

PRODUCTIVITY COMMISSION INQUIRY INTO TASMANIAN FREIGHT ASSISTANCE ARRANGEMENTS

Rejoinder Submission
11 October 2006

Tasmanian Farmers and
Graziers Association



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1. INTRODUCTION

As highlighted in its June submission to the Productivity Commission Tasmanian industry is broadly happy with the assistance calculation methodology and the administrative elements surrounding the current Tasmanian Freight Equalisation Scheme. However, the Tasmanian Wheat Freight Scheme lacks the same integrity in terms of calculating assistance.

Freight assistance provided by both schemes is an essential component of the cost structure for shippers moving freight across Bass Strait and it is suggested delivers considerable economic benefit to Australia. Tasmanian industry regard the benefit assessment commissioned by the Tasmanian Government, and cited in the Productivity Commission's draft report, as flawed. It is understood that this issue of assessing the continuing benefits is being taken up by some major industry participants and revisited by Government representatives.

Pending further submissions by these parties the TFGA reserves its comments regarding economic assessment and refers the Productivity Commission to its previously supplied comments contained in its June submission to the inquiry. In particular Section 3 the Economic Value of Freight Assistance and the attached appendix – The Potential Impact of TFES Removal on the Tasmanian Vegetable Industry.

For the purposes of providing commentary on the Productivity Commission's Draft Report, the Tasmanian Farmers and Graziers Association (TFGA) re-tenders the submission it previously lodged in conjunction with the Tasmanian Chamber of Commerce and Industry. This previous submission provides a position in relation to much of the discussion and findings included in the Productivity Commission's Draft Report. The TFGA is aware that in the forthcoming round of Public Hearings submissions will be made from other organisations, companies and Governments that will reflect and at times incorporate its views and will endorse these submissions as appropriate.

Consequently this Rejoinder Submission to the Productivity Commission's inquiry into Tasmanian Freight Assistance Arrangements is prepared with the intention of supporting its presentation during the Public Hearing process. The Rejoinder Submission provides comment on three discrete aspects of the Productivity Commission's draft report that are less likely to be addressed in other submissions:.

- Draft Proposal 3 suggesting the introduction of a flat rate subsidy of \$400 per TEU from 1 July 2007; and
- Draft Proposal 2 suggesting the Australian Government should abolish the Tasmanian Wheat Freight Scheme from 1 July 2007;
- Draft Finding 5.7 concerning the current rules as to which freight is eligible for a rebate and the specific case of recyclable containers.



2. PROPOSED FLAT RATE ASSISTANCE

The Productivity Commission asserts that:

“There is no convincing rationale for retaining either the TFES or the TWFS. However, if the Australian Government decides to continue subsidising sea freight across Bass Strait, attempts to tailor assistance to the specific circumstances of individual shippers should be abandoned and assistance should be paid a single fixed rate of subsidy, set at \$400 per TEU. This would reduce the complexity of the scheme, the ‘gaming’ of the scheme and the costs of its administration.”¹

The TFGA considers that there are convincing rationales for the retention of both TFES and TWFS. These rationales are embedded in statements such as that appearing on the Department of Transport and Regional Services web site for TFES which specifies that:

“The Scheme assists in alleviating the comparative interstate freight cost disadvantage incurred by shippers of eligible non-bulk goods carried between Tasmania and the mainland. Its objective is to provide Tasmanian industries with equal opportunities to compete in mainland markets, recognising that, unlike their mainland counterparts, Tasmanian shippers do not have the option of transporting goods interstate by road or rail.”²

From this statement it is clearly apparent that TFES is a mechanism that contributes to equity for Tasmanian industries competing in the national economy. *“The rationale for its existence is the requirement that all Australian States be treated equitably with respect to accessing the benefits of interstate trade.”³* Arguably the underlying impetus for establishing the Scheme can be attributed to the level of past investment in interstate transport infrastructure by successive Commonwealth Governments, current policies impacting on the efficiencies of maritime coastal shipping and even actions such as the recent endorsing of a reduction in the level of competition in coastal shipping between the Australian mainland and Tasmania. It can even be argued that the foundation stones on which TFES is based are principles founded in social and state equity.

¹ Productivity Commission, Tasmanian Freight Subsidy Arrangements – Draft Report, Sept 2006, p.99

² Department of Transport and Regional Services, <http://www.dotars.gov.au/transp ort/programs/maritime/tasmanian/scheme.aspx>, 9 June 2006

³ Australian Paper, Productivity Commission Inquiry into Tasmanian Freight Assistance Arrangements Confidential Submission; June 2006 p.2



It is understood that in a similar manner to the assessment of the benefits attributable to TFES the rationale for the Schemes' existences will be the subject of further development by Governments and other industry participants.

However, pertinent to this discussion regarding the 'flat rate' assistance proposal, is that whatever the agreed rationale, should the Australian Government decide to continue with assistance the basis for determining the appropriate mechanism should be the purpose as defined above.

That is, the merits of any alternative proposal should be assessed against its capacity to address the sea freight cost disadvantage as defined by the TFES Review Authority in its 1998 Advisory Opinion.

The Productivity Commission has posited a number of considerations in support of 'flat rate' assistance including the potential to reduce complexity, potential for 'gaming' and administrative costs.⁴ There are also assertions that "*sound, economic efficiency would be increased*"⁵ with increased incentives for Tasmanian producers to minimise transport costs.

However, the principal basis for comparative assessment should be the extent to which the 'flat rate' proposal actually meets the stated objectives of the scheme and in particular the embedded notion of supporting equal opportunity to participate in the market place. There is no suggestion that flat rate assistance approach will deliver a superior outcome in this regard. Indeed the Productivity Commission in its draft report recognised that a flat rate assistance regime will impose a significant additional burden on the shippers incurring higher freight rates.

While not providing conclusive evidence that a 'flat rate' approach has the capacity to deliver a better outcome it argues that "*the current arrangements also provide only approximations of each shipper's disadvantage*"⁶ and that the "*...parameters, class cut-offs and sliding scale percentages that are the dominant determinants of assistance provide no more than practical, workable approximations.*"⁷ While these are features are acknowledged the TFGA suggests that, notwithstanding these shortcomings, the 'calculated disadvantage' approach is likely to be more closely aligned with the actual sea freight cost disadvantage than an arbitrary flat rate and as such is a better foundation for delivering assistance.

⁴ Productivity Commission, Tasmanian Freight Subsidy Arrangements – Draft Report, Sept 2006, p.99

⁵ Ibid p.101

⁶ Ibid p.101

⁷ Ibid p.102



Further, the shortcomings of the existing parameters were recognised in the TFGA/TCCI first round submission in which it submitted that “...a framework should be developed for the annual adjustment of assistance parameters. This framework would identify and explain the methodology to be employed in adjusting the parameters, the supporting data requirements and how they might be collected and determine the annual date on which the adjustment would be implemented.”⁸ In this way the accuracy of the current methodology, appropriateness of parameters and consequent level of assistance provided would even more accurately reflect the comparative sea freight cost disadvantage and meet the specified objectives of the scheme.

A “flat rate” approach, while administratively attractive, does not meet the fundamental test of being linked to the relative sea freight cost disadvantage and is not supported as the basic platform for calculating and delivering freight assistance.

⁸ TFGA & TCCI, Productivity Commission Inquiry into Tasmanian Freight Assistance Arrangements, Submission; June 2006, p. 26



3. ABOLITION OF TASMANIAN WHEAT FREIGHT SCHEME

The Productivity Commission has proposed the abolition of the Tasmanian Wheat Freight Scheme and suggested that this should be done as soon as practicable. The proposal appears to be founded on the bases that:

- *“the TWFS is unused and there is no reason to retain it,”*⁹
- *“the predecessor scheme was intended to be transitory in nature,”*¹⁰
- *“a common price for wheat for human consumption throughout Australia was long ago recognised as an inefficient policy and scrapped,”*¹¹ and
- *“with the abolition of the TWFS, wheat would be treated in the same manner as other grains and other bulk commodities shipped into Tasmania”*¹²

The TFGA submits that these do not provide a foundation for proposing that the Tasmanian Wheat Freight Scheme should be discontinued.

While the TWFS was unused in 2005/06 it is apparent, and recognised in the Productivity Commission’s draft report, as being *“... because the net freight cost is lower if wheat is shipped in containers at rates subsidised under the TFES.”*¹³ More accurately the underlying reason is that the freight rate relativities between containerised and TWFS assisted shipments are distorted.

However, it is apparent that relativities may be changed. Indeed, if the Productivity Commission’s recommendations regarding the phasing out of TFES and/or reduced assistance at a ‘flat rate’ were implemented the containerised/bulk relativities would change and generate renewed demand for bulk grain assistance. Accordingly the Productivity Commission is requested to consider the implications of other proposals in its report, such as the changes to assistance calculation mechanisms, on the suggested abolition of the TWFS.

In its assessment of the Tasmanian Wheat Freight Scheme the Productivity Commission recognises the historical sequence of events that preceded the instigation of the current wheat freight assistance arrangements. However, there are concerns surrounding the claim that: because a preceding scheme was founded on a transitional basis that this should naturally apply to a current arrangement.

⁹ Productivity Commission, Tasmanian Freight Subsidy Arrangements – Draft Report, Sept 2006, p. XII,

¹⁰ Ibid p. 96

¹¹ Ibid p. 96

¹² Ibid p. 96

¹³ Ibid p. XVI



Similarly the implied linkage between the current scheme and the Tasmanian Wheat Freight Levy which supported the 'home consumption price' but was discontinued in 1989 is considered to be misleading. This is especially apparent given the subsequent scheme was instituted to provide assistance in adjusting to new wheat marketing arrangements and even it doesn't provide a basis for assessing the merits and intent of the current scheme.

In this environment the guidance was sought regarding the purpose of the TWFS. The Department of Transport and Regional Services has portfolio responsibility for the Tasmanian Wheat Freight Scheme and its web sit clearly states that the scheme provides a rebate to eligible shippers of eligible bulk wheat on Bass Strait with the objective being to "...assist in alleviating sea freight costs of shipping eligible bulk wheat on Bass Strait so that businesses in Tasmania relying on bulk wheat shipments are not unduly disadvantaged."¹⁴

This is clearly at odds with the links to the wheat assistance (home consumption price) policy which was recognised as inefficient and scrapped in 1989.

More importantly, from the objective it is evident that the TWFS is focused on shipping costs; interstate trade to Tasmania; and recognition of a relative disadvantage. This implies that the scheme is based on correction of an inequity in a similar manner to that underpinning the Tasmanian Freight Equalisation Scheme.

The fourth basis on which the abolition of the TWFS is being promoted is coincidental. The implied suggestion appears to be that ending TWFS would cause wheat to be treated on parity with other grains and bulk commodities. However, there is no rationale as to why this is desirable or would deliver a better economic outcome. Indeed the limited scope for product substitution between wheat and other grains suggests that coincidental impacts are minor.

There is no compelling case for the abolition of TWFS.

In this context it is appropriate to revisit why TWFS is currently unused. The TFGA asserts that the current scheme does not provide appropriate market signals regarding economic efficiency; by maintaining appropriate freight rate relativities between containerised and bulk wheat movements. Given that assistance to containerised wheat is based on the compensation of a notional sea freight cost disadvantage, the lack of appropriate relativities between containerised and bulk wheat movements suggests assistance to the latter has been set inappropriately.

This cause for this program inefficiency becomes evident when the assistance calculation/allocation methodology is examined. The allocation of a capped amount across volumes that may vary from

¹⁴ <http://www.dotars.gov.au/transport/programs/maritime/wheat.aspx>



year-to-year to a maximum of \$20.65 per tonne is not linked to the scale and nature of disadvantage incurred.

The TFGA refers to its previous submission in concluding that “... *an effective scheme would recognise that the movement of wheat across Bass Strait occurs in volumes that are more appropriately compared with rail transport than bulk shipping. This platform provides a basis for developing the rationale that the sea-freight cost disadvantage faced by Bass Strait grain movements is most appropriately based on a sea-freight cost disadvantage calculated using the existing freight costs and those that would be applicable where a notional land-bridge existed and grain was moved by rail.*”¹⁵

Such an approach would contribute to instating similar relativities as exist between containerised and mini-bulk transport movements between mainland interstate origins and destinations. In doing so the disadvantage affecting business that would in normal circumstances rely on bulk wheat shipments would be more appropriately addressed.

It is also observed that such an approach would deliver considerable savings to the Government in the form of reductions to payments made for the shipment of wheat under the Tasmanian Freight Equalisation Scheme without compromising the integrity of the latter.

¹⁵ TFGA & TCCI, Productivity Commission Inquiry into Tasmanian Freight Assistance Arrangements, Submission; June 2006 p. 25



4. ELIGIBILITY OF RECYCLABLE CONTAINERS

In its Draft Report the Productivity Commission has provided extensive discussion of the calls for changes in eligibility and its Draft Finding 5.7 observes that “*the current rules as to which freight is eligible for a rebate result in a number of anomalies...*”¹⁶

The discussion surrounding empty containers and packaging encapsulates the key concerns of the TFGA regarding the treatment of recyclable containers. However, it is noted that the Productivity Commission has not at this point prepared a proposal or recommendation in response to the identified anomalies, and empty containers specifically.

The Productivity Commission recognises that currently “*...the distinction as to eligibility for TFES rests on decisions regarding the characterisation of the good in question, and even how particular claimants use particular containers. As such, eligibility may vary on a case-by-case basis.*”¹⁷ The TFGA observes that, in general terms, a single use container which becomes part of a product through the manufacturing process, or by virtue of being sold with its contents, is eligible for freight assistance when transported to Tasmania. However, an identical item that is part of a recycling chain will be ineligible.

In the context that some form of assistance to offset the sea freight cost disadvantage will remain it is appropriate that the Productivity Commission provide a proposal that responds to identified anomalies and, more specifically from a TFGA perspective, addresses the eligibility of recyclable containers to receive freight assistance.

It is submitted that a specific recommendation be included in the Productivity Commission’s report that containers shipped across Bass Strait with the intention of being filled/refilled as part of a production, manufacturing or packaging cycle be classified as eligible to receive TFES assistance.

¹⁶ Productivity Commission, Tasmanian Freight Subsidy Arrangements – Draft Report, Sept 2006, p.78

¹⁷ Ibid p.76



5. CONCLUSION

The Tasmanian Farmers and Graziers Association strongly supports an approach to delivering freight assistance that is based on calculated disadvantage. A 'flat rate' approach is regarded as being less than optimal in this regard and the existing Tasmanian Freight Equalisation Scheme mechanism is strongly supported. However, the TFGA does recognise the need for improved accuracy in the calculation of disadvantage and broadly supports initiatives such as the development with industry of a transparent framework for improving the quality of parameters used in calculating disadvantage.

The Tasmanian Wheat Freight Scheme is an integral part of delivering freight assistance to Tasmanian producers and manufacturers. Its lack of use in the past year points to shortcomings in the methodology by which assistance levels are calculated. In this regard the development of a transparent mechanism linking assistance with the level of sea freight cost disadvantage incurred is strongly supported.

The anomalies and uncertainties regarding the eligibility of refillable containers for freight assistance impose additional costs on industry that are outside the observed spirit and intent of the Tasmanian Freight Equalisation Scheme. A clear recommendation that containers shipped across Bass Strait with the intention of being filled/refilled as part of a production, manufacturing or packaging cycle be classified as eligible to receive TFES assistance will assist in resolving this anomaly.

The Tasmanian Farmers and Graziers Association looks forward to continued involvement with the Productivity Commission's inquiry into Tasmanian Freight Assistance Arrangements and welcomes the opportunity to present this submission at the Public Hearings.