

Tasmanian Freight Assistance Arrangements

Productivity Commission Inquiry

Public Hearing – Hobart

17 October 2006

Agenda

- Rationale
- Benefit Assessment
- Quantification of the Sea Freight Cost Disadvantage
- Assistance Mechanisms
- Parameters
- Rorting
- Key Points

Rationale

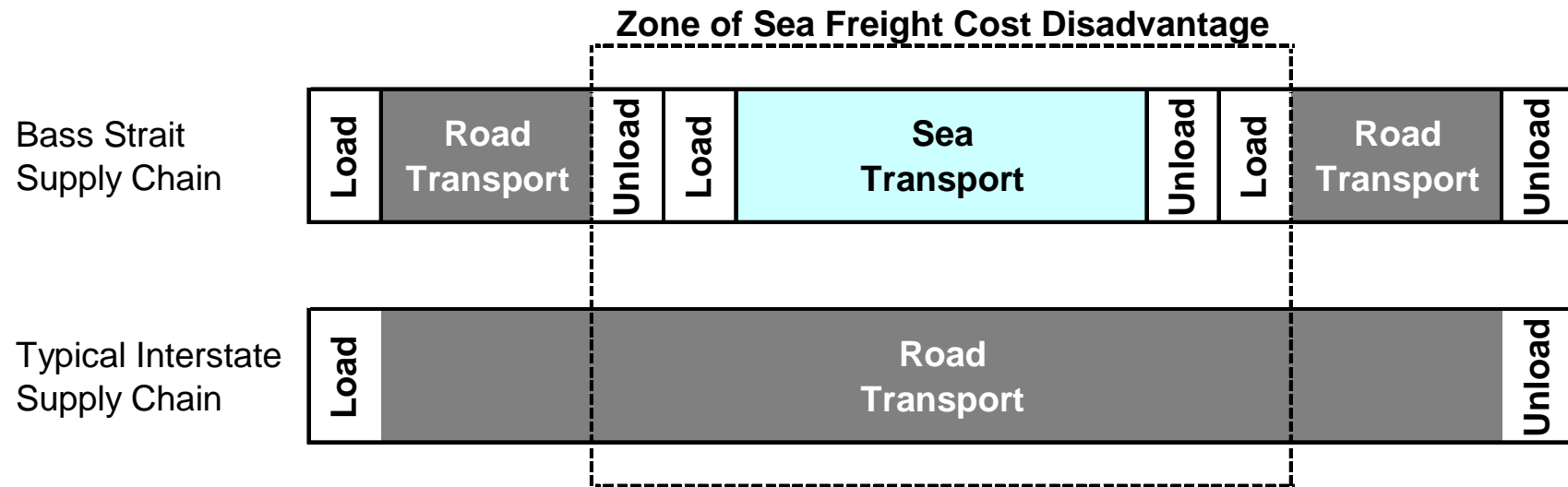
*“The Scheme assists in alleviating the **comparative interstate freight cost disadvantage** incurred by shippers of eligible non-bulk goods carried between Tasmania and the mainland. Its objective is to provide Tasmanian industries with **equal opportunities** to compete in mainland markets, recognising that, unlike their mainland counterparts, Tasmanian shippers do not have the option of transporting goods interstate by road or rail.”^[1]*

^[1] Department of Transport and Regional Services, <http://www.dotars.gov.au/transport/programs/maritime/tasmanian/index.aspx>, 9 June 2006

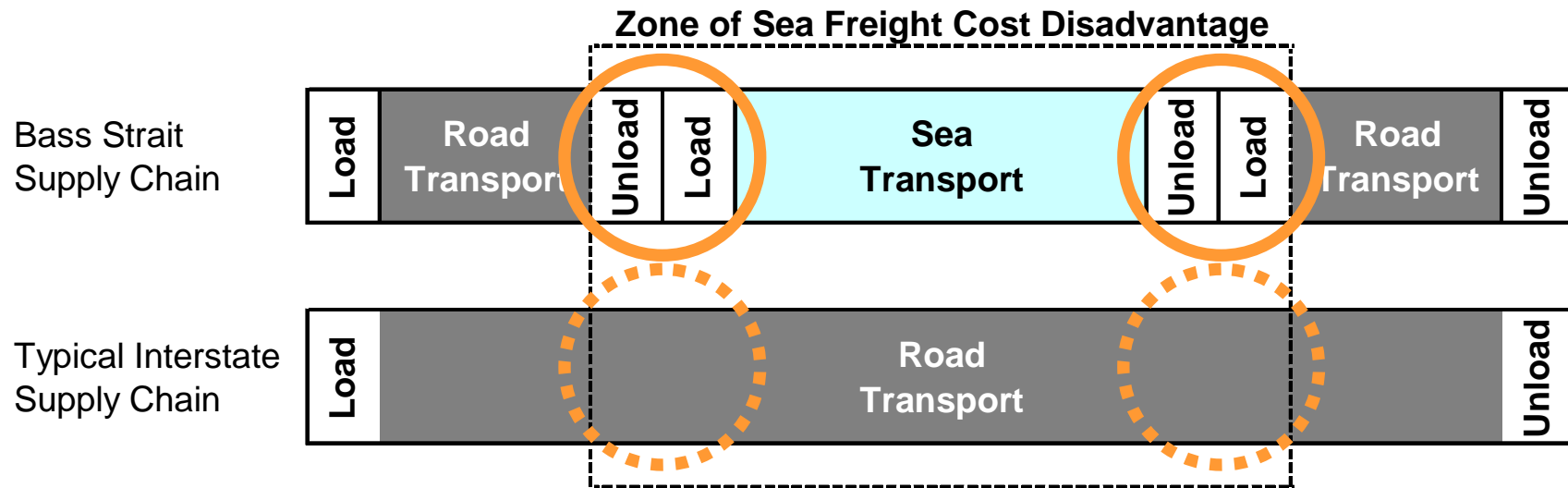
Benefit Assessment

“The main reason the model reduces Australian imports by the level it does is simply due to the closure of the model. It is assumed that TFES does not alter the level of Australia’s balance of trade. The Australian government is assumed to have a target for external liabilities and will adjust macroeconomic settings accordingly.”

Sea Freight Cost Disadvantage

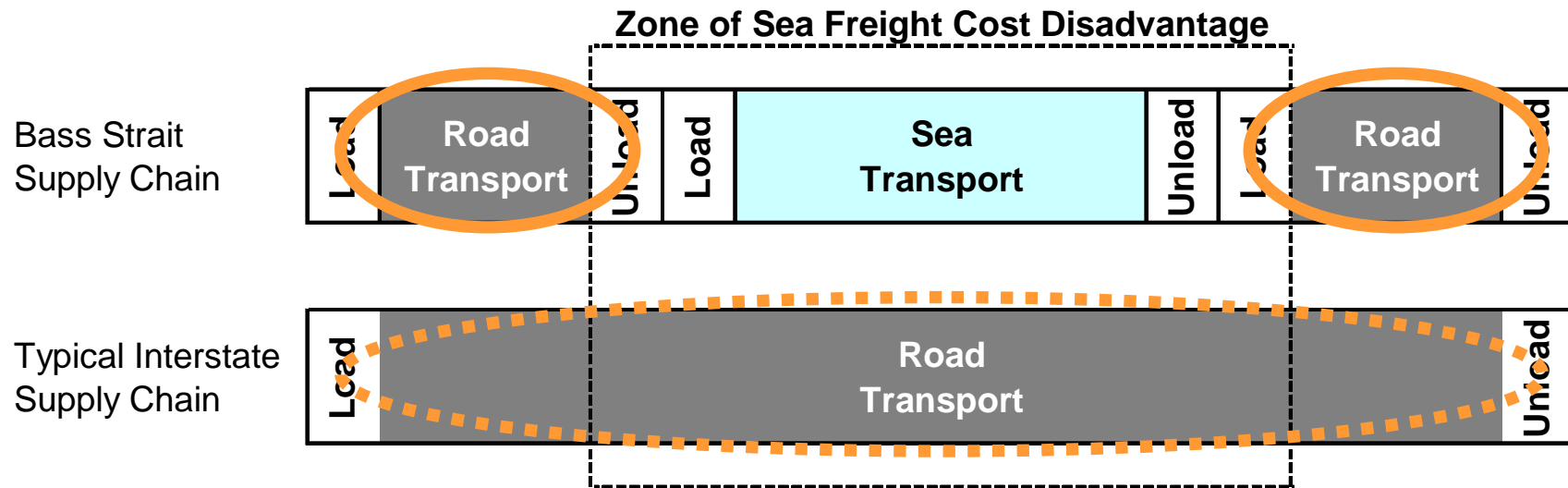


Sea Freight Cost Disadvantage



1. Additional Transfers
consequence of need
to change transport
modes

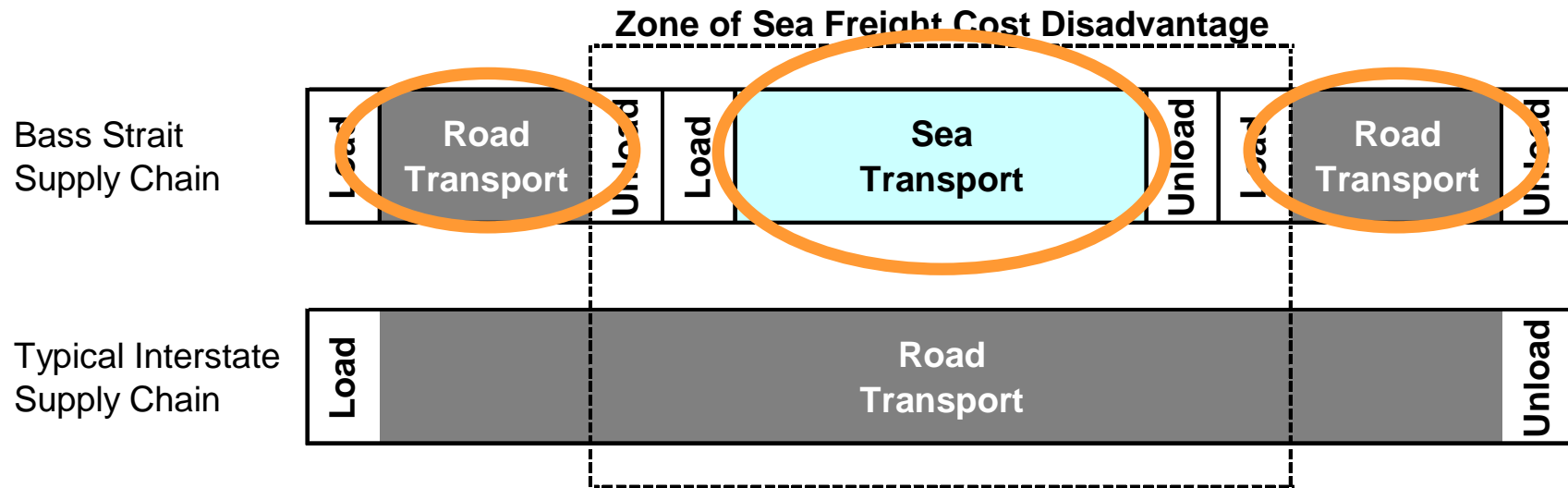
Sea Freight Cost Disadvantage



1. Additional Transfers
consequence of need
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2. Landside Transport
Inefficiencies
consequence of using
short haul land
transport for part of a
line-haul task

Sea Freight Cost Disadvantage



1. Additional Transfers
consequence of need
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2. Landside Transport
Inefficiencies
consequence of using
short haul land
transport for part of a
line-haul task

3. Optimisation of task
around shipping
consequence of
striving for lowest total
cost solution

Alternative Assistance Mechanisms

- The suitability of the mechanism to achieve a programs objectives needs to be assessed against the extent to which it achieves the objectives
- Without “measuring” the sea-freight cost disadvantage it is difficult to conduct any comparative assessment of alternatives

Alternative Assistance Mechanisms

- Assistance through a “flat rate” approach:
 - Is unrelated to the magnitude of disadvantage experienced
 - Is inequitable in its impact across different shippers and different products
 - Creates greater distortion in the market
 - Minimises the chances of successfully achieving the program’s equity objectives

Parameters

1. Road Freight Equivalent
 2. Door-to-wharf/W-D adjustments
 3. Route Scaling Factors
 4. Intermodal Cost Adjustment
 5. Median wharf-to-wharf disadvantage
 6. Heavy weight adjustment
- Adjustment Process

Key Points

- Rationale exists
- Benefit assessment is inaccurate
- The proposed “flat-rate” approach is inferior to the current approach
- Parameters need adjustment and refinement
- Allegations of corrupting needs to be quantified and where present severely dealt with

Suggestions

- TFES retained in current form until such time as a better, more equitable, methodology can be proven up – incl. quantifying the disadvantage
- A framework needs to be developed and implemented for the annual adjustment of **parameters** – to restore equitable assistance levels, send right signals to the market, reset incentive mechanisms
- Mechanisms need to be instituted to identify potential rorting and allow remedies to be applied

For information on this document, please contact:

Simon Talbot,
Corporate Relationship Manager
Australian Paper
307 Ferntree Gully Road
Mt Waverley Vic 3149

(03) 8540 2382

Manfred Ruzsicska
Strategic Adviser
M-Strad Pty Ltd
PO Box 316
Lara Vic 3212

Tel: 0412 243 167

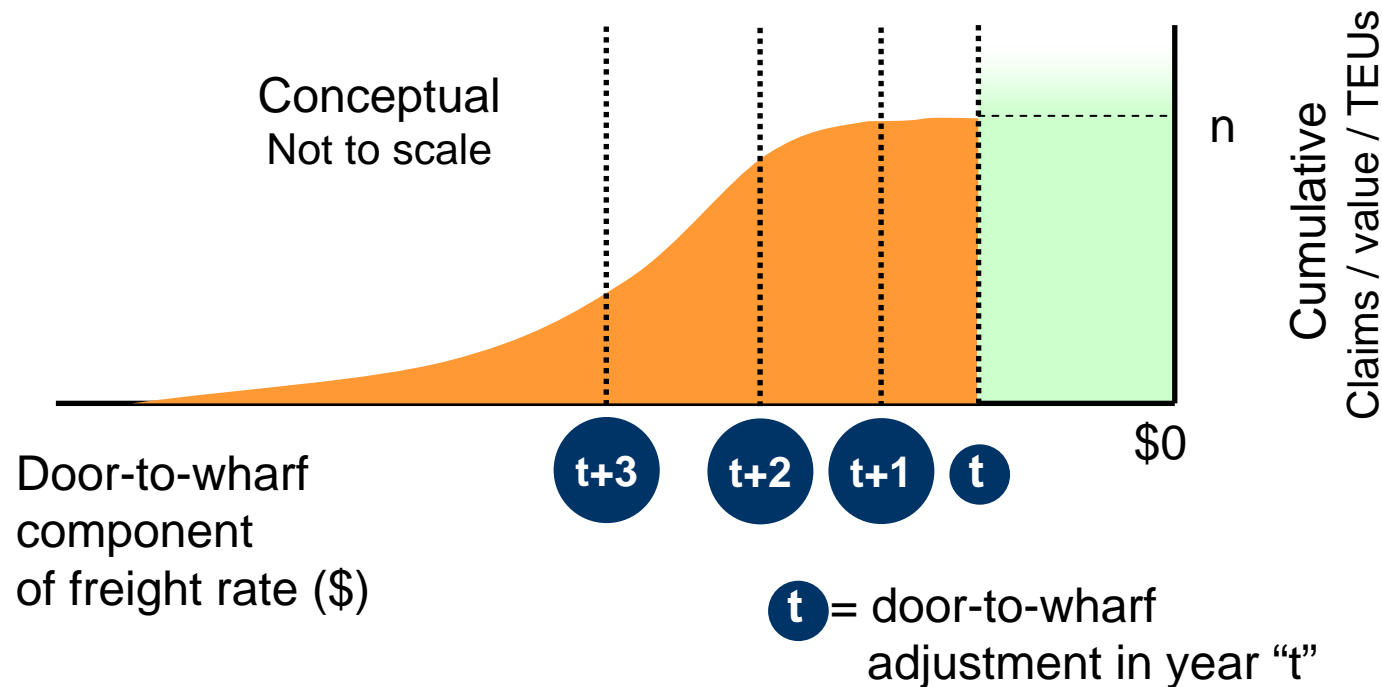
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Door-to-Wharf/Wharf-to-Door Adjustment



Cumulative wharf-to-wharf number 'n' = **85%** of claims, **43%** of value, **38%** of TEUs

Productivity Commission, Tasmanian Freight Subsidy Arrangements Draft Report, Sept 2006 p.14