

PRODUCTIVITY COMMISSION

INQUIRY INTO THE SUBSIDISATION OF CONTAINERISED
AND BULK SHIPPING BETWEEN THE AUSTRALIAN
MAINLAND AND TASMANIA

SUBMISSION BY



Australian Government

Department of Transport and Regional Services

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Introduction

This Submission outlines the history of both the Tasmanian Freight Equalisation Scheme (TFES) and the Tasmanian Wheat Freight Scheme (TWFS). It outlines the administration of the Schemes and provides expenditure and data related to the freight that attracts the subsidies.

The Department of Transport and Regional Services (DOTARS) and its predecessors have been responsible for the administration of the TFES for most of the time since 1976. The exception was a short period between 9 October 1997 and 21 October 1998 when responsibility for the Scheme was passed to the Department of Workplace Relations and Small Business.

Responsibility for the TWFS was transferred from the Department of Agriculture, Fisheries and Forestry to the Department on 1 July 2004.

The TFES operates under Ministerial Directions approved by the Minister for Transport and Regional Services in 1999, but amended most recently in August 2003. The TWFS Ministerial Directions were approved by the Minister for Local Government, Territories and Roads on 25 January 2006.

Tasmanian Assistance Services, a business unit of Centrelink, Hobart, has administered the assessment of payments under the Schemes on behalf of DOTARS since 5 November 1999.

Background

Tasmanian Freight Equalisation Scheme (TFES) 1976-2004

The origins of the actions which led to the Australian Government's decision to introduce the TFES can be traced back to a decision in 1970 by the then Australian National Line (ANL) to increase non-bulk freight rates on its Tasmanian services by 12.5 per cent.

In response, following a number of studies on the freight disadvantage experienced by Tasmanian producers, the Australian Government announced the introduction of the TFES on 9 June 1976.

The aim of the scheme was to alleviate the disadvantage suffered by Tasmania by reason of its lack of access to road or rail transport services to the mainland. It sought to alleviate the disadvantage experienced by the Tasmanian industry due to high transport costs, stimulate Tasmania's economy and promote efficient transport systems within Tasmania and in Bass Strait.

Between 1976 and 1981 the TFES provided assistance to shippers based on the difference between freight rates from Hobart and northern Tasmania and freight rates for interstate routes over similar distances on the mainland, and remained largely unchanged.

In 1981 the Bureau of Transport Economics (BTE), in reviewing the rates of assistance paid, proposed a new 'landbridge' methodology for use in calculating the TFES assistance payable. The changes proposed by the BTE, which resulted in decreased levels of assistance, were widely criticised by industry and led to a series of extensive reviews of the Scheme throughout the 1980s and 1990s. These reviews generally debated the means of subsidising Tasmanian Freight rather than questioning the rationale.

In subsequent reviews, including the *Tasmanian Freight Equalisation Scheme Review Authority – Advisory Opinion, Review of TFES Rates of Assistance*, released in June 1998, on which the current arrangements are based, the objective of the Scheme has been stated as to assist in alleviating the sea freight cost disadvantage incurred by the shippers of eligible non-bulk goods moved between Tasmanian and the mainland.

Since the inception of the Scheme, the TFES Ministerial Directions have been amended a number of times in response to changes in Government policy or the administrative arrangements. Of these the decision to include the appointment of 'agents' to act on behalf of TFES customers for southbound agriculture, forestry and fishing industries in May 2002 has been the most substantive since the 1998 review.

The new agency arrangements were introduced to facilitate more efficient service delivery to farmers and other small businesses in the specified sectors, by enabling suppliers of services to these sectors, such as stock and station agents, to claim TFES assistance on behalf of their customers, thereby minimising the claiming, assessment and processing of multiple individual small claims. Under the arrangements, the agent determines the level of TFES rebate payable and deducts this from the price of the goods purchased by the customer. The agent then claims and is reimbursed by the Australian Government for this discount through the freight equalisation scheme. Approved southbound agents typically pass on the TFES subsidy to their customers as a reduced sale price rather than as a retrospective reimbursement.

Freight forwarders and freight logistics companies generate the documentation required to assess a TFES claim for assistance and are specifically excluded from the approved southbound agent arrangements.

The northbound eligibility criteria remained unchanged following the 2002 decision. As a consequence, there is no specific policy for agents on the TFES northbound route. This has enabled third party brokers to operate on the northbound freight route, offering freight rates and services net of the TFES rebate. As these brokers incur the cost for the freight task they are eligible to claim the TFES rebate. Unlike southbound agents, third party brokers are not subject to the controls applied to approved southbound agents.

The Tasmanian Wheat Freight Scheme (TWFS), 1948–2004

In 1948, Australian Government legislation for the first Wheat Marketing Plan required that the price of wheat be fixed and assumed that each of the States would enact provisions in their State legislation to prescribe the same price in each State at which wheat could be sold within that State. A dispute amongst the States regarding the price for which domestic wheat should be set included a debate about who should pay the costs of shipping wheat to Tasmania where the higher freight costs associated with shipping wheat across Bass Strait were found to be distorting the price of bread, and affecting the determination of the basic wage relative to other States.

In response, the Second Marketing Plan enacted in 1953 contained a special arrangement, the Tasmanian Wheat Freight Levy (TWFL), to deal with costs associated with shipping wheat to Tasmania. This arrangement was the first version of the current TWFS scheme.

The arrangements agreed to in 1953 remained in place, largely unchanged until 1989, when the Australian Government took the decision to deregulate the Australian domestic wheat marketing arrangements and establish the Tasmanian Wheat Freight Subsidy Scheme (TWFS). This scheme was intended to be transitional to give domestic Tasmanian wheat producers and users time to adjust to the new deregulated arrangements. The objectives of this Scheme were:

- to assist in the shipping of wheat to Tasmania;
- to provide transitional support to wheat-using industries while they adjusted to new wheat marketing arrangements;
- to encourage efficiencies in wheat storage, handling and transport arrangements; and
- to encourage reduction in overall freight costs.

A review of the TWFS undertaken in 1993 found the Scheme had largely delivered on its objectives but recommended significant changes to the arrangements, including redefining the objectives and aim of the Scheme. Funding for the Scheme was subsequently extended until 1999-2000.

A further review of the Scheme in 2000-01 conducted by the Centre for International Economics recommended further changes, including widening its scope to include all grains shipped to Tasmania. The Government rejected the report findings but further extended the existing scheme until 2004-05. In August 2004, following the 2004-05 Budget, the Government agreed to the current TWFS arrangements which came into effect retrospectively from 1 July 2004.

A more detailed history of both Schemes can found at Appendices 2 and 3.

Scheme Objectives

Tasmanian Freight Equalisation Scheme (TFES)

The Commission of Inquiry into Transport to and from Tasmania 1974–76 (Nimmo report) released in March 1976 found there was a case for the Australian Government to make financial assistance available to offset the disadvantages caused by Tasmania's physical separation from the mainland. It presented three objectives for the introduction of a financial assistance scheme:

- to alleviate the financial disadvantage experienced by the Tasmanian industry due to high transport costs;
- to stimulate the use and development of Tasmania's resources and economy; and
- to promote a more efficient transport system.

The Terms of Reference and hence findings of reviews of the TFES since the initial inquiry have focused on seeking to clarify or refine the methodology for determining the appropriate financial disadvantage offset.

The aim of the current TFES, established when the Government adopted the recommendations of the 1998 advisory opinion, is to assist in alleviating the sea freight cost disadvantage incurred by the shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea.

Tasmanian Wheat Freight Scheme (TWFS)

The TWFS is established to subsidise the cost of bulk shipments of wheat from the mainland to Tasmania by sea and is not available for shipments of wheat shipped in shipping containers, crates or other forms of pre-shipment packaging; or for which a claim for TFES assistance has been made.

A shipper may be eligible for a subsidy, at the rate of up to \$20.65 per tonne, in respect of the wharf to wharf freight costs of a shipment of bulk wheat by sea from the mainland to Tasmania.

Current Structures

Tasmanian Freight Equalisation Scheme (TFES)

The TFES is implemented administratively under an appropriation of the Commonwealth Parliament and is delivered in accordance with Ministerial Guidelines (Attachment A) which detail its intent and operation. The Scheme is demand driven and annual funding is uncapped.

There are two components to the Scheme. A northbound component covering eligible goods produced or manufactured in Tasmania for permanent use or for sale on the mainland of Australia; and a southbound component covering eligible non-consumer raw materials, machinery and equipment for use in manufacturing, mining, agriculture, forestry and fishing industries in Tasmania.

The Scheme operates by making payments of assistance to shippers who are responsible for paying the costs of shipment of eligible non-bulk goods. Goods shipped in bulk, international exports, service industry inputs and incoming consumer goods are not subsidised under the Scheme.

The basis for assistance paid to eligible shippers is the notional sea freight cost disadvantage as defined by the TFES Review Authority in their 1998 advisory opinion and is the difference in sea freight costs incurred by a shipper using sea freight between Northern Tasmania and mainland Australia and the notional freight cost incurred by a shipper moving the same goods an equivalent distance (approximately 420kms) by land transport modes.

Assistance is typically expressed on a dollar per standard 6.1 metre container (or twenty foot equivalent unit, TEU) basis. For less than full containers (LCL) and livestock, conversion factors are used to place these types of freight on a TEU basis for the purpose of determining TFES assistance.

The maximum level of assistance available is capped at \$855 per TEU and assistance is scaled in such a way that as the level of sea freight paid by a shipper increases and therefore the level of sea freight disadvantage, the rate of assistance paid per TEU as a proportion of the sea freight paid falls.

As the sea freight disadvantage is considered to exist only for the 'blue water' component of a total freight task, assistance is calculated and paid on the sea freight component or wharf to wharf costs of a total freight task. In recognition of the additional costs of transfer associated with sea freight tasks, an additional \$100 intermodal payment to cover container hire and wharfage charges is also applied.

Where sea freight shipped has been claimed on a basis other than a wharf to wharf basis, a fixed \$230 adjustment is subtracted from each end of the freight task bill. Where the freight bill is presented on a door to wharf or wharf to door basis the adjustment is subtracted from only one end of the total task. These adjustments are intended to bring these types of tasks back to a notional wharf to wharf equivalent bill. The aim is to ensure that only the sea freight costs and not the land based transport costs are subsidised by the Scheme.

Once wharf to wharf equivalence has been established, the standard assistance payable per TEU is calculated by subtracting the road freight equivalence (RFE) from the wharf to wharf freight costs, where the RFE is defined as being equal to \$281 per TEU for dry freight, or \$309 per TEU for reefer (refrigerated) freight. Commodities classified as high density or heavy cargoes, where the stowage factor is less than 1.1 cubic metres per tonne, receive 60 per cent of the standard assistance payable to avoid overcompensating for non-standard weight TEU's.

For freight shipped on routes other than the Northern Tasmania—Victoria (route G) or Victoria—Northern Tasmania (route S), a scaling factor based on the ratio of average door to door costs relative to the average of those costs on routes G and S is also applied.

Tasmanian Wheat Freight Scheme

The TWFS is established to subsidise the cost of bulk shipments of wheat from the mainland to Tasmania by sea. Funding is capped at \$1.05 million per annum and the rates of assistance for grain shipped may vary across years according to the amount of funding available and freight volumes in any particular year.

The rebate is not available for shipments of wheat shipped in shipping containers, crates or other forms of pre-shipment packaging; or for which a claim for TFES assistance has been made.

The freight costs are defined as the costs to a shipper of a contract of carriage and include any handling, loading or discharging charges to or from a ship incidental to the contract of carriage. The freight costs do not include:

- the land transport costs incurred outside the terminal area;
- the cost of storage or warehousing at the ports of loading or discharge, any quarantine costs;
- any insurance costs;
- accounting fees or charges or charges relating to the issuing of accounts or invoices; or
- any GST payable by the Shipper.

In addition, shippers of bulk wheat must include a Statutory Declaration with each claim that specifies the person signing the claim form has authority to do so; that the claimant was the shipper of the wheat; the claimant is or was liable to pay.

Scheme Administration — Centrelink

Claims for TFES and TWFS assistance are processed by Centrelink under a Memorandum of Understanding with DOTARS.

Centrelink's role is to deliver the TFES on behalf of DOTARS and to provide information to support policy refinement and development. Their service delivery functions include:

- the receipt, assessment and payment of customers' claims for TFES assistance;
- the financial processes of reconciling and advising DOTARS of daily claims payments;
- providing monthly performance reports to DOTARS; and
- responding to requests by DOTARS for inputs to government reporting and accountability processes as required.

The role includes responsibility for determining the amount payable to customers, providing adequate systems to detect any incorrect payments and ensuring that necessary systems are in place to facilitate timely recording of customers and claims, making and checking payments and the provision of management information.

The information used to monitor the operation of TFES is taken from the monthly reports and spreadsheets provided to DOTARS by Centrelink. The reports contain information about Centrelink's daily cash requirements, the monthly expenditure on TFES and key performance indicators of Centrelink's service delivery efficiency. Centrelink also reports on programme parameters such as rates of assistance to customers, volumes or types of goods shipped or movements in freight rates.

In addition, Centrelink publishes statistical information on its internet website about the volume of commodities shipped and the routes over which the commodities are shipped. The data is essentially a summary of the data included on TFES claim forms by customers. The data is annual data and, as the Scheme has only been operating in its current form for the five years since September 1999, it provides a limited data set. Assistance paid by commodity is available as annual data for the years from 2000–01 — 2004–05.

The volume of commodities shipped between Tasmania and mainland Australia is provided in three forms – tonnes, cubic metres and head of livestock. Each of the volume measures reflects the shipping arrangements negotiated by each shipper and commodities sent by full container load (FCL) are generally specified in tonnes, less than full container loads (LCL) are specified in either tonnes or cubic metres and animals as head of livestock.

Data is also available by route with four separate measures provided for each route – 6 metre and 12 metre full containers, and tonnes and cubic metres for LCLs.

The TFES Review Authority

The Tasmanian Freight Equalisation Scheme Review Authority (the Authority) was first established following the recommendation of the 1976 Nimmo report.

Under the present TFES Ministerial Directions, when active, the Authority consists of a Chairperson and two other members appointed by the Minister, one of whom shall have appropriate legal qualifications and experience.

The role of the Authority is to review decisions made by the Secretary pursuant to the Ministerial Directions by or on behalf of any person whose interests are affected by the decision. These reviews are typically informal, however the Authority has the discretion to establish more formal procedures where it deems them to be appropriate, including public hearings.

In addition to its decision review role, if requested to do so by the Minister or the Secretary, the Authority is also able to provide an advisory opinion on any matter or question relating to the administration of the TFES or the interpretation of the Directions.

The Authority has been called upon to provide an advisory opinion on three occasions. The first in 1995, where the Authority was asked for an opinion on the rates of assistance to Newsprint following representation from Australian Newsprint Mills (ANM) in September 1994 who had argued that newsprint attracted a lower level of assistance than other comparable paper products and goods. The Authority found that an anomaly did exist between newsprint and other paper types, and recommended the rates of assistance be adjusted accordingly. Following consideration of the 1995 opinion, the Minister for Transport directed the Authority to undertake a review of rates of assistance in August 1996. The Authority in its December 1996 opinion recommended that:

- a comprehensive review of the TFES be conducted;
- the general rates of assistance be left unchanged pending the review; and
- certain anomalies in the assistance rates when rectified would result in an overall cost increase.

In May 1997 the Minister for Transport requested the TFES Review Authority to provide an advisory opinion on TFES rates of assistance. The Authority's 1998 opinion and recommendations were subsequently adopted by the Government in 1999 and are the basis of the current TFES structure and arrangements.

The TFES Review has not been called upon to review any decisions or policy issues since 1998-99.

Recent Changes to the TFES Ministerial Directions

Self Assessment and Agency Arrangements, 2002

Under the current agreed arrangements, southbound agents lodge claims on behalf of their eligible customers, inform customers of the Commonwealth's contribution and pass on the TFES assistance payable to claimants under the Scheme.

The arrangements are administered through a service arrangement with Centrelink's Tasmanian Assistance Services, Centrelink Tasmania, which also conducts regular audits of approved agents to ensure that claims are being made in respect of eligible customers and eligible commodities, and that the agent is passing the full amount of TFES assistance on to their individual customers.

The current procedures and requirements relating to the amendments and the Scheme are detailed in the TFES Ministerial Directions (amended August 2003) available at:

http://www.dotars.gov.au/transport/programs/maritime/tasmanian/pdf/tfesdirections02_updated_03.pdf

Commodity Codes, 2003

On 4 August 2003, the Department of Transport and Regional Services approved minor amendments to Schedule 1 of the Tasmanian Freight Equalisation Scheme Ministerial Directions following a request by Centrelink. The changes involved amending Schedule 1 to enable eligible northbound goods to be categorised into specific Centrelink defined listings rather than as higher order generic categories based on Australian Bureau of Statistics (ABS) standards.

TFES Parameter Reviews

Clause 26.1 of the TFES Ministerial Directions requires that the key assistance parameters specified in subsections (a) to (e) of the Clause be reviewed on an annual basis with changes made to the Directions where those parameters are considered to have materially changed.

A technical appendix in the Authority's 1998 report provides suggested methods for monitoring and updating the key parameters for the Scheme. The appendix also contains estimates for the parameters originally prepared by the Centre for International Economics (CIE).

The key assistance parameters are:

- (a) Road freight equivalent cost;
- (b) Door to door adjustment;
- (c) Fixed intermodal cost;
- (d) Route scaling factor adjustment; and
- (e) Median notional wharf to wharf freight cost disadvantage.

Five parameter reviews have been undertaken since the inception of the 1998 review recommendations.

The first of these was conducted by the Bureau of Industry Economics (BIE) in 1998–99, followed by the CIE in 1999–2000. The three subsequent reviews covering 2000–01, 2001–02 and 2002–03 were conducted by the Bureau of Transport Economics (BTRE). The most recent review (2002–03) was finalised in October 2004.

The BTRE has been requested to undertake a review of the 2005–06 parameters. The report is expected to be finalised by December 2006.

In recommending adjustments to the key parameters, each of the reviews pointed to significant estimation and data problems that constrained confidence in the findings. It was of particular concern that the recommended adjustments to the key parameters flowing from the analysis would have been expected to redistribute assistance among recipients, while their impact on overall programme expenditure would have been minor.

As a consequence, the 1996–97 values have continued to be used in each year since the inception of the current Scheme.

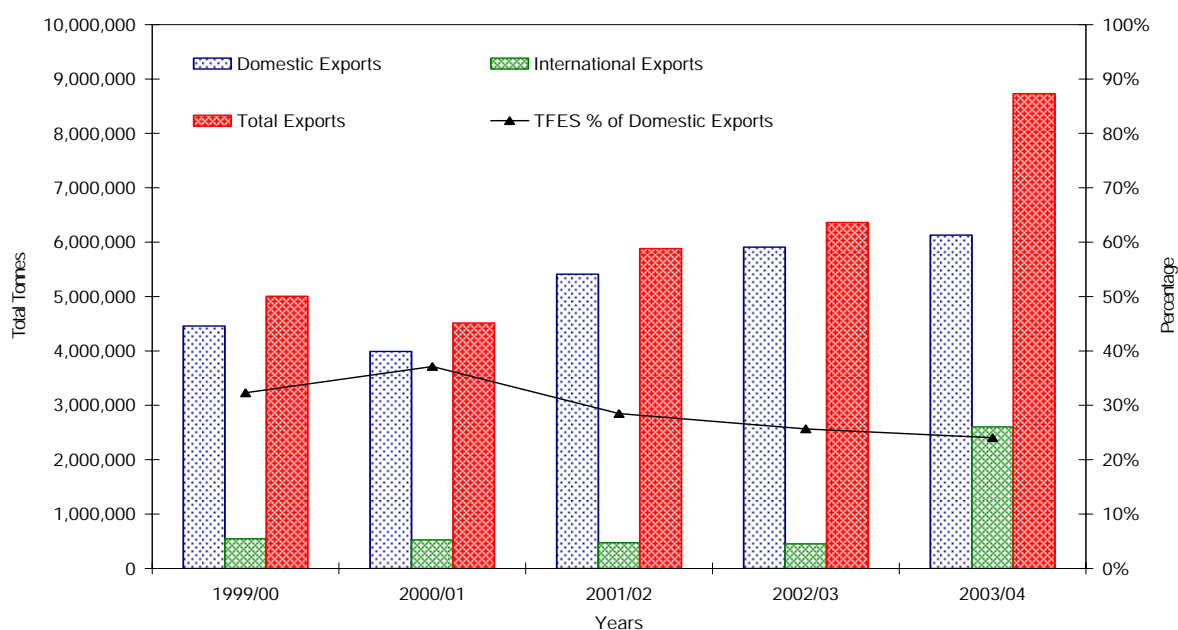
The Tasmanian Sea Freight Task

There are currently four main shipping carriers operating in the Bass Strait: Toll Shipping Pty Ltd, Patrick Pty Ltd, ANL and TT-Line. Both Patrick and TT-Line operate daily services from the Port of Devonport, Toll Shipping runs overnight services from the Port of Burnie while ANL operates a mainly transshipment service for international cargo between Bell Bay, Launceston and the Port of Melbourne on alternate days.

Exports

Over the period 1999-00 to 2003-04, the total growth in domestic and international exports freighted by sea from Tasmania grew by 14.9 per cent. International exports (which are not eligible for TFES assistance) grew by more than 47 per cent and domestic exports by 8.3 per cent. Over the same period the volume of freight receiving northbound TFES assistance remained relatively steady, rising by 1.4 per cent.

Tasmanian Domestic & International Export Tonnes by Sea vs Total TFES Tons (1999-00 to 2004-05)



Source: ABS, International Cargo Statistics & Centrelink, unpublished. Prepared by BTRE

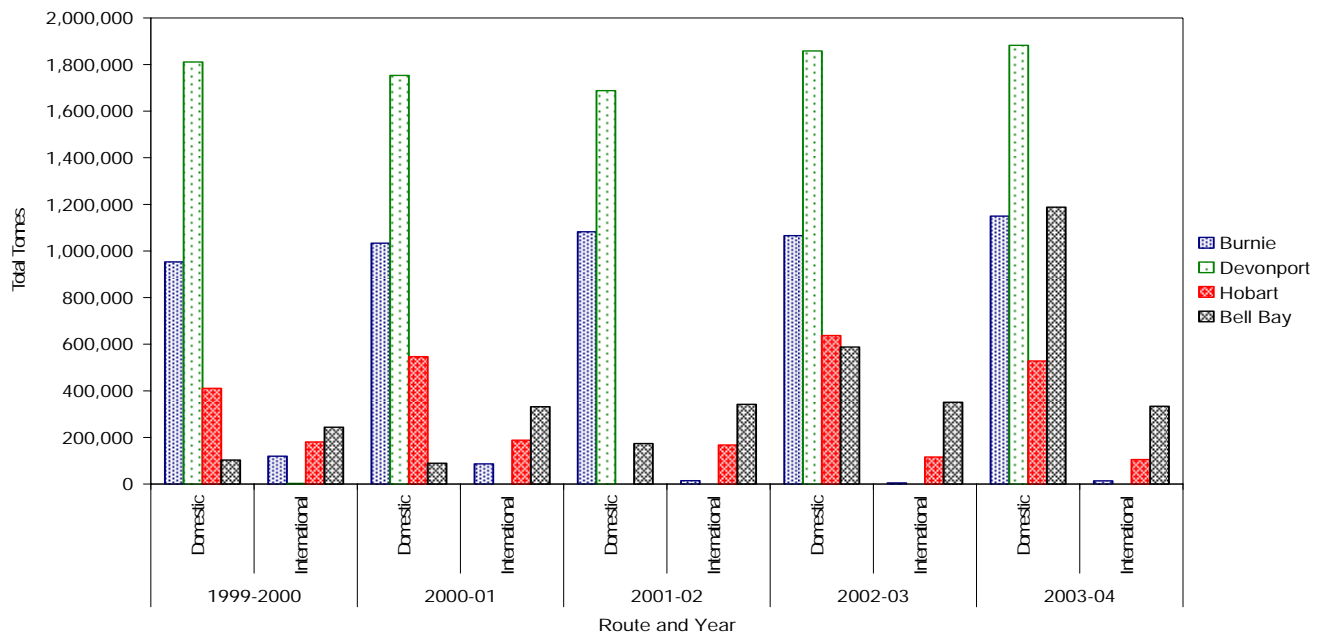
Approximately 60 per cent of all Tasmanian exports freighted by sea are shipped in bulk. The remainder travelled as either containerised freight (26 per cent) or as non-bulk freight (14 per cent). Between 1999-00 and 2003-04 non-bulk freight expanded by more than 29 per cent, northbound containerised freight grew by 8 per cent, with total non-bulk freight as a proportion of the total sea freight task increasing by 6.2 per cent. Modest growth in dry bulk freight appears to have been largely offset by an almost 8 per cent fall in liquid bulk volumes, resulting in growth of the total bulk of just 3 per cent.

Of the main ports operating in Tasmania, only Bell Bay experienced growth in the movement of international freight, rising by 8.2 per cent. All other major ports have experienced significant declines.

While both Devonport and Burnie dominate domestic export volumes, Bell Bay, with growth of 84 per cent since 1999-00 stands out in comparison to both Devonport and Burnie which have experienced only modest growth by comparison (1.0 per cent and 4.8 per cent respectively).

Of the minor ports, King Island experienced growth in domestic imports, increasing annually on average by 8.1 per cent.

Tasmanian Domestic and International Exports by Main Port, 1999–00 to 2003–04

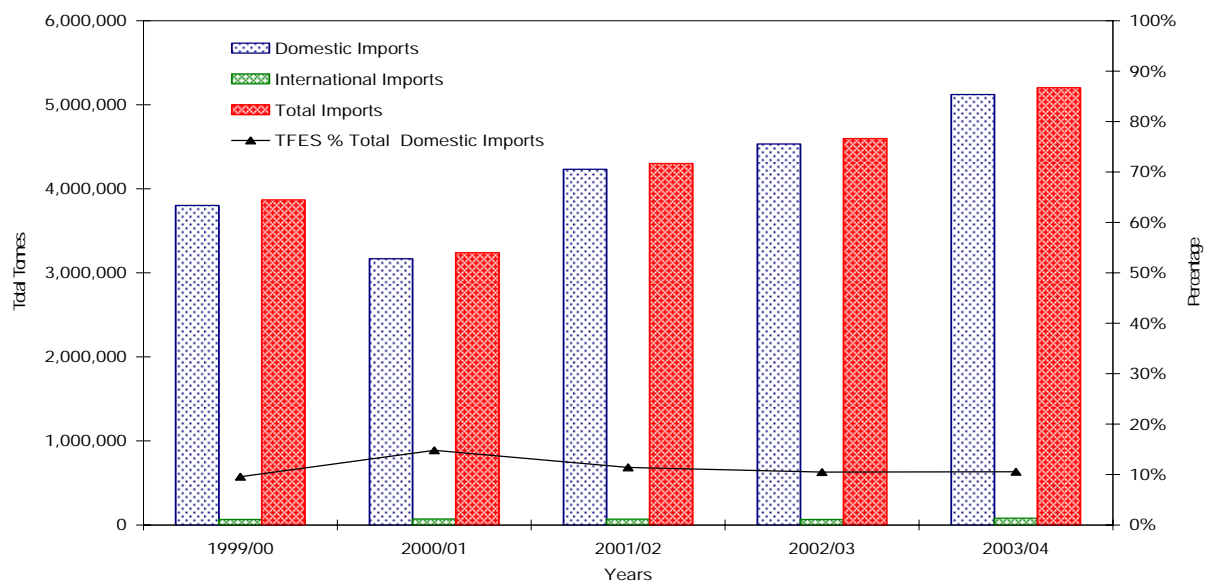


Source: ABS, International Cargo Statistics & Centrelink, unpublished. Prepared by BTRE

Imports

From 1999–00 to 2003–04 total southbound imports grew on average by 7.7 per cent per annum, international by 5.1 per cent and domestic imports by 7.7 per cent. Southbound freight subsidised under the TFES grew by 10.4 per cent.

Tasmanian Domestic & International Import Tonnes by Sea vs Total TFES Tonnes (1999–00 to 2004–05)



Source: ABS, International Cargo Statistics & Centrelink, unpublished. Prepared by BTRE

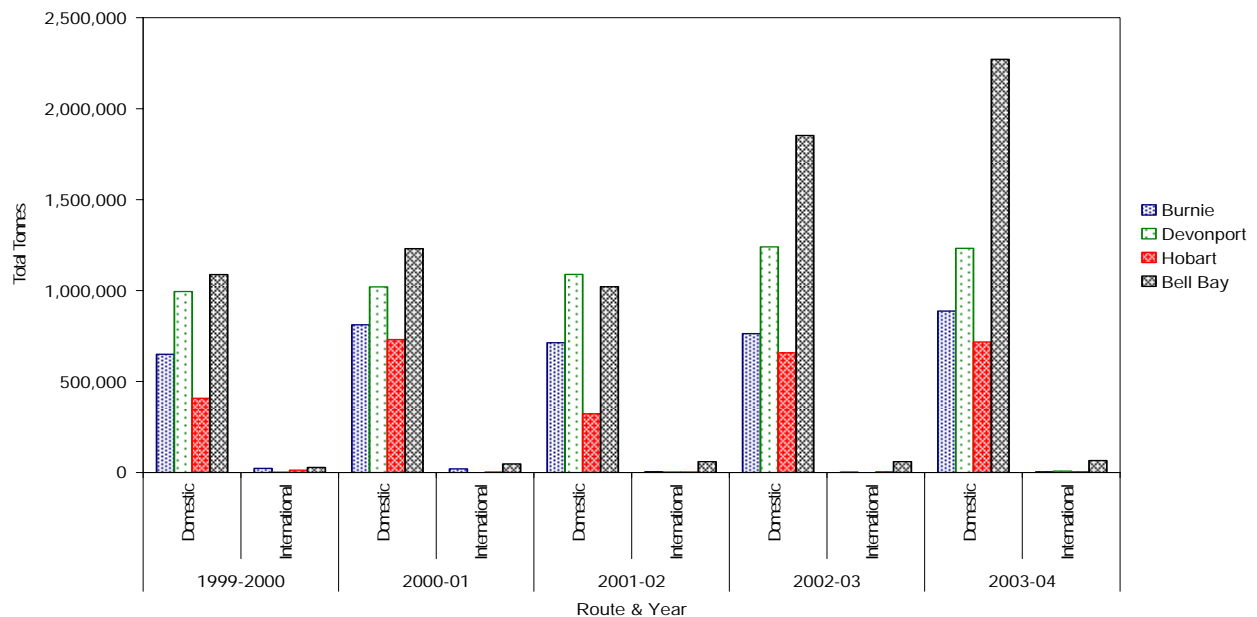
64 per cent of Tasmania's sea imports are shipped as bulk, containerised freight accounts for around 26 per cent, with non-bulk freight making up the remaining 10 per cent.

Between 1999–00 and 2003–04, non-bulk freight accounted for the majority of growth in the total southbound sea freight task, growing by almost 34 per cent while both containerised and liquid bulk freight have fallen slightly.

Between 1999–00 and 2003–04, international sea freight imports entering Tasmania through Bell Bay and Devonport grew by 23.4 and 46 per cent respectively. For both Burnie and Hobart import volumes declined, down by 36.3 and 27.2 per cent.

Over the same period, domestic imports entering Tasmania through Burnie and Devonport have increased on average 8.1 and 5.5 per cent respectively, while Hobart, has experienced a significant increase rising from 407,717 tonnes to 717,521 tonnes. As with the international freight, it is Bell Bay where the bulk of the growth has occurred, with domestic southbound freight entering Tasmania through Bell Bay increasing by 20.2 per cent.

Tasmanian Domestic and International Imports by Main Port, 1999–00 to 2003–04

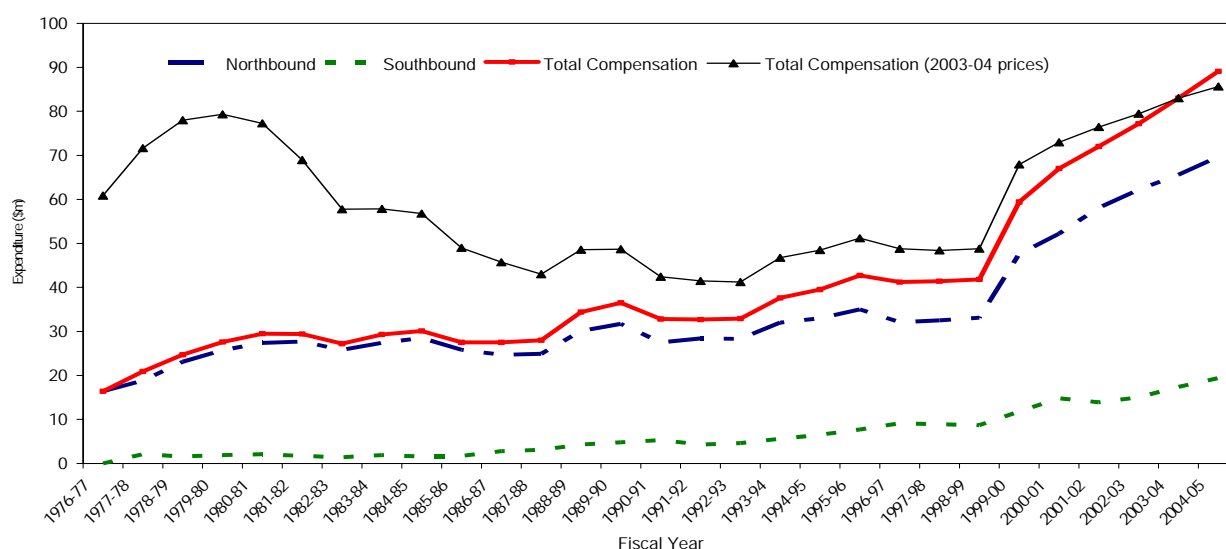


Source: ABS, International Cargo Statistics & Centrelink, unpublished. Prepared by BTRE

Analysis of TFES Performance

TFES Expenditure

Tasmanian Freight Equalisation Scheme Expenditure (1976–2005)



Source: Centrelink TFES expenditure reports 1976–2004

Since its implementation in July 1976, expenditure on TFES has grown from \$16.4 million in 1976–77 to \$89.34 million in 2004–05.

Between 1999–00 and 2003–04, total expenditure grew at an average annual rate of 8.0 per cent, northbound expenditure at a rate of 7.7 per cent and southbound expenditure at a rate of 9.0 per cent.

When adjusted to 2003–04 prices the annual rates of growth in expenditure fall to 4.4 per cent, 4.2 per cent and 5.4 per cent respectively.

Appendix 1 provides data on Budget Estimates and Forward Estimates, as published in the annual Budget papers, from 1995-96 to 2004-05.

All Routes (1999–2000 to 2003–2004)

To 2003–04, for all northbound routes, the freight costs paid by shippers on which TFES assistance have been claimed have increased on an average annual basis by 2.7 per cent and TFES compensation by 4.2 per cent.

Northbound — All Routes						
	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	Annual Avg Over 4 yrs
Freight costs claimed	\$134,687,097	\$147,670,242	\$140,809,188	\$148,035,142	\$150,080,797	2.7%
TFES compensation paid	\$56,900,780	\$64,371,830	\$66,139,987	\$70,220,188	\$66,980,930	4.2%
Tonnes	1,489,883	1,521,578	1,620,750	1,606,422	1,577,123	1.4%
Freight costs claimed/tonne	\$90	\$97	\$87	\$92	\$95	1.3%
Compensation/tonne	\$38	\$42	\$41	\$44	\$42	2.7%

Source: Centrelink TFES database, unpublished; all \$ figures in 2003–04 prices

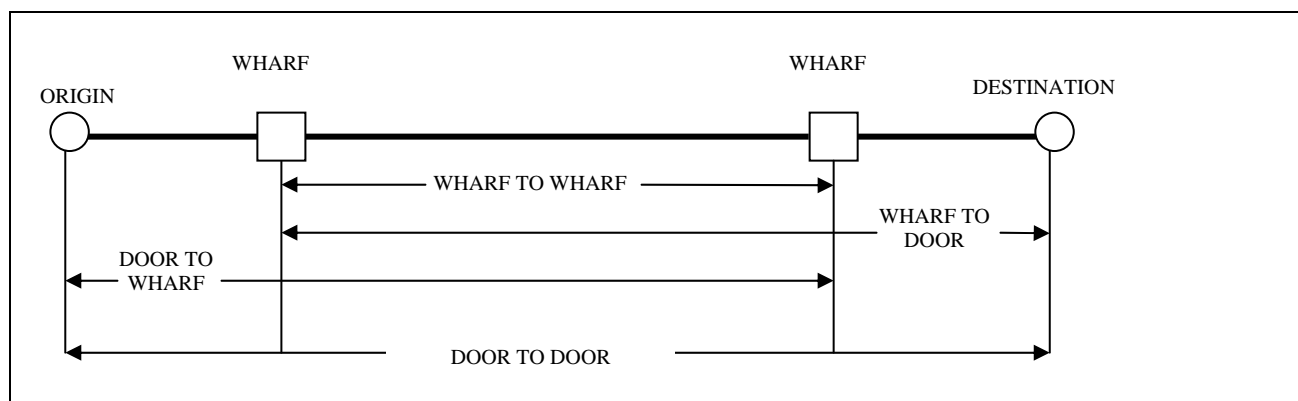
On the southbound route, growth in the level of TFES compensation paid (5.4 per cent) has grown faster than the level of freight costs against which TFES assistance has been claimed. Total volumes shipped on the southbound route have grown by 10.4 per cent.

Southbound — All Routes						
	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	Annual Avg Over 4 yrs
Freight costs claimed	\$36,700,936	\$38,649,050	\$36,004,354	\$38,610,012	\$40,829,393	2.7%
TFES compensation paid	\$14,280,243	\$16,363,921	\$15,717,348	\$15,824,368	\$17,642,594	5.4%
Tonnes	364,619	469,051	483,992	475,959	541,367	10.4%
Freight costs claimed/tonne	\$101	\$82	\$74	\$81	\$75	-7.0%
Compensation/tonne	\$39	\$35	\$32	\$33	\$33	-4.5%

Source: Centrelink TFES database, unpublished; all \$ figures in 2003–04 prices

TFES Performance - All Northbound Routes by Freight Task (1999–2000 to 2003–2004)

Under the TFES, shippers can elect to lodge a claim for TFES assistance on a wharf to wharf (WW), door to door (DD), door to wharf (DW), wharf to door (WD) basis.



An examination of the northbound freight costs claimed by shippers on a freight task basis shows, since 1999–2000, claims lodged on a WD basis have grown on average by almost 46 per cent per annum, but still make up a very small component of the overall freight task.

Northbound — Freight Costs Claimed by Freight Task on All Routes						
	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	Annual Avg Over 4 yrs
All Routes	\$134,687,097	\$147,670,242	\$140,809,188	\$148,035,142	\$150,080,797	2.7%
WW	\$49,152,787	\$58,235,139	\$59,619,791	\$64,949,121	\$73,663,910	10.6%
DD	\$81,131,364	\$85,415,100	\$78,893,199	\$79,947,686	\$70,172,618	-3.6%
DW	\$3,761,183	\$3,317,893	\$1,823,830	\$1,999,372	\$3,339,893	-2.9%
WD	\$641,763	\$702,110	\$472,368	\$1,138,963	\$2,904,376	45.9%

Source: Centrelink TFES database, unpublished; all \$ figures in 2003–04 prices

An assessment of the volumes shipped by these same tasks suggests similar effects, with WD volumes growing very strongly. The volumes of freight claimed on a WW basis have experienced steady growth between 1999–00 to 2003–04. The use of both the door to door and door to wharf claims when claiming TFES assistance have decreased over the same period.

Northbound — Volumes Shipped by Freight Task on All Routes						
	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	Annual Avg Over 4 yrs
All Routes	1,489,883	1,521,578	1,620,750	1,606,422	1,577,123	1.4%
WW	760,571	901,297	1,028,113	1,027,540	1,036,026	8.0%
DD	678,397	579,302	576,441	555,332	482,720	-8.2%
DW	48,311	38,357	13,818	9,246	18,510	-21.3%
WD	2,604	2,622	2,378	14,305	39,866	97.8%

Source: Centrelink TFES database, unpublished; all \$ figures in 2003–04 prices

Using the same analysis to look at changes in TFES compensation, the pattern of change in the use of various freight tasks is also apparent. There has been 65 per cent growth in the use of WD services.

Northbound — TFES Compensation Paid by Freight Task on All Routes						
	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	Annual Avg Over 4 yrs
All Routes	\$56,900,780	\$64,371,830	\$66,139,987	\$70,220,188	\$66,980,930	4.2%
WW	\$27,680,052	\$34,516,508	\$38,163,188	\$40,404,658	\$39,864,890	9.5%
DD	\$27,597,538	\$28,231,017	\$26,952,072	\$28,295,970	\$23,645,874	-3.8%
DW	\$1,405,606	\$1,334,042	\$827,824	\$962,249	\$1,874,315	7.5%
WD	\$217,585	\$290,263	\$196,904	\$557,311	\$1,595,851	64.6%

Source: Centrelink TFES database, unpublished; all \$ figures in 2003–04 prices

Appendix 4 provides data on TFES nominal northbound expenditure by commodity.

Southbound Freight Task

In terms of the level of freight paid, the DD task is the only task to have remained static, with the freight costs falling slightly for this task, while the freight costs associated with WD, DW and WW freight task claims have all grown.

Southbound — Freight Costs Claimed by Freight Task on All Routes						
	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	Annual Avg Over 4 yrs
All Routes	\$36,700,936	\$38,649,050	\$36,004,354	\$38,610,012	\$40,829,393	2.7%
WW	\$10,145,773	\$10,568,767	\$11,046,286	\$11,446,429	\$15,094,745	10.4%
DD	\$25,630,800	\$26,093,996	\$22,759,112	\$24,807,246	\$23,795,422	-1.8%
DW	\$369,636	\$920,496	\$560,854	\$599,861	\$630,112	14.3%
WD	\$554,727	\$1,065,792	\$1,638,102	\$1,756,477	\$1,309,114	23.9%

Source: Centrelink TFES database, unpublished; all \$ figures in 2003–04 prices

Unlike northbound freight where the volumes of freight shipped have remained relatively steady, southbound volumes increased between 1999–00 and 2003–04, the greatest proportion of that growth occurring as WW and WD freight tasks.

Southbound — Volumes Shipped by Freight Task on All Routes						
	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	Annual Avg Over 4 yrs
All Routes	364,619	469,051	483,992	475,959	541,367	10.4%
WW	143,757	190,544	236,179	255,410	311,297	21.3%
DD	207,814	248,881	214,261	183,468	199,967	-1.0%
DW	5,751	14,110	8,272	8,956	8,905	11.6%
WD	7,297	15,516	25,279	28,126	21,197	30.6%

Source: Centrelink TFES database, unpublished; all \$ figures in 2003–04 prices

The greatest growth in TFES compensation paid has been for claims lodged as WD with an increase of 17.1 per cent and WW claims which have risen by 9.5 per cent. DD and DW claims rose only marginally by comparison, with increases of 1.2 and 1.9 per cent annual average growth respectively.

Southbound — TFES Compensation Paid by Freight Task on All Routes						
	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	Annual Avg Over 4 yrs
All Routes	\$14,280,243	\$16,363,921	\$15,717,348	\$15,824,368	\$17,642,594	5.4%
WW	\$6,274,167	\$6,915,500	\$7,176,896	\$7,075,701	\$9,014,423	9.5%
DD	\$7,566,998	\$8,537,194	\$7,567,803	\$7,782,702	\$7,931,099	1.2%
DW	\$160,174	\$344,365	\$185,746	\$209,068	\$172,635	1.9%
WD	\$278,903	\$566,862	\$786,902	\$756,897	\$524,436	17.1%

Source: Centrelink TFES database, unpublished; all \$ figures in 2003–04 prices

Appendix 5 provides data on TFES Nominal Southbound Expenditure by Commodity.

Tasmanian Wheat Freight Scheme (TWFS) — 2004–05

The current Tasmanian Wheat Freight Scheme (TWFS) was established on 12 August 2004 with responsibility for the Scheme passing to the Department of Transport and Regional Services (DOTARS). The decision to include containerised wheat as an eligible good under the TFES was retained, with the result that eligibility for containerised wheat has existed concurrently with the TWFS providing a subsidy for the shipment of bulk wheat.

In addition, several local factors have driven structural adjustments in Tasmania's wheat sector:

- in early 2004, the reliance of Tasmanian producers and feed suppliers on imports of feed grade wheat from the mainland declined following an exceptional local season;
- a significant price differential between wheat and its closest substitute (barley) saw a further fall in the demand for imports of wheat;
- the Tasmanian Government sold the bulk grain handling facilities and ceased the Tasmanian Grain Elevators Board (TGEB) in December 2003 driving a shift by wheat importers to containerised shipments or substitutes; and
- several smaller mainland agents geared towards containerised grain freight have established themselves in the Tasmanian market.

The net effect of these changes appears to have been a shift by importers away from bulk into containerised wheat shipped through the smaller grain traders.

TWFS Ministerial Directions

The TWFS is implemented administratively under an appropriation of the Commonwealth Parliament in an Appropriation Act. The power of the Parliament to appropriate funds is conferred by s. 81 of the Constitution. The Appropriation Act is not a law or regulation of trade or commerce within the meaning of s. 99, but rather an authorisation to the Commonwealth Government, pursuant to s. 81, to expend the funds.

The procedures and requirements relating to the Scheme are detailed in the TWFS Ministerial Directions.
http://www.dotars.gov.au/transport/programs/maritime/pdf/twfs_directions_05.pdf

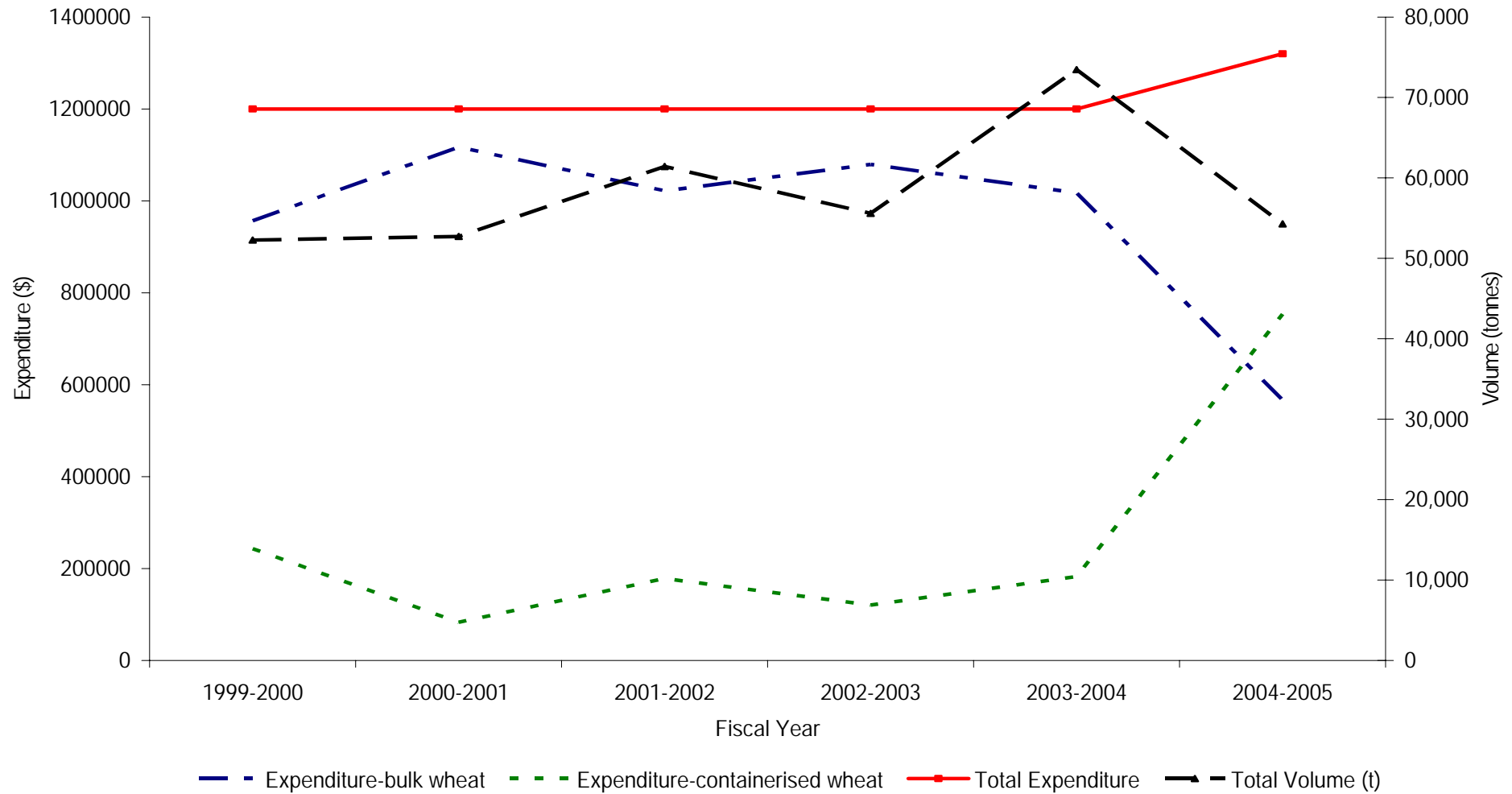
Analysis of TWFS Performance

TWFS Expenditure

The amount of assistance delivered by the Tasmanian wheat subsidy schemes has declined since their inception. In the first five years the amount of assistance was reduced by 25 per cent from \$3.6 million in 1989-1990 to \$2.7 million in 1993-1994. Further reductions were made in subsequent years. In 1996-1997 the level of assistance was set at \$1.2 million. From 2004-05 the TWFS has been capped at \$1.05 million p.a.

Since the decision of August 2004 to reintroduce a rebate for bulk shipments of wheat but to recognise eligibility for containerised shipments under the TFES, wheat shipments have shifted from bulk to containers, with the total level of funding assistance paid on wheat exceeding the historical \$1.2 million cap for 2004-05 and again in 2005-06, but with an associated significant fall in the total volumes of wheat shipped to Tasmania. It would appear that shippers prefer the TFES rebate based on sea freight disadvantage over the certainty of a fixed per tonne rebate.

TWFS Expenditure 1999–2000 to 2004–2005



Total Expenditure —Bulk and Containerised Wheat 1999-00 to 2004-05

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005*
No. shipments-bulk	9	9	10	10	10	4
No. shipments-containerised	467	152	373	229	439	1119
Total no. shipments	476	161	383	239	449	1123
volume-bulk (tonnes)	41,653.21	49,071.05	52,300.33	49,998.23	62,774.18	27,432.59
volume-containerised (tonnes)	10,621.25	3,652.39	9,118.10	5,588.65	10,694.74	26,852.41
Total volume (tonnes)	52,274.46	52,723.64	61,418.43	55,586.88	73,468.92	54,285.00
shipment cost-bulk	\$1,220,514.98	\$1,502,137.82	\$1,657,297.13	\$1,581,343.45	\$2,064,991.50	\$1,050,516.40
shipment cost-containerised	\$510,595.04	\$205,121.00	\$472,715.44	\$253,966.00	\$378,636.56	\$1,449,352.80
Total shipment cost	\$1,731,110.02	\$1,707,258.82	\$2,130,012.57	\$1,835,309.45	\$2,443,628.06	\$2,499,869.20
subsidy amount as a % of bulk costs	78.39%	74.35%	61.66%	68.26%	49.28%	53.92%
subsidy amount as a % of containerised costs	47.64%	40.53%	37.69%	47.51%	48.19%	52.01%
Total subsidy as a % of total shipment costs	69.32%	70.29%	56.34%	65.38%	49.11%	52.81%
subsidy rate-bulk	22.96	22.76	19.54	21.59	16.33	20.65
subsidy rate-containerised	22.96	22.76	19.54	21.59	16.33	28.07
subsidy paid-bulk	\$956,773.43	\$1,116,870.60	\$1,021,849.56	\$1,079,353.28	\$1,017,536.37	\$566,482.98
subsidy paid-containerised	\$243,226.57	\$83,129.40	\$178,150.44	\$120,646.72	\$182,463.63	\$753,754.00
Total subsidy paid	\$1,200,000.00	\$1,200,000.00	\$1,200,000.00	\$1,200,000.00	\$1,200,000.00	\$1,320,236.98
Expenditure-bulk wheat	956773.43	1116870.6	1021849.56	1079353.28	1017536.37	566482.98
Expenditure-containerised wheat	243226.57	83129.4	178150.44	120646.72	182463.63	753754
Total Expenditure	1200000	1200000	1200000	1200000	1200000	\$1,320,236.98
Total Volume (t)	52,274	52,724	61,418	55,587	73,469	54,285

* From 1 July 2004, containerised wheat subsidised under the Tasmanian Freight Equalisation Scheme (TFES);

Figures assume an average of 24 tonnes per container

Appendix 1- Budget Estimates and Forward Estimates for 1995-96 to 2004-05

Modified On	Comment	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Budget 1995-1996	TFES	40.5													
	Realignment of TFES assistance rates		-1.8	-3.8	-3.8	-3.8									
Budget 1996-1997	TFES		41.7												
	Realignment of TFES assistance rates			-3	-3	-3	-3								
Budget 1997-1998	TFES			35.2											
Budget 1999-2000	TFES				41,833	56,400									
Budget 2000-01	TFES					60,000	60,600	61,200	61,800	62,400					
Budget 2001-02	TFES							65,650	66,307	66,970	67,639				
Budget 2002-03	TFES								71,000	71,000	71,000	71,000			
6-Nov-02	TFES increased forecast expenses due to an increase in claims for October. Adjustment based on a growth rate of 5.1% from 2001-02 actual payments of \$71.9m (\$3.7m) and a one-off claim of \$1.5m from a revision of prior year assistance from a major claimant. The adjustment reflects this increase over the current estimates for the programme of \$71m pa.								6,100	6,100	6,100	6,100			
9-Apr-03	TFES revised estimates based on a 5.6% increase on 2002-03 estimate based on growth experienced in 2002-03.								0	3,000	3,000	3,000	3,000		
Total									77,100	80,100	80,100	80,100			

Appendix 1- Budget Estimates and Forward Estimates for 1995-96 to 2004-05

Modified On	Comment	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Budget 2003-04	TFES								77,100	80,100	80,100	80,100	80,100		
15-Oct-03	TFES revised estimates based on a 6.25% increase on the 2002-03 actual of \$77.2m.									1,900	1,900	1,900	1,900	1,900	
5-Apr-04	Additional funding for inclusion of wheat in TFES									0	1,900	1,950	1,950	1,950	1,950
Total										82,000	83,900	83,950	83,950	83,950	
Budget 2004-05										82,000	83,900	83,950	83,950	83,950	
Savings 1/09/2004	Reduction in funding for the TFES following the reintroduction of the TWFS for shipments of bulk wheat to Tasmania. Subsidies for the containerised shipments of wheat remain in TFES.										-1,650	-1,700	-1,700	-1,700	-1,700
4-Nov-04	Reclassification of TWFS from a grant to State Government to a subsidy as payments made through Centrelink not TAS Government.										1,050	1,050	1,050	1,050	1,050
5-Nov-04	Creation of admin expense budget for 2008-09. Budget will be \$82.250m. As previous adjustment of a \$1.7m reduction against a previous nil budget for 2008-09, this adjustment will be for \$83.950m.										0	0	0	0	83,950
2-Dec-04	Revised estimates based on expenditure trends in previous years.										7,150	7,150	7,150	7,150	7,150
Total											90,450	90,450	90,450		
TFES Budget 2005-06											89,400	89,400	89,400	89,400	89,400
Wheat Budget 2005-06											1,050	1,050	1,050	1,050	1,050
Total											90,450	90,450	90,450	90,450	90,450

Source: Australian Government Budget Papers from relevant years

History — TFES

The Origins of the Tasmanian Freight Equalisation Scheme

The origins of the actions which led to the Australian Government's decision to introduce a Tasmanian Freight Equalisation Scheme can be traced back to a decision in 1970 by the then Australian National Line (ANL) to increase by 12.5 per cent non-bulk freight rates on its Tasmanian services.

The Senate Standing Committee Inquiry 1970-71

On 3 September 1970, the Australian Senate referred to the then Senate Standing Committee on Primary and Secondary Industry and Trade, the operation of the Australian National Line's shipping services to and from Tasmania with regard to:

- the factors considered in establishing freight rates;
- the appropriateness of the current level of freight rates; and
- any amendments necessary or desirable to the governing legislation to enable the operation to be carried out at the lowest possible freight rate.

The Committee's report released in June 1971 found that:

- the increase in rates was fully justified;
- Tasmania was at a disadvantage relative to other States in terms of freight costs;
- the inherent inflexibility of shipping by comparison with road and rail transport constituted a definite disability for Tasmania;
- short haul shipping services of the sort operating between Tasmania and the mainland represented a high cost mode of transport; and
- available data prevented a quantitative assessment of the degree of disability.

It recommended that:

- as soon as it is practicable, the Bureau of Transport Economics (BTE), now the Bureau of Transport and Regional Economics (BTRE), be asked to attempt a quantitative assessment of Tasmania's transport disabilities relative to the other States.

Underlying some of the Committee's findings was the view that the higher cost incurred in transporting goods from Tasmania over comparable distances on the mainland was due to the subsidisation of railways and roads being provided at less than cost to road operators.

In October 1971 the Minister for Shipping and Transport referred the matter to the BTE.

The Bureau of Transport Economics Study 1971-73

In March 1973 BTE released its report *An assessment of Tasmania's Interstate Transport Problems*. The report found that the Tasmanian economy was heavily dependent on interstate trade, and that a disadvantage may in fact exist for non-bulk commodities and low density cargoes when compared to a hypothetical land transport mode equivalent.

In making these findings, the report argued that the high cost of non-bulk cargo movements resulted from the necessity to use sea transport, the relatively small size of the Tasmanian economy and inefficiencies within existing transport systems.

Potential mechanisms proposed by the BTE report included:

- use of more efficient vessels;
- use of larger vessels;
- elimination of the sea passenger service;
- a central authority to plan and control development of Tasmanian's ports; and
- reduction of imbalances resulting from the number of freight forwarders and the consequent large number of depots.

The Commission of Inquiry into Transport to and from Tasmania, 1974-76 (The Nimmo Report)

In 1974, following its consideration of the BTE report, the Australian Government tasked the Inter-State Commission with inquiring into:

- the existence and extent of any difference between the levels of charges for the transport of persons and goods between places in Tasmania and places on the mainland of Australia, and the level of charges for the transport of persons and goods between places on the mainland of Australia;
- the main causes of any such differences;
- the effects of any such differences on particular industries in Tasmania and on the possible intention to extend existing industries and develop new industries in Tasmania;
- any measures that might be taken to reduce or eliminate any such differences that have an adverse effect for Tasmania, being measures to improve efficiency in respect of shipping, port utilization, the organisation of freight forwarding and other relevant matters, with a view to reducing transport costs; and
- any disadvantages which Tasmanian industries may suffer in relation to transport because of their physical separation from the mainland of Australia, having regard, however, to any advantages that industries may enjoy by location in Tasmania.

The report, released in March 1976, presented three objectives for the introduction of a financial assistance scheme:

- to alleviate the financial disadvantage experienced by the Tasmanian industry due to high transport costs;
- to stimulate the use and development of Tasmania's resources and economy; and
- to promote a more efficient transport system.

The report found there was a case for the Australian Government to make financial assistance available to offset the disadvantages caused by Tasmania's physical separation from the mainland. It recommended that:

- the Australian Government offer direct financial assistance to Tasmanian consignors of most goods bought for use or exported for sale on the mainland. The assistance would be confined to merchandise moving interstate from Tasmania by sea in Ro-Ro or conventional vessels or by air;
- the rates of assistance (identified in the report) would apply to the northbound transport of goods by air from the same date as the scheme for sea movements is introduced;
- the date of effect of the new scheme be mid-1976;
- the level of rates be reviewed either annually or biennially, possibly by the Inter-State Commission; and
- investigations be pursued forthwith, with a view to offering financial assistance to producers who use imported materials and equipment which are not price equalised by mainland distributors.

Commissioner Nimmo proposed that the Australian Government should provide financial assistance:

- based on door-to-door charges;
- through payments directed to persons and firms who or which were consignors suffering disadvantage;
- limited to interstate movements from Tasmania;
- limited to movements in roll-on-roll-off or conventional vessels, or by air (that is bulk goods were excluded); and
- based on Tasmania being divided into two regions by the forty-second parallel of latitude.

The rates of assistance were calculated by comparing freight rates from Hobart and northern Tasmania with freight rates for interstate routes over similar distances on the mainland. The differences between these freight rates were then the bases for calculating rates of assistance. In assessing the amount of assistance to be offered, the Commissioner took into account disadvantages resulting from excess transport charges and higher inventory costs. The freight cost disadvantage was then discounted to take account of the notional natural advantage industries enjoyed by locating in Tasmania.

When the scheme was announced, the level of subsidy provided was higher than those recommended by the Commissioner, and the recommendation for an offset for the notional natural advantage ignored.

The Tasmanian Freight Equalisation Scheme (TFES)

On 9 June 1976, in response to the findings of the report, the Australian Government announced the introduction of the TFES, to apply to all eligible cargoes shipped from Tasmania to the mainland by sea. The aim of the Scheme was to alleviate the disadvantage suffered by Tasmania and its people by reason of its lack of access to road or rail transport services to the mainland. The Scheme sought to achieve this by subsidising transport services by sea between Tasmania and the mainland in order to make the door-to-door freight costs of the Tasmanian consignor approximate the door-to-door costs for moving similar goods by road or rail over the same distance on the mainland.

The TFES came into operation on 1 July 1976.

On 26 November 1976, the Prime Minister announced the Scheme would be extended, retrospectively from 1 July 1976, to include southbound non-consumer raw material and equipment used in the manufacturing, mining, and agriculture, forestry and fishing industries, shipped from the mainland as non-bulk cargoes.

Assistance was paid only if the total value of all raw material inputs from the mainland exceeded 5 per cent of the factory-door price of the finished product. To be eligible the goods were also required to be:

- used in a production process;
- manufactured on the mainland or, if imported for overseas, they must undergo a manufacturing process on the mainland; and
- they must suffer a freight cost disadvantage.

Cargoes specifically excluded included:

- fuels;
- lubricants;
- goods transported by air;
- goods of Tasmanian origin;
- goods imported directly to Tasmania from overseas;
- bulk cargoes;
- building and construction materials and equipment; and
- motor vehicles to be registered on public roads.

The BTE Review of Northbound Rates, 1978

When the Australian Government introduced the northbound component of the TFES, it directed that the BTE recalculate the subsidy rates before 31 December 1977.

The BTE released its report, *Tasmanian Freight Equalisation Scheme: Recommended Assistance Rates at 1 January 1978* in March 1978. The new subsidy rates were implemented for northbound cargoes from 1 July 1978.

The recalculated rates were determined by using *The Commission of Enquiry into Transport to and from Tasmania Report* method which defined each Tasmanian interstate route as comparable to a specified mainland route. Subsidies were then calculated as the difference between the door-to-door freight rates charged on the comparable Tasmanian and mainland routes.

The BTE Review of Southbound Rates, 1979

On 21 November 1978, the Minister for Transport directed the BTE to recalculate TFES rates of assistance to be paid on eligible southbound cargoes.

In October 1979, the BTE released its report, *Tasmanian Freight Equalisation Scheme: Recommended Rates of Assistance at 31 January 1979*. The revised rates were introduced from 1 March 1980.

The BTE Review of Livestock and Timber, 1979

The direction by the Minister for Transport relating to the TFES rates of assistance for southbound cargoes also called for an investigation of the movement of timber and timber products out of Tasmania and on the mainland, and the movement of stud cattle and horses between Tasmania and the mainland and on the mainland. The direction was subsequently extended to include all livestock.

The BTE recommended that the TFES category for timber be divided into two classifications: one for high density consignments and one for low density consignments. The division between the two classifications was to be based on a stowage factor of 1.9 cubic metres per tonne. The revised rates were initially introduced on 1 January 1980, but subsequently amended to a stowage factor of 1.6 cubic metres, introduced on 1 March 1981.

With respect to livestock, the BTE revised the rates of assistance and also expanded the number of classifications for sheep, cattle and horses to facilitate improved accuracy. The level of assistance paid for livestock was also equated for both northbound and southbound shipments, with the changes introduced on 1 March 1980.

Revision of Assistance Rates for Frozen Fruit and Vegetables, 1979

By 1979, improved direct shipping services between Tasmania and Western Australia were causing Victorian and Western Australian interests to complain that the competition from Tasmanian products was undermining the viability of local vegetable processing.

In response, the rates of assistance were recalculated using Melbourne-Perth as a comparable route. The new rates for shipments of frozen fruit and vegetables to Western Australia were introduced on 1 November 1979.

The BTE 'Landbridge' Report, 1981

On 5 May 1979, the Minister for Transport directed the BTE to undertake further studies of the costs incurred by Australian industries operating long-distance freight transport between mainland States.

The BTE released its report, *Tasmanian Freight Equalisation Scheme: A 'Landbridge' Approach to the Estimation of Subsidy Rates*, in 1981.

The 'landbridge' approach was designed to overcome a number of concerns the BTE had identified with the methodology used for calculating assistance payable in the Nimmo Report. The BTE's concerns centred on:

- subsidy rates on different routes tended to increase with distance, whereas the disadvantage of being largely dependent on sea transport, it would be expected, that all things being equal, would be greater over a short distance and decrease over longer distances;
- concern as to whether the freight rates on the four mainland routes used to determine subsidy rates were representative of mainland interstate freight rates;
- freight charges on the four comparison routes appeared to change at different rates over time, giving rise to anomalies in the structure of the TFES subsidies on the various interstate routes.

The alternative methodology developed by the BTE produced average mainland freight rates that suggested the Tasmania—Victoria route was being under compensated and other routes overcompensated.

The 'landbridge' approach was extensively criticised because:

- rates of assistance changed substantially depending upon some of the assumptions used, particularly those relating to forward and backward legs, and the preferred BTE assumptions in relation to those legs resulted in reduced rates of compensation;
- the use of the estimated equivalent road distance from northern Tasmania to Melbourne and return, plus 20 per cent (470 kilometres), rather than the Nimmo Report method which applied the longer distance of the Melbourne-Adelaide route (745 kilometres) would have increased TFES payments on sensitive commodities such as timber; and
- in contrast with the Nimmo Report method, many rates of assistance to more distant destinations would be reduced to zero or to small amounts.

On 27 May 1981, in response to opposition to BTE's proposed approach, the Minister for Transport directed the BTE to recalculate the TFES rates of assistance on the basis of:

- the Nimmo Report methodology;
- the landbridge method, with averaging for forward and backward legs;
- the landbridge method, with northbound as forward leg;
- the landbridge method, least cost option; and
- the landbridge method, high cost option.

By the time the BTE Report had been completed, resistance to the landbridge method had strengthened and the approach was never adopted.

The BTE Recalculation Using the Nimmo Report Method, 1982

On 18 May 1982 the Minister for Transport directed the BTE to recalculate the TFES rates of assistance, using the Nimmo Report method and basing calculations on the freight rates applying on 1 April 1982.

By the time the BTE reported in July 1982, the potential for fluctuations in the total level of assistance, depending upon the assumptions used, timing and other factors had emerged. The variations identified by the BTE, irrespective of the methodology used, were even further amplified when individual commodities were examined.

The 1982 BTE Report demonstrated that neither the Nimmo methodology nor landbridge methodology provided an acceptable means of updating the rates of assistance. Subsequent consideration by the Government resulted in the entire matter being referred to the Inter-State Commission.

Alternatives in the Event of Industrial Disputes, 1982

On 6 April 1982 the Minister for Transport announced that the Government had decided that in the event of industrial disputes resulting in no shipping being available between Tasmania and the mainland, the amount of subsidy payable to consignors of sea freight under the TFES will be payable to the consignors in respect of air freight for those goods, northbound or southbound, that would otherwise have travelled by sea. This reflected the Government's concern that Tasmanian industry should not be disadvantaged because of its almost total dependency for interstate freight transport on shipping.

Under this arrangement, the amount of subsidy paid to consignors of sea freight was available for those goods moved by air that would have normally been moved by sea, provided that every effort had been made to move the goods by sea and that the goods were required to be moved by air in order to avoid contract penalties or to ensure that mainland markets were not jeopardised.

An Investigation of the Tasmanian Freight Equalisation Scheme Volume 1, 1985

On 15 March 1984, the Australian Government requested the Inter-State Commission investigate matters relating to the TFES, and in particular:

- the extent to which freight equalisation payments made under the existing Scheme provide appropriate compensation for any interstate freight cost disadvantages;
- whether, in the interests of economic efficiency and equity, changes are desirable to the form of such compensation;
- in the event that the Commission considers that changes should be made to the Scheme, the commission shall investigate alternatives and consider what;
- the appropriate levels of freight cost equalisation payments that should be paid and their expected cost;
- the method of calculating the levels of payment; and
- the appropriate mechanisms of administration including arrangements for adjusting the rates of equalisation payments in the future.

The Commission's report, published in March 1985 found that:

- the TFES was based on broad equity principles, and that no satisfactory arguments based on economic efficiency had been advanced to support the Scheme;
- although the geographic fact of Tasmania being an island meant that in most cases Tasmania had no option but to use shipping services, that this fact alone would not justify the provision of a subsidy on the ground of economic efficiency;
- consignors who ship non-bulk goods between Tasmania and the mainland suffer a transport disadvantage, and that this disadvantage flows from the unintended consequences of Government decisions and policies affecting other transport modes such as cabotage and related policy restrictions for coastal shipping, charges for heavy vehicles and depressed prices for competing rail freight services; and
- these unintended consequences have a disproportionate impact on freight rates paid by those who ship non-bulk goods between Tasmanian and the mainland when compared with those who ship similar goods between origins and destinations on the mainland.

The Commission recommended that:

- the TFES be abolished and replaced with a Tasmanian Freight Compensation Scheme (TFCS);
- compensation be calculated on the wharf to wharf charges;
- compensation payments be based on the freight rates for the different types of cargo units;
- prescribed rates based on weight or volume be used for less than full container loads;
- shippers be required to pay a minimum net freight amount;
- the amount of compensation payable be discounted once a claimant receives more than \$300,000 in any one financial year; and
- a TFCS Review Authority be established.

The recommendations of the Commission, including revised rates of assistance, were introduced on 1 September 1985.

The Tasmanian Freight Equalisation Scheme Review Authority, Review of Rates of Assistance under the Tasmanian Freight Equalisation Scheme, 1996

In 1996, the Minister for Transport requested the TFES Review Authority provide an advisory opinion on TFES rates of assistance under the following terms:

- Determine the appropriate rates of assistance under the Scheme for all commodity classifications having regard to:
 - current Bass Strait freight rates; and
 - the Inter-State Freight Cost Disadvantage as determined by the Inter-State Commission (ISC) in its 1985 and 1986 Reports on Tasmanian Freight Equalisation (being the ratio of the ISC rates of assistance to the Bass Strait freight rates applying at the time of the ISC investigation);
- In determining appropriate rates of assistance, the review shall specifically investigate and address the following possible rate anomalies:
 - whether “high density goods” should continue to attract a lower rate of assistance than “all other goods” as defined under the Directions;
 - whether 10 metre trailer with similar capacity to a 12 metre trailer should receive less assistance due to assistance being pro-rated according to the length of the unit;
 - whether the level of parity of assistance between containers and trailers is equitable so that neither unit is disadvantaged;
 - the appropriateness of the level of the door-to-wharf and wharf-to-door adjustment used to convert door-to-door freight charges to a notional wharf-to-wharf amount;
 - instances where it is possible for a claimant to receive 100% returns of freight paid; and
 - the appropriateness of the classification of zinc, timber and newsprint as special classes of goods, taking into account the Authority’s 1995 advisory opinion on rates of assistance for newsprint.
- The Authority shall provide an advisory opinion on the above matters by 31 October 1996.

The Authority advised the Government of its opinion on 30 November 1996. Its recommendations included:

- a comprehensive review of the TFES be conducted;
- that the general rates of assistance be left unchanged pending the review; and
- that certain anomalies in the assistance rates when rectified would result in an overall cost increase.

The recommendation to undertake a comprehensive review of TFES rates of assistance was adopted in May 1997.

Tasmanian Freight Equalisation Scheme Review Authority – Advisory Opinion, Review of TFES Rates of Assistance, 1998

In May 1997 the Minister for Transport requested the TFES Review Authority provide an advisory opinion on TFES rates of assistance. Under the following terms:

- Determine appropriate rates of assistance under the Scheme (and their method of calculation) for all commodity classifications and all classes of shippers;
- In doing so the Review Authority should consider:
 - the TFES Review Authority opinion of 30 November 1996 and all submissions made in the conduct of that review and any additional submissions which the Review Authority believes can provide new and significant information to its review;
 - Bass Strait freight rates paid by shippers on wharf to wharf basis;
 - the equivalent land transport freight rates applying to similar interstate transport tasks;
 - the broader transport disadvantage experienced by shippers, by reason of the necessity of their shipping goods by sea across Bass Strait, compared to mainland shippers who have the option of utilising land transport for interstate trade;
- in determining appropriate rates of assistance, the review shall address the possible rate anomalies considered in the advisory opinion of 30 November 1996;
- determine a mechanism for ensuring the ongoing appropriateness of assistance payable, which is capable of embracing benefits realised through reforms in the maritime sector; and
- provide a draft advisory opinion to both Ministers on the above matters within four months and a final report within six months of commencements.

The final report released in June 1998 recommended significant changes to the structure of the scheme and the rates of assistance including:

- the TFES should have a 5 year term, with a rolling review determining each year whether or not assistance will continue to be provided 5 years beyond that date;
- the Scheme reflects current cost disadvantages, key parameters of the Scheme should be reviewed annually and indexed adjustments applied;
- the TFES should be placed on a basis where the concept of sea freight cost disadvantage is defined, widely understood, and the related entitlement to assistance is quantifiable and capable of annual update;
- the difference between wharf gate to wharf gate costs and a land freight equivalent based on actual road freight is an appropriate and practical basis for providing assistance;
- the basis for assistance should be sea freight cost disadvantage as defined;
- assistance should continue to be paid to shippers rather than to carriers;
- the Scheme has been established to address sea freight cost disadvantage. Extension of assistance to other transport modes is beyond the scope of the Scheme and beyond the terms of reference. Extension of the Scheme to goods shipped in bulk, exports and service industry inputs and incoming consumer goods should not occur;
- the finding of the 1995 Advisory Opinion on Rates of Assistance for Newsprint be implemented thereby placing newsprint on the same basis as other goods under the revised Scheme;
- assistance should be expressed on a dollar per TEU basis;
- as wharf gate to wharf gate costs are taken as the basis for assistance, reported or notional blue water charges, container hire and wharfage should be augmented by \$50 at each end to account for additional costs of intermodal transfer, some of which might be incurred on the wharf apron but are difficult to verify and might equally be incurred by other shippers outside the wharf gates;

- a door to wharf or wharf to door adjustment of \$230 at each end (being an average of the dry cargo rates implied by the database and that recommended by the Tasmanian Government based on their surveys) be adopted for all freight;
- for purposes of calculating assistance on routes other than the northbound traffic to Victorian ports from northern Tasmanian ports including Burnie, Devonport, Launceston, and the Bass Strait Islands (route G) and freight from Victorian ports entering via the northern Tasmanian ports (route S), a scaling factor be applied to wharf to wharf costs (either notional or reported) based on the ratio of average door to door costs relative to the average of those costs on routes G and S across Bass Strait;
- given the uncertainty about relevant road freight rates, an intermediate value of \$1.34 per km for a vehicle carrying two TEUs should be adopted as the basis road freight rate for purposes of calculating the road freight equivalent (RFE). This will mean \$0.67 per TEU per km for a standard commodity where the contents of two TEUs could be carried by 45 ft trailer or 40ft van. The basic rate for reefer cargo should be set at 10 per cent above this;
- in view of its concerns about the likely distortionary effects of a sliding scale heavy weight adjustment scheme, the Authority proposes that:
 - all those commodities, presently classified as 'heavy' (because of stowage factors of 1.1 cubic metres per tonne or less) continue to be classified as 'heavy' and receive 60 per cent of standard assistance;
 - zinc be classified as a heavy commodity and timber, which typically stows at more than 1.1 cubic metres per tonne, should be classified as standard;
- all claimants (other than livestock shippers) should provide both cubic metre and tonnage information on claims to assist the Tasmanian Assistance Team of the Department of Workplace Relations and Small Business with judgements on when full container loads can legitimately be claimed and to allow monitoring of the weight of containers benefiting from treatment as standard weight;
 - the Authority recognises that there is a basic incompatibility between 'full compensation' and incentives to reduce costs. The Authority proposes the introduction of a scheme that offers assistance that increases in dollar terms as disadvantage increases, up to a cap. But the ratio of 'assistance' to 'disadvantage' should fall as 'disadvantage' increases;
 - key parameters of the proposed scheme should be revised on an annual basis and updated as required.

Responsibility for the TFES was transferred from the Transport and Regional Development portfolio to the Workplace Relations and Small Business portfolio on 9 October 1997. The Scheme subsequently returned to the Department of Transport on 21 October 1998.

The Government accepted the TFES Review Authority's recommendations, with the modified Scheme introduced on 1 September 1999.

History — TWFS

The Origins for the Tasmanian Wheat Freight Scheme (TWFS)

The origins for the TWFS are associated with the establishment of the First Wheat Marketing Plan in 1948 and the fact that the price of bread (and hence wheat) affected the determination of the basic wage.

The legislation for the plan assumed that each of the States would enact provisions fixing the prices, prescribed as the same price by each State, at which wheat could be sold within that State. A dispute amongst the States regarding the price at which domestic wheat should be set at included a debate about who should pay the costs of shipping wheat to Tasmania.

In response, the Second Plan in 1953 contained a special arrangement to deal with costs associated with shipping wheat to Tasmania. This arrangement was the first version of the current Scheme.

Tasmanian Wheat Freight Levy (TWFL) 1953

The TWFL was a special arrangement approved to meet the difficulty of enabling wheat produced on the mainland to be sold in Tasmania at the common Australian Price. The arrangement involved the Wheat Board adding a loading to the price of all wheat sold, which was kept in a separate fund used to cover the freight costs associated with shipping wheat to Tasmania.

The arrangement remained through the Third (1958), Fourth (1963) and Fifth (1968) Plans. The 1969 and 1970 amendments authorising the sales of wheat for uses other than human consumption also provided for the Australian Wheat Board (AWB) to deduct from the proceeds of any such sales an amount equivalent to the TWFL loading, with the amount to be credited to the TWFL account.

The Callaghan Report - The Wheat Industry and Stabilization 1972

The report noted the freight subsidy to Tasmania had become a subject of controversy among the various starch producers, because one company had begun wheat starch operations in Tasmania.

It was argued the operation would reduce the ability of mainland producers to compete for the starch trade associated with paper manufacturing in Tasmania. The report also noted that the intention of the subsidy on freight to Tasmania was meant to apply to wheat for human consumption purposes only, and to place Tasmanian consumers of wheat products on an equal basis with those of the mainland.

The report recommended that the 'existing format of the wheat stabilisation legislation relating to pricing should be maintained subject to changes in, and having separate methods for determining, the prices for human consumption, stockfeed and industrial use sales.

The Sixth Wheat Marketing Plan 1974

The legislation associated with the Sixth Wheat Marketing Plan introduced a provision corresponding to s27(6) of the *Wheat Marketing Act 1979 (Cth)* and to s. 33(7) of the *Wheat Marketing Act 1984 (Cth)*, obliging the AWB in relation to sales of wheat for shipment to Tasmania, to take such measures as are practicable to obtain recoupment of the cost of the shipment in respect of such of that wheat as is used in the production in Tasmania of wheat products that are sent to other States for consumption in Australia, and may include provisions for that purpose in contracts made by the Board.

The Report of the Industries Assistance Commission 1978

In 1978 the Industries Assistance Commission (IAC) Report on wheat stabilisation recommended that if it was Government policy to continue to offset the freight cost of wheat delivered to Tasmania, then the cost of shipping wheat to Tasmania should be a charge against the Commonwealth Government and not wheat growers or Australian wheat consumers.

The Seventh Wheat Marketing Plan 1979

This plan restored a pricing system which distinguished between sales for human consumption, stockfeed or industrial use. The price of wheat to be used for human consumption was fixed for 12 month periods. Prices for stockfeed and industrial wheat were to fluctuate according to market conditions. The legislation imposed the TWFL on the sales of wheat for human consumption as it was the sole administratively determined price under the Seventh Plan arrangements that could not be adjusted within each 12 month period to meet the market.

The Report of the Industries Assistance Commission (IAC) 1983

As in 1978, IAC Report on the wheat industry recommended that should it be Government policy to continue the TWFL, then the costs should be met from general revenues and be limited to no more than the cost of freight from Geelong, irrespective of the Australian port of shipment.

The Eighth Wheat Marketing Plan 1984

The provisions of the *Wheat Marketing Act 1984 (Cth)* relating to the TWFL, s32(5) and s33 required that there be added to the price of all wheat sold by the AWB for use in Australia, such amount as the (Commonwealth) Minister, after consultation with the Board, considers from time to time to be necessary to be included in the price of all wheat sold by the Board for use in Australia for the purpose of enabling the Board to meet the costs of shipment of wheat (including overseas wheat) that it is required to meet by s33.

s33 and the complementary State provisions provided that the Board should not meet any costs of shipment of wheat under sub-section (3) to the extent that those costs exceed the costs of shipment of that wheat from whichever of the following ports in Victoria the costs of that shipment are lower:

- (a) Geelong
- (b) Portland.

Permits to purchase wheat directly from growers were subject to a tax which included an amount equal to the TWFL loading. An amount equal to that part raised by the tax was paid to the AWB and made subject to s. 33 by s. 33(1)(b). s33 and complementary State provisions also contained sub-sections on:

- the keeping by the AWB of a separate TWFL account;
- the disposal of any surplus monies;
- the carry-over of TWFL accounts from the previous plan; and
- the recovery of the subsidy from wheat users in Tasmania who sent their wheat products to other States for use in Australia.

An Investigation of the Tasmanian Freight Equalisation Scheme Volume 2: Shipment of Wheat to Tasmania 1985

In August 1984 the Australian Government extended the Terms of Reference for the 1985 Inter-State Commission investigation into matters relating to the TFES to include the matter of the arrangements presently provided for under sub-section 26(3) and section 27 of the *Wheat Marketing Act (1979)*, whereby the Australian Wheat Board meets the costs of shipment of wheat by the Board to Tasmanian ports and whereby the costs of these arrangements are recovered by the Board.

The Commission was directed to examine:

- whether the subsidy provided by the arrangements should continue;
- if the Commission considers that the subsidy should continue, whether any other form of subsidy or arrangement would be more appropriate and in particular;
- the appropriate form and level of any subsidy that it considers should be paid and its expected costs;
- the method of calculating any subsidy;

- the appropriate mechanism of administration including arrangements for adjusting the rate of any subsidy in the future;
- whether the subsidy or other arrangement should in any way be integrated with the Scheme having regard to any modifications which the Commission may consider appropriate arising from its investigation pursuant to the 15 March 1984 Direction.

In its report, released in March 1985, the Commission recommended:

- the TWFL, the TFES or the Commission's proposed TFCS not be integrated in any way;
- the TWFL subsidy be continued;
- the *Wheat Marketing Act (1984)* be amended so the AWB would be required to apply the TWFL funds to meet costs equal to the costs of shipping from the least costly source;
- the TWFL continue to apply to all wheat types;
- the cost of the TWFL continue to be met by a loading paid by all domestic purchasers of wheat;
- the AWB continue to be responsible for administration of the levy;
- the TWFL continue to apply to both bulk and containerised wheat; and
- the TWFL be reviewed at the same time as the Australian wheat marketing arrangements.

The Government subsequently adopted the recommendations of the Commission in 1985.

The Report of the Industries Assistance Commission (IAC) 1988

As in 1983 the IAC Report on the wheat industry recommended that should it be Government policy to continue the TWFL, then the costs should be met from general revenues and be limited to no more than the minimum cost route irrespective of the Australian port of shipment.

Tasmanian Wheat Freight Subsidy Scheme (TWFS) 1989–1990

In 1989 the Australian Government took the decision to deregulate the Australian domestic wheat marketing and pricing arrangements. Single desk export sales were continued for wheat through the AWB Ltd, formerly the Australian Wheat Board. As a consequence of this decision, on 1 July 1989, the Government replaced the TWFL with the Tasmanian Wheat Freight Subsidy Scheme (TWFS). The objectives of this scheme were:

- to assist in the shipping of wheat to Tasmania;
- to provide transitional support to wheat-using industries while they adjust to new wheat marketing arrangements;
- to encourage efficiencies in wheat storage, handling and transport arrangements; and
- to encourage reduction in overall freight costs

Administration of the Scheme was passed from the Australian Wheat Board to the then Australian Government's Department of Primary Industries and Energy.

Funding was capped at \$3.6 million, paid to the Tasmanian Treasury as a Special Purpose Payment. The Tasmanian Department of Primary Industries, Water and Environment administered the funds to the State owned Tasmanian Grain Elevator Board (TGEb).

The subsidy received by shippers was determined by the total tonnage shipped in a given financial year. Shippers would receive an initial subsidy per tonne in the financial year the wheat was shipped, with a second reconciling payment made in the following financial year once total tonnage was known with certainty.

In addition, the TGEb historically claimed the handling fee paid by shippers for unloading bulk shipments of wheat under the Scheme which it then recovered in full from the Scheme. This was a saving passed on to shippers as a reduced handling fee.

The annual appropriation was fully expended each year with approximately 90 percent of Tasmanian wheat importation costs subsidised under this arrangement.

Under the TWFS, the level of rebate received was never known with certainty in the financial year payments were made. Where the anticipated level of rebate received had been underestimated, end users would receive 'top up' invoices from shippers, requiring across years adjustments. Forward contracting and certainty in pricing was extremely difficult. The Scheme also resulted in the rebate falling when demand for wheat imports was greatest.

Commonwealth Department of Primary Industries and Energy Review 1993

The purpose of the review was to:

- examine the performance of the TWFS against its objectives;
- assess the extent to which Tasmania has adopted more efficient wheat storage, handling and transport arrangements;
- assess the impact of the associated costs of those adjustments; and
- assess the impact of the termination of the Scheme, or introduction of alternative assistance arrangements.

The report released on 6 May 1993 found:

- the aims of the Scheme had to a large extent been met and that considerable efficiencies had been achieved in handling and transport arrangements, but that storage capacity issues remained;
- termination of the Scheme would be expected to lead to increased importation of wheat through the TFES, resulting in the comparative interstate freight cost disadvantage experienced by the Tasmanian processors relative to their mainland competitors for products sold on the Tasmanian market increasing;
- Tasmanian end-users have not been advantaged over mainland end-users; and
- market distortions would be increased if the TWFS was terminated while the TFES remained in existence.

The report recommended:

- the Scheme be broadened to a Tasmanian Wheat Subsidy (TWS), to permit monies, surplus to costs of freighting wheat to Tasmania, to be applied to infrastructure development;
- the Scheme continued at the June 1994 level of \$2.7m for five years from 1994–95 to 1998–99 while storage facilities are upgraded;
- provided payments from 1999–2000 onwards be stabilised at a level which affords a general comparability between the TFES and the proposed TWS for single port discharge (estimated at \$2.1m p.a.);
- only review the TWS if or when the TFES is reviewed; and
- enter into an Agreement with the State Government, whereby they would:
 - introduce a structured adjustment process for southern industries;
 - be responsible for developing schemes (in conjunction with industry) for providing all additional funding required (over and above that available from the TWS) to develop the appropriate infrastructure to ensure on going improvements in efficiency.

Department of Agriculture, Fisheries and Forestry (DAFF) 1999

In 1999 the Government extended the TWFS and allocated further funding of \$1.2 million per annum, with a review of the scheme to be held after the 1999–2000 financial year. The justification was extension of the TWFS ensured Tasmanian industries that used which had the ability compete with imports of other grains and finished products from the mainland which received assistance under the TFES.

Centre for International Economics (CIE) Review 2000–01

On 15 November 2000 the then Minister for Agriculture, Fisheries and Forestry, announced an independent review of the TWFS. The key questions to be addressed by the review were:

- can the TWFS be justified in economic terms?;
- should it continue?; and
- are there alternative ways of achieving its objectives?

The final report released in March 2001 found that:

- significant anomalies existed because the TWFS and TFES had different frameworks for determining eligibility and assistance rates;
- there was no logical basis for determining the level of assistance for wheat under the TWFS, while assistance under the TFES is determined on a cost-disadvantage principle;
- the 'fixed sum assistance' caused assistance rates to vary from year to year, with the perverse effect of falling in years when demand and hence prices were highest;
- the TFES supported a less efficient form of transport for all other grains, excluded from TWFS;
- business investment in Tasmania was potentially undermined by the uncertainty surrounding TWFS arrangements.

The report recommended that:

- freight assistance to all grains, including wheat, be determined on the basis of cost disadvantage incurred by Tasmanian industries due to the necessity to import grain by sea across Bass Strait;
- that the size of the disadvantage be defined as the difference in sea freight costs for the transport of goods between northern Tasmania and mainland Australia, and the notional freight costs associated with moving the same good an equivalent distance by road or rail across a conceptual land bridge;
- shippers should only be compensated for the cost disadvantage associated with the least cost option for transporting grain to Tasmania;
- the TWFS be replaced with an amalgamated scheme that would deliver freight assistance to all grains according to the cost disadvantage principle; and
- the eligibility of 'other grains' should be removed from the TFES and included with wheat, as eligible commodities in a new Tasmanian Grain Freight Scheme (TGFS).

In April 2002 the Government rejected the proposal on the basis that the TWFS was a transitional arrangement only and should be abolished. The Government also expressed concerns over the costings for the proposed scheme. The funding was extended until 2004-05, when the Scheme was lapsed.

In August 2004, following the 2004–05 Budget, the Government agreed to the current TWFS arrangements which came into affect retrospectively from 1 July 2004.

Appendix 4– TFES Nominal Northbound Expenditure by Commodity

TFES Commodity Code Description	\$'000					
	1999	2000	2001	2002	2003	2004
Aluminium Powder Metal & Paste (northbound)	52	49	681	1,054	1,196	560
Bakery products (northbound)					5	
Beverages / Beer (northbound)					504	
Beverages / Bottled/mineral water (northbound)					40	11
Beverages / Cartons (High Density) (northbound)				1		2
Beverages / Cartons (northbound)	1,000	1,188	2,585	3,584	2,747	1,673
Beverages / Drums (High Density) (northbound)						7
Beverages / Drums (northbound)				1		
Beverages / Other (High Density) (northbound)	118	43	929	153	35	301
Beverages / Other (northbound)	13	57	73	61	1	
Beverages / Wine (northbound)					4	12
Bricks (northbound)	25	188	174	250	218	125
Cement, Bagged (northbound)	215	373	703	1,049	954	1,428
Cereals & cereal preparations (northbound)	17	3	4	11	2	3
Cheese (northbound)	773	1,022	1,525	1,521	1,400	910
Concrete Products / All Other Goods (northbound)	37	31	2	12	4	22
Concrete Products / Concrete products (High Density) (northbound)	14	25		3		
Confectionery & Chocolate Products / Other (northbound)	3,191	3,556	3,728	3,619	5,268	4,608
Egg pulp (northbound)	1	4	3	1	4	2
Feeding stuffs - animal (northbound)	90	58	300	665	567	126
Fertilisers, manufactured (northbound)	20	125	1,027	263	232	315
Fibreglass and plastic materials and products (northbound)	83	54	88	114	99	52
Fish and Fish products / Fresh (northbound)	97	121	130	349	454	383
Fish and Fish products / Frozen (northbound)	31	47	231	240	442	392
Fish and Fish products / Other (High Density) (northbound)						1
Fish and Fish products / Other (northbound)	12	3	28	16	59	4
Fish and Fish products / Preparations (northbound)		3	4			
Floor coverings (northbound)					3	1

Appendix 4– TFES Nominal Northbound Expenditure by Commodity

TFES Commodity Code Description	\$'000					
	1999	2000	2001	2002	2003	2004
Footwear (northbound)						1
Fruit and Fruit preparations / Apples (Bins) (northbound)	12	132	177	134	220	222
Fruit and Fruit preparations / Apples, Cartons (northbound)	14		2	32		
Fruit and Fruit preparations / Apples, juicing, half height containers (northbound)	83	32	7	98	6	104
Fruit and Fruit preparations / Frozen Fruit (northbound)	31	40	30	37	40	57
Fruit and Fruit preparations / Other (northbound)	3					
Fruit and Fruit preparations / Other Fresh Fruit (northbound)		2	41	5	10	17
Fruit and Fruit preparations / Processed Fruit (northbound)	92	76	92	74	59	21
Furniture (northbound)	37	51	53	95	116	89
Glassware (northbound)		1			2	
Glassware (northbound)	8	1	1			
Grinding millstones (northbound)	13	12	1			
Hides and skins (High Density) (northbound)				1	7	
Hides and skins (northbound)	232	283	265	231	334	292
Honey and Beeswax / Honey (High Density) (northbound)	1	1	2			
Honey and Beeswax / Honey (northbound)	4	1			5	
Hops (northbound)	6	1		67	74	22
Livestock / Calves (northbound)	133	99	36	48	252	149
Livestock / Cattle, Adult (northbound)	1,328	807	751	680	1,249	2,176
Livestock / Cattle, Stud (northbound)	63	27	64	86	69	47
Livestock / Deer, Adult (northbound)	34	16	7	2		
Livestock / Foals (northbound)	1			2		1
Livestock / Goats, Adult (northbound)	2					
Livestock / Horses (northbound)	22	7	7	2	5	3
Livestock / Lambs (northbound)	313	246	192	185	486	361
Livestock / Pigs (northbound)	12	1	11	24	4	
Livestock / Sheep, Adult (northbound)	192	187	305	423	743	932
Livestock / Sheep, Stud (northbound)	14	30	30	17	17	17

Appendix 4– TFES Nominal Northbound Expenditure by Commodity

TFES Commodity Code Description	\$'000					
	1999	2000	2001	2002	2003	2004
Machinery and hand tools (northbound)				9	3	
Machinery and Transport Equipment (northbound)	276	240	191	203	769	677
Meat and meat products / Chilled (northbound)	281	162	266	77	409	286
Meat and meat products / Fresh (northbound)	51	38	52	6	20	9
Meat and meat products / Frozen (northbound)	99	84	47	129	2	89
Meat and meat products / Hanging (northbound)	27	6		58	50	4
Meat and meat products / Other meat products (northbound)	2	1	1	18	54	25
Meat and meat products / Processed (northbound)					64	36
Metals and Metal products / Ferro-alloy products (northbound)	12		218	544	362	310
Metals and Metal products / Metal Castings (High Density) (northbound)	2	7	5	3	4	6
Metals and Metal products / Metal Castings (northbound)						1
Metals and Metal products / Metal products and metal parts (northbound)	61	59	184	358	284	307
Metals and Metal products / Metal products and parts (High Density) (northbound)			6	14	5	
Metals and Metal products / Metal waste and scrap (High Density) (northbound)	8	76	6	8	32	12
Metals and Metal products / Metal waste and scrap (northbound)	494	1,074	1,417	2,547	3,365	1,806
Milk and Milk products / Butter (northbound)	3	22	54	342	544	359
Milk and Milk products / Milk powders, Concentrates and Preparations (northbound)	181	264	331	728	546	377
Milk and Milk products / Milk, Dried, Condensed and UHT (northbound)	619	527	868	1,485	1,179	1,596
Milk and Milk products / Milk, Dried, Condensed and UHT (High Density) (northbound)	36	59	30	355	210	61
Newsprint (northbound)	29	111	11,728	38,515	23,306	23,745
Ores and Concentrates / Low Density (northbound)	24	259	51			10
Ores and Concentrates / Other (northbound)		110	33	40	86	4
Paper and Paper Products / Paper (northbound)	60	34	9,805	11,522	11,456	9,488
Paper and Paper Products / Paper products (northbound)	2	92	65	130	86	1
Paper and Paper Products / Waste paper (northbound)	888	788	1,300	1,109	1,414	979
Particle Board (northbound)	84	69	421	1,185	813	947
Plastaid (northbound)	1	4				
Recycled Glass (northbound)	257	369	271	448	558	393

Appendix 4– TFES Nominal Northbound Expenditure by Commodity

TFES Commodity Code Description	\$'000					
	1999	2000	2001	2002	2003	2004
Recycled plastic (northbound)	62	21	47	44	25	11
Recycled tyres (northbound)	16	30	14	6	16	7
Sand (northbound)					22	34
Sausage Casings (northbound)			1			
Seedlings, rootstocks etc. (northbound)	80	73	179	76	47	84
Seeds (northbound)	51	84	111	156	264	235
Silica Fume (northbound)	47	59	206	223	264	248
Soil conditioners / Peat Moss (northbound)	74	31	12	3	88	16
Soil conditioners / Seaweed (northbound)	6	2	1	2	4	1
Stone, quarried (northbound)	60	72	133	114	58	51
Tallow (northbound)	2	20	12	19	18	16
Textile yarns and clothing (northbound)	811	736	830	836	697	395
Timber (northbound)	3,399	5,150	4,667	6,917	8,125	6,481
Tree Ferns (northbound)	191	156	146	87	41	25
Turf (northbound)					4	
Vegetables and vegetable products / Fresh (northbound)	1,388	1,324	1,742	3,138	3,776	2,799
Vegetables and vegetable products / Frozen (northbound)	1,029	1,074	12,442	22,946	21,608	18,497
Vegetables and vegetable products / Other (northbound)	34	18	14	43	70	32
Vegetables and vegetable products / Processed (northbound)	16	7	19	64	110	220
Waste Oil (High Density) (northbound)	7		7		15	5
Waste Oil (northbound)				7	1	4
Waste Rag (northbound)	4	8	1		8	11
Wood & Cork Products (northbound)	1,562	534	3,579	5,091	6,580	5,390
Wood pulp, bales and pellets (northbound)				1		
Wool (northbound)		1	4	48	100	99
Zinc (northbound)		2,230	425	141	534	562
Total	20,774	25,090	66,229	115,007	106,030	92,202

Appendix 5– TFES Nominal Southbound Expenditure by Commodity

TFES Commodity Code Description	\$'000					
	1999	2000	2001	2002	2003	2004
Bakery / All Other Goods (southbound)	25			6		
Equipment / All Other Goods (southbound)	7	10	65	19	59	41
Equipment / High Density Goods (southbound)	10	14	7	27	33	16
Grains (FCL) / Barley (southbound)	23					
Grains (FCL) / Lupins (southbound)	1	18				
Grains (FCL) / Oats (southbound)	36					
Grains (FCL) / Other/Mixed (southbound)	51	4				
Grains (FCL) / Soya Meal (southbound)	11					
Grains (FCL) / Wheat (southbound)						465
Livestock / Cattle, Adult (southbound)	169	447	42	611	210	363
Livestock / Cattle, Stud (southbound)		52		22	1	6
Livestock / Lambs (southbound)		28				
Livestock / Pigs (southbound)	229	108	27		0	2
Livestock / Sheep, Adult (southbound)		3				
Raw Materials / All Other Goods (southbound)	3,764	3,041	9,798	14,875	18,214	13,677
Raw Materials / High Density Goods (southbound)	1,612	1,932	2,774	4,194	5,032	4,083
Total	5,938	5,658	12,713	19,754	23,549	18,654