

Mr Mike Woods
Presiding Commissioner
Productivity Commission
Locked Bag 2 Collins Street East
MELBOURNE VIC 8003

27 October 2006

Dear Mr Woods

**Tasmanian Freight Subsidy Arrangements –
Comments on Productivity Commission Draft Report**

The Tasmanian Freight Logistics Council forwarded a submission (Submission No. 11) to the Productivity Commission in July 2006 which strongly supported the retention of the Tasmanian Freight Equalisation Scheme (TFES).

The Council has considered the above draft report on the TFES and would like to comment on the draft report.

The Inquiry's Terms of Reference point out that the TFES was introduced in 1976 to alleviate the freight cost disadvantage incurred by shippers of eligible non-bulk goods between the mainland and Tasmania by sea. It is worth remembering that the TFES was and still remains an important element of Commonwealth Government programmes that equalise cost disadvantages between the States and Territories.

As pointed out in the draft report, even after receipt of a TFES subsidy, the current net freight cost disadvantage for shipping a standard 20 foot container across Bass Strait is in the order of 20 per cent. Despite acknowledging this, the draft report then reaches the conclusion that there is no sound underlying economic rationale for freight assistance and provides no valid reasons why the TFES should be reduced or completely phased out.

The Council strongly disagrees with the key recommendations of the draft report and believes that it is essential that the TFES be retained in its current format – and not the alternative proposal suggested by the Productivity Commission (Draft Proposal 3). The alternative proposal put forward by the Productivity Commission would disadvantage the very shippers that the TFES is particularly trying to foster – that is the smaller and less than container load shippers who do not have the market power to negotiate volume discounts.

The draft report identifies potential for manipulating the TFES with significantly different TFES payments being made for the same door-to-door trips. Rather than reduce or completely phase out the TFES because of this, the Council believes that the Commonwealth Government should ensure that the system is simple and transparent to operate and is not open to any form of manipulation or rorting.

Without the continued support and access to TFES, it is the Council's view that:-

- There would be a significant decrease in economic activity in Tasmania. It has been claimed that up to 10,000 indirect and direct jobs are at stake if the TFES is scrapped.
- The number of shippers to and from Tasmania would decrease.
- The Commonwealth Government could potentially experience increased social service payments.
- Investment in the current major industries in Tasmania would decline in the future – evidence of that was provided by the major industries at the recent Public Hearings held in Tasmania. Evidence was also produced at the Public Hearings that major industries have invested heavily in Tasmania in the past with such investment decisions being made based on an assumption that the TFES would continue into the future. Furthermore, the Tasmanian Chamber of Commerce and Industry believes that some of this investment in the future would go overseas rather than to the mainland and therefore would be lost to the Australian economy.
- Logistic service providers supporting these industries would be severely affected.
- The general level of economic activity and social well being in Tasmania would also be negatively affected.

The Council asks the Productivity Commission to recognise the viability and ability to compete in mainland and overseas markets that TFES provides Tasmania with. The mainland states have their seamless, integrated road and rail services and nationally funded transport corridors and infrastructure. The freight disadvantage, which the TFES initially set out to alleviate, is as relevant today as it was when TFES was introduced and must be retained in its current format.

Please contact the undersigned if you require any further information on the above comments.

Yours sincerely

Rob McGuire
Chief Executive Officer