scale for Tasmanian component producers leading to downstream price reductions for the Tasmanian market.

In summary, the operation of the southbound TFES should not act to the detriment of efficient Tasmanian industries supplying both the Tasmanian and export markets. As in the case of the Northbound TFES, it needs to be administered so as to meet the regional development goals of the scheme as a whole through stimulating the expansion of Tasmanian industry.

TFES northbound

While CA, as a bulk exporter, does not directly benefit from the northbound TFES, it recommends it be maintained given its key role in directly meeting the decentralisation aims of the scheme. TFES requires that Tasmanian companies are able to operate on an efficiency level (at the factory gate) similar to that of its mainland competitors. TFES provides a subsidy which meets a sole competitive disadvantage for Tasmanian firms – that of trans Bass Strait sea freight

The market distorting effects of the northbound FES is therefore limited. Moreover the subsidy will assist in raising manufacturing volumes where mainland transshipment is facilitated and/or overseas exports are stimulated. The economies of scale from higher production will in turn improve the inherent viability of the Tasmanian firm and reduce dependence on TFES. Where higher volumes produce lower sales prices, consumers in both the Tasmanian and mainland markets will benefit.

A continued uncapped northbound operation of TFES is therefore a preferable outcome to allow the economies of scale to be gained from higher transshipments to the mainland.