

Submission to the Productivity Commission Inquiry into Tasmania's Shipping Costs and Competitiveness of Tasmania's Freight Industry

Department of Infrastructure and Regional Development

Introduction

This Submission outlines the involvement of the Department of Infrastructure and Regional Development (the Department) in the current arrangements for supporting freight and passenger services between the mainland and Tasmania, particularly the three Tasmanian Transport Schemes which are aimed at addressing the freight cost disadvantage faced by Tasmania. It sets out the history of the schemes, their administration and possible improvements to the operation of the schemes. This Submission also outlines other transport and infrastructure related initiatives that the Department is involved in to help address Tasmania's freight and regional challenges.

The Department recognises the importance of interstate shipping and the efficient transport of goods and passengers across Bass Strait to Tasmania's economy. The withdrawal of the only direct international container shipping service to Tasmania in April 2011, the relatively high Australian dollar and the continued pressures on the Tasmanian economy underscore the importance of Tasmania's shipping links. Despite this loss, Tasmania continues to be well served by international bulk cargo shipping services for its commodity exports. As a result of its dependence on shipping for domestic freight, Tasmania is the state most affected by the longstanding cost disparity between domestic and international shipping. The 2012 coastal shipping regulatory changes are not the significant cause of Tasmania's shipping problems. In this regard, we note that the cessation of the direct container shipping service to Bell Bay in April 2011 predates the recent coastal shipping reforms.

The Department administers a number of programmes that provide assistance to Tasmania to support its transport and freight infrastructure and regional development. In June 2012 direct government funding was provided through a specific programme to help Tasmania's exporters access international markets following the withdrawal of the only direct international container shipping service to Bell Bay. A Freight Logistics Coordination Team (FLCT) was also funded as part of that \$20 million assistance package which included funding for infrastructure improvements at the Port of Burnie and direct assistance payments

to exporters. The FLCT has since provided the Tasmanian Government with its final report which is expected to be released before the end of 2013. It had commissioned several consultancies which were aimed at addressing the medium and long term freight challenges facing Tasmania. The consultancies' reports and the FLCT's interim report have been provided to the Productivity Commission separately for the purpose of this inquiry.

There are currently three main shipping operators in the Bass Strait: ANL Toll, Searoad Shipping and TT-Line, a Tasmanian Government owned company. The three operators offer regular shipping services on six roll on roll off (RoRo) vessels between Melbourne and Northern Tasmania. There are also regular shipping services between the main island of Tasmania, King Island and islands in the Furneaux Group.

The withdrawal of the only direct international container shipping service to Bell Bay in April 2011 has meant that Tasmania's non-bulk exports are now being transhipped largely through Melbourne to overseas markets and this has led to increased costs for Tasmania's exporters. In addition, geographical constraints such as shallow shipping channels at the three main Northern Tasmanian ports make international container shipping services more difficult to attract, particularly with the advent of the new larger ships that are expected to be deployed on the international container shipping routes serving Australia. Tasmania also faces the predicament of being a small market domestically and internationally, making it difficult to generate freight flows that would be sufficient to attract and maintain a regular international container shipping service.

Despite the absence of a direct international container shipping service to Tasmania, the state continues to be well-served by international cargo shipping services provided by operators of bulk carriers, bulk cement carriers and general cargo carriers with container capacity. Some further details of these services are provided within this submission.

The Department administers three schemes that are designed to reduce the shipping disadvantage faced by Tasmania and to assist its producers to compete in markets on the mainland. In particular, substantial assistance is provided through the Tasmanian Freight Equalisation Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme.

Tasmanian Freight Equalisation Scheme (TFES)

- The TFES was first introduced in 1976 and has been amended through changes to the Ministerial Directions for the scheme, including an amendment in 2008 to cover eligible shipments moved between the main island of Tasmania and either King Island or the islands of the Furneaux Group.
- The aim of the TFES is to alleviate the sea freight cost disadvantage incurred by shippers of eligible non-bulk goods moved by sea between Tasmania and the mainland.
- There are two components to the Scheme: a northbound component covering eligible goods produced or manufactured in Tasmania for permanent use or sale on the mainland; 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 TFES Ministerial Directions define the sea freight cost disadvantage as the difference between the costs incurred by shippers for sea freight and the cost of moving the same type of goods for an equivalent distance by land transport modes.
- Exports are excluded from the TFES.
- The parameters used to calculate the payments for eligible freight under the Scheme have not been updated by successive Governments since 1996-97.
- In 2012-13 \$111 million in funding assistance was provided through the TFES.

The Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES)

- The BSPVES was introduced in 1996.
- The aim of the BSPVES is to assist in alleviating the cost of sea travel across Bass Strait for passengers accompanying an eligible vehicle. It assists with the cost associated with the transportation of eligible passenger vehicles across Bass Strait.
- Under the current Ministerial Directions, a fixed rate for each eligible accompanied passenger vehicle is paid to ferry operators, who determine the level of service and set their own vehicle and passenger fares.
- Since 2008 the BSPVES rebate has been reviewed annually and the rebate was last increased on 1 July 2013 in line with the Consumer Price Index.
- In 2012-13 \$34.5 million in funding assistance was provided through the BSPVES.

Tasmanian Wheat Freight Scheme (TWFS)

- The TWFS was introduced in 2004 to subsidise the cost of bulk shipments of wheat from the mainland to Tasmania by sea.
- This Scheme replaced a series of earlier wheat freight schemes that first began operating in 1959.
- Under the TWFS shippers of bulk wheat are able to claim a fixed payment per tonne.
- Total TWFS payments in any one year are capped at \$1.05 million and the rates of assistance for grain shipped in bulk may vary across years according to the amount of funding available and freight volumes in any particular year.
- No claim has been received for bulk wheat shipments through TWFS since August 2009.
- Wheat is now shipped to Tasmania from the mainland in containers as shippers receive a higher effective rate of assistance per tonne for containerized wheat under TFES.

The Bureau of Infrastructure Transport and Regional Economics (BITRE) provides research and analytical support to the Surface Transport Policy Division for the administration of the Tasmanian Transport Schemes. BITRE also produces regular Parameter Reviews of the

TFES and TWFS, Monitoring Reports for the BSPVES and a number of other publications relevant to the terms of reference for this review. These documents have been provided to the Productivity Commission separately for the purpose of this review and are available on BITRE's website.

Administration of the Tasmanian Transport Schemes

Each Tasmanian Transport Scheme is administered through its own Ministerial Directions which detail the intent and operation of the scheme. The Ministerial Directions are complex to administer and interpret. The day to day administration of the Tasmanian Transport Schemes is managed by the Department of Human Services (DHS) under a Head Agreement between DHS and the Department. DHS receives a direct annual appropriation to administer the schemes. In addition to processing claims, DHS' role includes responsibility for determining the amount payable to customers, providing adequate systems to detect any incorrect payments, 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 Department retains responsibility for policy formulation and advice to government and administers the funds set aside annually to pay claims under the three schemes. The TFES and BSPVES are demand driven and uncapped.

History of the Tasmanian Transport Schemes

The Tasmanian transport schemes have a long history with the first wheat freight scheme beginning in 1959, the TFES commencing in 1976 and the BSPVES in 1996. The schemes have evolved over time and some important amendments have been made to the TFES Ministerial Directions. There have also been a number of investigations and comprehensive reviews of the schemes. These changes and reviews are reflected in the policy chronology attached to this submission (see [Attachment A](#))

A summary of relevant policy developments since the Productivity Commission Review of Tasmanian Freight Subsidy Arrangements in 2006 is provided below. As the BSPVES was not considered in the 2006 Productivity Commission review, BSPVES policy developments since 1996 are included in the summary.

TFES Policy Developments from 2006

2006

Productivity Commission Review of Tasmanian Freight Subsidy Arrangements – The review found that there was no sound underlying economic rationale for the TFES and noted significant design and operational problems with the schemes. However, in 2006 the Australian Government decided to continue to provide support to shippers through the TFES and TWFS and agreed to the implementation of a number of reforms, subject to an extensive consultation process with stakeholders.

The response to the review outlined key changes that were to be implemented:

- a) restructuring the basis for claiming TFES assistance to minimise the adverse incentives the current TFES generates so that, as far as is practicable, assistance is

paid on the basis of the demonstrated sea freight cost disadvantage as a result of having to ship goods across Bass Strait;

- b) enhancing the administration and auditing of the TFES, involving updating and enhancing systems and more comprehensive public reporting of information;
- c) revising the methodology for setting and updating the parameters used to calculate TFES assistance;
- d) expanding the TWFS to include all bulk and containerised unprocessed wheat shipments, and for eligible shipments to be paid at the same rate and not be subject to the current cap on TWFS payments; and
- e) ensuring that unprocessed wheat will no longer be eligible under the TFES.

Of these, only (b) was implemented following the consultation process with stakeholders, with system upgrades and improvements at the service delivery agency (DHS) and the public release of BITRE parameter reviews of the TFES and the TWFS.

2007

Provision of Increased Funding – In 2007 the then Australian Government provided increased funding in order to progress the implementation of the Government Response to the 2006 Productivity Commission Review of Tasmanian Freight Subsidy Arrangements. The funding was used to develop a new approach to verifying wharf-to-wharf costs, supported by an upgraded computer system and risk management approach for the service delivery agency, Centrelink (now DHS).

2008

Inclusion of Intrastate Shipments of Eligible Goods – On 1 July 2008, the then Australian Government extended TFES to cover intrastate shipments of eligible non-bulk goods between King Island and the main island of Tasmania, and between the Furneaux Group of islands and the main island of Tasmania.

BITRE Parameter Review – The 2008 Parameter Review conducted by BITRE was released. A key finding for the TFES was that the level of sea freight disadvantage had decreased since 1996-97 and that shippers were therefore being overcompensated for the sea freight disadvantage as the parameters had not been updated. The then Australian Government subsequently announced that it considered that ‘adjustments to the parameters would significantly reduce overall assistance levels resulting in a significant negative impact on Tasmanian businesses at a time of global financial uncertainty’ and decided to maintain the existing levels of assistance by continuing to use the 1996-97 parameters determined by the Nixon Review of 1998.

2009

New Coding System - In March 2009 the DOS based IT system used by Centrelink that was more than 30 years old was replaced by a Windows based system. In addition, in September 2009, to address the Productivity Commission’s 2006 recommendation that there should be more comprehensive public reporting of information about the TFES, a new coding system

for commodities, to be used by shippers when claiming assistance, was introduced, based on the internationally recognised codes. The TFES commodity codes were developed from the United Nations Statistics Division Central Product Classification (CPC). This system allowed more comprehensive public reporting of data and enabled improvements to the Scheme's audit and compliance regime.

Draft Ministerial Directions – In 2009 the Department released a set of draft Ministerial Directions for the TFES incorporating proposed changes to the scheme made in response to the 2006 Productivity Commission review recommendations. The draft Ministerial Directions did not propose changes to the parameters for calculating the amount of assistance payable. However, changes were proposed to:

- clarify the role of a special category of claimants, the 'agent';
- increase and clarify audit and compliance requirements; and
- implement a series of administrative changes aimed at clarifying the interpretation of the Ministerial Directions, and the review mechanism available to claimants.

The draft Ministerial Directions aimed to provide consistency in language, clarify the review process, strengthen the audit and compliance regime, clarify the reporting and publication of information, and clarify the roles and activities of third parties.

2010

In response to continuing stakeholder concerns with the proposed changes to the Ministerial Directions, the then Minister for Infrastructure and Transport announced in May 2010 that the current arrangements would be maintained.

2011

ANAO Audit of Tasmanian Transport Programmes - The Australian National Audit Office (ANAO) conducted an audit to assess the effectiveness of the administration of TFES by the Department and DHS.¹ The scope of the audit included the programme management arrangements established by the two Departments to administer the Scheme. It also included activities undertaken to promote claimant access and to assess and pay the claims submitted by claimants. Systems and processes were assessed in terms of three high-level audit criteria:

- the Scheme is accessible to eligible claimants;
- claims are assessed and paid in a transparent, accurate and timely manner; and
- programme management arrangements (including evaluation, reporting and monitoring activities) support the delivery of the Scheme.

¹ Tasmanian Freight Equalisation Scheme, Audit Report No. 13 2011-12, Performance Audit, Australian National Audit Office, 2011

The report found that TFES compliance practices were not effective and processes undertaken by DHS to pay assistance were complex and resource-intensive. Although these findings are relevant to the Department as the principal agency for TFES, the primary responsibility rests with DHS as the delivery agency. The ANAO provided three recommendations focusing on:

- improving the accuracy of information used to calculate payments;
- strengthening quality assurance procedures; and
- establishing more effective data management.

In response, the Department developed a risk-based compliance strategy which outlined activities to improve compliance and quality assurance procedures and to identify and treat potential risks. DHS commenced additional compliance activities in accordance with the compliance strategy. In addition, the Department clarified the roles and responsibilities between DHS and the Department and improved management oversight of TFES. For this purpose, DHS and the Department signed a Head Agreement and Services Schedule between the two departments on 19 August 2011.

BITRE Parameter Review – BITRE’s October 2011 Parameter Review reiterated the findings of the 2008 review, finding that sea freight disadvantage had further decreased for many Bass Strait shippers. The then Australian Government decided not to revise the freight scheme parameters in response to the review.

2012

Infrastructure Australia Report on Tasmanian Ports and Shipping – In March 2012, the then Minister for Infrastructure and Transport asked the Infrastructure Coordinator to examine Tasmanian ports and shipping and provide an initial set of findings. On 24 May 2012, the Infrastructure Coordinator, provided his report to the Minister noting that the ports and shipping issues facing Tasmania go beyond the cessation of international container shipping services and include limitations of the existing Tasmanian freight transport network and the capacity of the Northern Tasmanian ports and shipping channels. The report’s six recommendations were conveyed in a covering letter to the then Minister. A copy of the letter and report are provided at [Attachment B](#).

In June 2012, in response to the issues identified in the Infrastructure Coordinator’s report the then Government announced a one-off \$20 million funding package to help Tasmania's exporters access international markets.

The funding package contained three key measures:

1. Direct and immediate assistance to Tasmanian exporters through a one-off \$14.5 million payment to help them stay competitive in the new shipping environment.
2. Investing \$4 million in infrastructure improvements at the Port of Burnie to increase container handling capacity and enhance the efficiency of movements within the port.
3. Establish a freight logistics coordination team with an industry leadership (\$1.5 million).

The Freight Logistics Coordination Team (FLCT) was formed in November 2012 and has produced two interim reports as well as commissioning a number of key consultancies in support of its work which have now been finalised and made publicly available. The final report of the FLCT has been provided to the Tasmanian Government and is expected to be publicly released before the end of the year.

Amendment to the TFES Ministerial Directions to address the status of the TFES Review Authority – In November 2012 the then Minister for Infrastructure and Transport took a decision to amend the Ministerial Directions by deleting references to the TFES Review Authority (TFESRA). The Ministerial Directions for the TFES had included a role for the TFESRA in the review of the eligibility of claimants. The TFESRA was first established following the recommendation of the 1976 Nimmo report and was convened to review the operation of the scheme in 1996 and 1998 but was never convened to review decisions made under the TFES. The review process that applied in practice involved two levels of review at DHS and the availability of a third and final review by the Department. This process was considered to be appropriate and similar to the review process employed in similar programmes administered by DHS on behalf of other agencies. As the TFESRA was not a functioning body and had never been used for the purposes specified in the Ministerial Directions, its removal from the Ministerial Directions did not impact upon the operation of the review process for TFES.

TFES Today

TFES continues to be administered relatively unchanged since its inception in 1976.

In 2012-13 claims made under the manufacturing claimant category received the most TFES support, followed by agriculture. Significant claims were also received in the forestry, fishing and mining categories. The smallest categories by value were professional entertainers, primary producers, charitable organisations and sportspersons.

The top ten claimants in 2012 -13 were:

- Simplot Australia Pty Ltd
- Boag and Son Brewing Ltd
- Net Sea Freight Tasmania Pty Ltd
- Norske Skog Boyer Mill
- Kraft Foods Australia Pty Ltd
- Monsoon Shipping Pty Ltd
- Mc Cain Foods (Australia) Pty Ltd
- Cascade Brewing Company Pty Ltd
- Forth Farm Produce Pty Ltd
- Murray Goulburn Co-op Ltd

In 2012-13, more than 9,500 claims were received from 1,300 individual claimants. For each claim, the number of sub-items for individual shipments range from a single item to many thousand items.

Online claiming is available, however, due to the complexity of the process and the need for detailed supporting documentation, most claims are lodged through the TFES bulk upload system by mail to DHS or in person.

The assessment of claims requires a detailed assessment of eligibility and the determination of the amount of TFES support to be paid is based on a fairly labour intensive process conducted by DHS assessors based in Hobart.

The determination of eligibility for assistance under the southbound component is particularly complex. Examples of the calculation of TFES support are provided on the DHS TFES page and demonstrate the complexity of the determination process.²

A wider range of goods is eligible for support through the northbound component of the TFES. Eligible goods under the northbound component of the scheme must be produced or manufactured in Tasmania for use or sale on the mainland of Australia. In addition goods must be listed in Schedule 1 of the Ministerial Directions, be produced or manufactured in Tasmania and be destined for permanent use or sale on mainland Australia.

To be eligible under the southbound component of the scheme goods must be used primarily or substantially in the production process of the manufacturing, mining, fishing, agriculture or forestry industries. These are classified in accordance with Divisions A, B and C of the Australian and New Zealand Standard Industrial Classification (ANZSIC). To be eligible, goods must also be produced or manufactured in Australia or have undergone a manufacturing process on mainland Australia. The goods being shipped must also be inputs into the claimant's production process and business owners must first register their business and the goods they wish to claim for with DHS prior to claiming for the assistance under TFES.

The intrastate component of the TFES covers goods shipped between the main island of Tasmania and either King Island or the islands of the Furneaux Group. Such goods must be produced or manufactured on the main island of Tasmania for permanent use or sale on King Island or the islands of the Furneaux Group or produced or manufactured on King Island or the islands of the Furneaux Group for permanent use or sale on the main island of Tasmania.

The rate of assistance paid under TFES is up to \$855 per twenty-foot equivalent unit (TEU) but cannot exceed the actual wharf-to-wharf freight paid.

BSPVES Policy Developments

1996

Commencement - The BSPVES commenced in August 1996. The rationale for the scheme was that it would increase demand for travel across Bass Strait, with direct benefits to the local tourist industry and potential growth in jobs, investment and population in Tasmania. The rebate was calculated on the basis of charging a net fare for an eligible passenger vehicle plus driver, travelling in standard share cabin accommodation, comparable to the notional cost of driving an equivalent distance on a highway. The equivalent highway cost was based

² <http://www.humanservices.gov.au/business/services/centrelink/tasmanian-freight-equalisation-scheme/>

upon the sea distance of 427 kilometres between the ports of Devonport and Melbourne multiplied by an estimated running cost for an average family saloon of 39.87 cents per kilometre. This provided an equivalent highway cost of \$170 for a one-way trip. For the purposes of the rebate calculation, the fare for an “inside cabin” on the *Spirit of Tasmania* was used as the passenger fare benchmark.³

2001

Extension of the Scheme - On 1 March 2001, the Scheme was extended to cover the carriage of eligible vehicles between King Island and mainland Australia. As sea passenger services were not provided on the King Island route, the rebate is available for passenger vehicles transported by sea where the driver travelled by commercial air service on or about the same day.

2002

New Ministerial Directions – New Ministerial Directions were issued in April 2002 by the then Minister for Transport and Regional Services resulting in substantial changes to the Scheme. Rebates previously linked to the season of travel were now made constant throughout the year and were no longer linked to an equalisation formula. In addition, the scheme was expanded to cover caravans, motor homes, vehicles of people with disabilities and bicycles.

2008

Amendment to Ministerial Directions – The Ministerial Directions for the Scheme were amended to increase the subsidy for eligible vehicles and to provide for the rebate amounts to be indexed annually to the CPI. In addition drivers with a medical condition who are unable to travel by sea were allowed to claim a reduced passenger vehicle fare when shipping their vehicle and flying across Bass Strait or to King Island or islands in the Furneaux Group.

2010

Amendments to the Ministerial Directions– The Ministerial Directions were again amended on 30 September 2010. Under the changes:

- provisions applying to Flinders Island were extended to the remainder of the islands in the Furneaux Group;
- provisions allowing eligible persons travelling to and from King Island to access the scheme in the absence of a passenger ferry service were extended to the islands of the Furneaux Group while no passenger ferry service was available;
- a Service Operator could now make up to 13 claims in a financial year; and
- Service Operators were now also required to record the date bookings were made.

³ Bass Strait Passenger Vehicle Equalisation Scheme, Monitoring Report No. 1, 1996-97, May 1998

Current Bass Strait Shipping Services

Analysis commissioned by the Department to support the BITRE's 2013 Tasmanian Freight Schemes Parameter Review⁴ found that shipping services between the mainland and Tasmania have remained stable in the past two years, with no changes in the vessel fleet in that time. The analysis also showed that there has been some growth in volumes shipped despite a reduction in manufacturing activity in Tasmania, resulting in all vessels being close to full utilisation for much of the year, with no excess capacity in the pre-Christmas peak. The withdrawal of the weekly AAA Consortium vessel call at Bell Bay in April 2011 left Tasmania without a direct international container shipping service, resulting in its non-bulk exports now having to access international markets largely through Melbourne. The need to tranship non-bulk exports through Melbourne was found to have added between \$450 and \$600 per twenty-foot equivalent unit (TEU) to international shipping costs for Tasmanian shippers.⁵

In a report prepared for the FLCT by Aurecon it is noted that sea freight constitutes 99 per cent of all freight movements to and from Tasmania by volume, highlighting Tasmania's heavy dependence on shipping.⁶

There are three shipping companies operating a total of six roll on roll off (RoRo) vessels between Melbourne and Northern Tasmania. The SeaRoad Tamar and SeaRoad Mersey, operated by Searoad Shipping, sail between Webb Dock, Melbourne and Devonport; Toll ANL operate the Tasmanian Achiever and Victorian Reliance between Webb Dock, Melbourne and Burnie; and TT Line operate the Spirit of Tasmania I and II between Station Pier, Melbourne and Devonport. Shippers to and from King Island and the islands of the Furneaux Group have been eligible for TFES support since 2008. King Island receives a weekly call from the SeaRoad Mersey, on its Sunday voyage from Devonport to Melbourne. Services to Flinders Island and the islands of the Furneaux Group are also available with Furneaux Freight operating the Matthew Flinders III.

The consultancy report suggests that Tasmania is currently served by efficient, timely, reliable, frequent shipping services and that its supply chains benefit from the availability of these services. While a small percentage of freight users require overnight shipping services (about 15 per cent), more than half of the freight moved from Tasmania utilise the service. However, the absence of an alternative shipping service means that some Tasmanian shippers who do not require overnight shipping service still have to use and pay for it. Interestingly the report found that the majority of inbound freight is made up of retail goods and empty containers.⁷

⁴ Freight Rates Update 2012-13, Bass Strait Shipping and Tasmanian Freight Equalisation Scheme – Final Report, Sinclair Knight Merz, March 2013, p 5

⁵ Freight Rates Update 2012-13, Bass Strait Shipping and Tasmanian Freight Equalisation Scheme – Final Report, Sinclair Knight Merz, March 2013, p 5,

⁶ Freight Logistics Coordination Team Major Consultancy Support to Work Program – Tasmanian Shipping and Ports, Aurecon, September 2013, p 4

⁷ Freight Logistics Coordination Team Major Consultancy Support to Work Program – Supply Chains in Tasmania, Aurecon, September 2013, p 6

Benchmarking work conducted by Aurecon found that Bass Strait shipping is 24 per cent more expensive than similar European shipping services noting that the input costs for Bass Strait shipping were also estimated to be 23 per cent higher, due mainly to higher fuel and labour costs.⁸

Tasmania's heavy reliance on shipping services means that it is likely to be more sensitive to changes in domestic coastal shipping arrangements as Tasmanian shippers do not have access to road and rail alternatives unlike their counterparts on the mainland.

There are currently six general licensed vessels providing regular, scheduled services between Tasmania and the mainland. Departmental records indicate that, since 1 July 2012, approximately 28 foreign flagged vessels have undertaken around 127 voyages under temporary licences between the mainland and Tasmania, carrying cargoes ranging from petroleum and propane to gypsum, fertilisers and metals in addition to voyages conducted by Australian flagged ships holding general licences.

The Department is not aware of evidence that demonstrates a direct link between any increases in freight costs and the introduction of the new coastal trading legislation, but recognises that Australian flagged ships are faced with a more expensive cost structure than their foreign flagged counterparts, primarily due to higher wage rates through enterprise agreements, higher Australian insurance costs and bunkers (fuel) at Australian prices.

The coastal trading regulatory framework is currently being reviewed as part of the Government's broader commitment to reducing the burden of excessive red tape on the Australian economy. More information on maritime cabotage in Australia is provided at [Attachment C](#).

International Shipping Services to Tasmania

As an island separated from the mainland continent Tasmania, like Australia, is heavily dependent on international shipping and more than any other Australian state, on interstate shipping, as the latter provides indirect access through ports on the mainland to overseas markets. As noted above, the withdrawal of the only direct international container shipping service (AAA Consortium) to Bell Bay in April 2011 means that its non-bulk exports are now transhipped largely through Melbourne to overseas markets and this has led to increased costs for Tasmania's exporters.

Historically, Tasmania's ports have always had to adjust to the vagaries of international shipping developments. In addition, geographical constraints such as shallow shipping channels at the three main Northern Tasmanian ports make international container shipping services more difficult to attract, particularly with the advent of new larger ships that are expected to be deployed on the international container shipping routes serving Australia. Tasmania also faces the predicament of being a small market domestically and internationally, making it difficult to generate freight flows that would be sufficient to attract and maintain a regular international container shipping service.

⁸ Freight Logistics Coordination Team Major Consultancy Support to Work Program – Supply Chains in Tasmania, Aurecon, September 2013, p 7

Work carried out by GPS Logistics for the FLCT examined international container shipping service viability from a supply side point of view and found that Tasmania faces challenges under a number of criteria that must be satisfied to facilitate the successful reintroduction and ongoing operation of a new international container service.⁹ Such criteria include freight volumes and growth potential, supply of empty containers, adequate infrastructure and port and landside efficiency.

During 2012-13, there were a total of 1540 calls at Tasmanian ports by cargo ships, from either overseas ports or other Australian ports, carrying a range of products including chemicals, crude oil, liquid petroleum, gas, asphalt, cement, general cargo and wood-chip. Out of this total, 106 calls were by cargo ships from overseas ports to Tasmanian ports, including 59 by bulk carriers, 19 by general cargo carriers with container capacity and 17 by wood-chip carriers. In the same period, there were a total of 119 port calls by cargo ships from Tasmanian ports to overseas ports, including 61 by bulk carriers, 20 by general cargo carriers with container capacity, 18 by wood-chip carriers and 10 by general cargo carriers.¹⁰

The Australian Freight Task

In light of the expected doubling of the Australian freight task by 2030, national ports and freight initiatives are being pursued collaboratively by the Commonwealth, states and territories to ensure an integrated approach to moving domestic and export freight. A key element of this work is the states and territories putting in place long term freight plans, including mechanisms for protecting freight corridors and precincts. The Freight and Logistics Coordination Team has recently provided an advisory report to the Tasmanian Government. This report is expected to inform the Tasmanian freight strategy, scheduled for completion by mid-2014. Tasmania is an active participant in broader collaborative work that is identifying key freight routes, and issues associated with that work.

Current Freight and Passenger Task across Bass Strait

Freight Task

Total Tasmanian freight shipped in 2011-12 was just under 13 million tonnes, of which:

- an estimated 4.9 million tonnes – approximately 38 per cent was shipped using non-bulk transport;
- 80 per cent of Tasmanian international non-bulk trade was exports with imports comprising only 20 per cent by tonnage;
- air freight is negligible by volume between Tasmania and the mainland.

Bulk freight – other than wheat – is not eligible for subsidy under the Tasmanian freight schemes.

⁹ International Container Shipping Service Viability for Tasmania, Gregg Poulter, GPS Logistics (TAS) Pty Ltd, February 2013

¹⁰ Lloyd's List Intelligence Customised Ship Movements Data (2013)

Based on preliminary 2011-12 data, BITRE has estimated that the TFES subsidised at least 31 per cent of the non-bulk freight task.

If all non-bulk Tasmanian freight had been eligible for TFES subsidy, this may have resulted in TFES claims for an equivalent of:

- up to an extra 162,000 TEUs of coastal non-bulk freight; and
- an estimated additional 88,000 TEUs of non-bulk international trade.

More information on the nature of the sea freight industry can be found in the Australian Sea Freight publication produced by the BITRE in 2013.¹¹

The level of support provided through TFES is based on parameters that are used to calculate the 'sea freight disadvantage'. BITRE conducts regular reviews of the parameters used in the TFES to calculate the assistance provided to shippers. The sea freight disadvantage parameter compares the cost of sea freight with the road freight equivalent over a distance of 420km.

While sea freight costs have risen, BITRE's 2013 parameter review has confirmed the findings of previous parameter reviews in 2008 and 2011 that the sea freight disadvantage has decreased due to the increased cost of road transport.

The wharf-to-wharf sea freight cost disadvantage has decreased by approximately 33 per cent (from \$671 per TEU in 1996-97 to \$448 per TEU in 2011-12). This estimated level of over-compensation is for the median shipper based on the current equalisation formula, current freight industry benchmarks and market freight rates.

Consequently, updating the TFES parameters to reflect the 2011-12 values considered in the 2013 parameter review would significantly reduce payments to most shippers. TFES parameters have not been adjusted in response to previous BITRE reviews in recognition of the difficult economic conditions facing Tasmania.

Passenger Task

Analysis by BITRE has consistently shown that approximately 90 per cent of passenger movements to and from Tasmania is by air. In 2010-11, 89 per cent of passengers travelled by air and of the 11per cent that travelled by sea most travelled with a vehicle. Only one percent of journeys were made by passengers travelling by sea without an accompanied vehicle.

Since 2003-04 increased competition in domestic aviation has lowered airfares and resulted in a modal shift from sea to air travel. Travel by sea across Bass Strait is more time consuming and can be more expensive than air, even allowing for the BSPVES rebate.

¹¹ Australian Sea Freight 2011-12, Statistical Report, Bureau of Infrastructure, Transport and Regional Economics, August 2013

Over the last two years:

- TT-Line increased sea fares substantially in 2012–13. In real terms, BITRE’s benchmark fare index fell 1.6 per cent as of June 2012, then jumped 10.1 per cent as of June 2013;
- sea passenger numbers declined in both 2011–12 and 2012–13, to levels last seen in 2001–02, with the modal share of sea travel falling to 8 per cent. This contrasts with air travel, where passenger numbers decreased in 2011–12 then increased significantly in 2012-13; and
- TT-Line voyage numbers decreased from 827 in 2010–11 to 748 in 2012–13. Average passenger numbers per TT-Line voyage decreased from 493 in 2010-11 to 442 in 2012–13.

For visitors who still travel by sea across Bass Strait, the key reason they travel by sea appears to be that they wish to travel to Tasmania with their own vehicle, rather than the cost of sea travel - the average length of stay for those who still travel by sea across Bass Strait is increasing. Up until 2010-11, there had been a significant growth in motor homes and caravan travellers claiming the rebate under the BSPVES, in the last two years this trend has changed.

More detailed analysis of this issue can be found in the Bass Strait Passenger Vehicle Equalisation Scheme Monitoring reports produced by BITRE that are available on the Department’s website.

Air Travel and Freight between Tasmania and the mainland

As outlined above, air travel has established clear dominance as the main mode of passenger transport to Tasmania, with approximately 90 percent of trips being taken by air. It is possible that air freight could also play an increasing role in the provision of freight services to Tasmania, but noting that the vast majority of freight carried across Bass Strait is likely to continue to be carried by sea.

Air freight presents a range of economic and efficiency advantages over freight by sea, including speed of transport and the ability to service geographical areas without sea port facilities. The increased competitiveness of air freight as a transport option may also encourage investment in Tasmanian industries, particularly high value, time sensitive exports such as perishable foods. Current aviation infrastructure in Tasmania has the capacity to facilitate international air freight distribution.

Cross-modal Cost Comparisons

Some benchmarking work has been conducted by the Department to provide an indicative comparison of the annual levels of funding per kilometre provided to Bass Strait transport with the average annual expenditure per kilometre on road maintenance and construction on the national land transport network.

- Commonwealth expenditure on the TFES and BSPVES in 2009–10 was approximately \$321,000 per kilometre (a total of \$134.8 million for the approximate distance of 429 kilometres across Bass Strait).
- Commonwealth funding of the national road transport network average approximately \$230,000 per kilometre in 2009–10 (\$5164.3 million on 22,550 kilometres of roads as identified in BITRE's 2013 Yearbook.¹²

The annual update of the BSPVES parameters is not linked to changes in the costs of transport on the mainland and there is no requirement in the Ministerial Directions to benchmark the level of assistance for passenger vehicles to mainland transport costs. If there was to be a significant increase in subsidy for passenger sea services then this would have implications for both sea freight and air passenger markets:

- TT-Line's freight/vehicle capacity is constrained December through to March, and around Easter. A significant increase in demand for passenger vehicles as a result of increased subsidy would be expected to impact freight capacity, with implications for the sea freight cost and reliability.
- If a significant number of air passengers were able to switch from air to sea, this might adversely impact Tasmanian air service frequency and price. A Departmental analysis of flexible and discount air fares in March 2013 between major Tasmanian mainland routes and mainland routes of similar distance and passenger numbers found no significant differences between the fare groups on a cents per passenger kilometre basis.

Other Infrastructure and Regional Development Portfolio Activities in Tasmania

The Department's work in Tasmania goes beyond the three Tasmanian freight schemes discussed above. In addition to being responsible for delivering and advising the Australian Government on infrastructure investment and transport and economic development programmes, the Department performs a range of regulatory functions.

¹² Yearbook 2013 – Australian Infrastructure Statistics – Bureau of Infrastructure Transport and Regional Economics, October 2013

Economic Development Initiatives

The Australian Government has committed to improving Tasmania's economic performance through its Economic Growth Plan for Tasmania, announced on 15 August 2013. The Economic Growth Plan for Tasmania is a package of measures aimed at enhancing Tasmania's competitiveness and investment prospects to boost employment, real wage growth and opportunities for individuals, families and businesses. Commitments in the Economic Growth Plan for Tasmania included:

- a Major Projects Approval Agency to act as a one-stop-shop for regulatory approvals;
- a jobs programme that supports businesses to hire unemployed jobseekers;
- a joint Commonwealth and Tasmanian Economic Council, which held its first meeting on 12 December 2013;
- funding to support additional Antarctic and Southern Ocean research, including \$24 million to establish a new Centre for Antarctic and Southern Ocean Research in Hobart;
- \$38 million to extend the runway at Hobart International Airport;
- a \$400 million upgrade to the Midland Highway;
- a review of Tasmania's shipping costs and competitiveness of its freight industry by the Productivity Commission, in consultation with the Australian Competition and Consumer Commission;
- renewal of Regional Forestry Agreements; and
- establishment of a Fruit and Vegetable Industry Taskforce to develop an industry growth plan.

To boost inbound tourism and to further entrench Hobart's status as an international gateway for Antarctic and Marine Research, the Australian Government has committed to an extension of the Hobart Airport's runway and associated lighting and taxiway works. The \$38.0 million extension will lengthen the runway by up to 500 metres. The extension is expected to increase the airport's ability to attract regular international flights by an overseas carrier, including Antarctic research aircraft. The extension is conditional on Hobart International Airport contributing \$2.0 million to the project, and it entering into commercial negotiations for an agreement for regular international flights or use by large Antarctic research aircraft or international charter flights.

In addition, on 23 October 2013, the Deputy Prime Minister and Minister for Infrastructure and Regional Development, the Hon Warren Truss MP, announced that \$106 million in funding would be delivered for a range of projects under the Tasmanian Jobs and Growth Plan, an initiative that complements the Economic Growth Plan for Tasmania. The Department is responsible for administering the Tasmanian Jobs and Growth plan.

Rail Investments

Tasmania's land freight network carried a total combined mass of nearly 23 million tonnes in 2011-12 with approximately 18 percent of the State's freight system carried by rail¹³. While the majority of the State's freight task is moved by road, rail is an important option for hauling large volumes of bulk commodities and the long distance movement of containerised freight. The rail network is part of an integrated supply chain which enables improved overall efficiency and productivity of freight transport in Tasmania as it integrates its operations with ports, road transport terminals and large industrial sites.

Rail offers particular benefits to businesses with loading or unloading facilities directly on the rail network. This helps to minimise the 'double handling' of freight. Rail has the advantage of combining large bulk freight loads onto one train as opposed to using several trucks¹⁴.

The Burnie to Hobart corridor is Tasmania's most significant freight corridor, connecting major ports, the Brighton Transport Hub and key industrial and manufacturing centres. It is Tasmania's key corridor for the movement of containerised freight.

As a result of recent Australian and Tasmanian Government investments, rail performance has improved. Rail is now close to achieving a 24 hour turnaround time between Burnie Port and the Brighton Transport Hub. With the opening of the transport hub, intermodal services have increased by 423 trains or 35 percent from the previous year¹⁵.

To further strengthen this vital corridor the Australian Government has committed \$119.6 million, as part of the next Infrastructure Investment programme commencing in 2014-15, to a package of capital upgrade works on the Tasmanian freight rail network. This funding is to be matched by the Tasmanian Government. This package of works will build on the Australian Government's ongoing \$132.5 million investment in freight rail upgrades under the 2008-09 to 2013-14 Infrastructure Investment programme and the completed \$78 million Rail Rescue Package committed to under the Auslink programme.

This package forms part of a larger programme of rail infrastructure upgrades costed by Tasmania at about \$325 million, including works beyond 2018-19. The package of works prioritises concrete and steel re-sleepering, replacement of deteriorated track, and some drainage and formation works. These works are expected to improve the capacity and reliability required to meet Tasmanian business requirements including a 24 hour turnaround schedule between the northern export ports and the Brighton Transport Hub in the south. This will help provide Tasmanian businesses with competitive transport options. The use of concrete and steel sleepers will also help to reduce the ongoing track maintenance costs, supporting the sustainability of the network.

The Tasmanian freight network is owned and managed by the Tasmanian Government-owned Corporation Tasmanian Railways (TasRail). The network has historically suffered from substantial deterioration following an extended period of under investment whilst under

¹³ Tasmanian Freight Survey – Data Summary 2013, Department of Infrastructure Energy and Resources, page 3

¹⁴ Freight Logistics Coordination Team Major Consultancy Support to Work Program – Supply Chains in Tasmania, Aurecon, September 2013, p 16

¹⁵ Annual Report 2012-2013, TasRail, page 39

private sector management. The network is important to the local paper pulp industry, for mineral exports from western Tasmania and, more recently, to assist in timber movements within the state. Additionally, the network transports other bulk goods and container freight.

Approximately 110,000 tonnes of coal is transported by rail each year from Fingal to the paper mill at Boyer. There is also a dedicated "Paper Train" service between Burnie wharf and the Mill, which transported more than 33,000 containers in the 2012-13 financial year. This 'point to point' supply chain is very efficient as the rail terminal and container yard are adjacent to the dispatch warehouse. There is the potential to increase efficiencies by reducing the rail cycle time from 30 to 24 hours. TasRail's investment program in track upgrades and rolling stock will seek to achieve a 24 hour cycle which in turn would save on the number of wagons and containers required to provide the service¹⁶.

Rail is a key mode in the intrastate movement of some bulk commodities such as mineral ore concentrates and cement. Most of the minerals exported through Burnie Port from the West Coast are transported by rail. The Melba rail line provides an important link transporting minerals from Melba Flats and Rosebery to Burnie. Approximately 290,000 tonnes of metallic ores are transported along this rail line each year. The North-West's iron ore, non-ferrous metal ore, non-metallic mining and exploration sectors already contribute over \$230 million in gross value to the Tasmanian economy.

Tasmania has a major cement manufacturing plant at Railton. Most of the production is transported in bulk via rail to the Port of Devonport then shipped to Victoria and New South Wales. Approximately 1.2 million tonnes of cement was shipped in 2011-12, up 10 percent from the previous year.

There is a clear correlation between the improvements in rail efficiency and demand in the market. As a result of the recent investment in rail upgrades, new contracts have been entered into with Venture Minerals and coal mining company Hardrock.¹⁷ TasRail has secured an extended service agreement with MMG for haulage of mineral concentrates between Rosebury and Burnie¹⁸; and have also reached agreement with Forestry Tasmania for transportation of log freight between Brighton and Bell Bay¹⁹. These contracts indicate the growing confidence in rail due to the infrastructure upgrades.

TasRail moves around 2.5 million tonnes of freight per annum. The freight carried on rail is now the equivalent of taking 200,000 trucks off the road - double the volume from two or three years ago²⁰.

In addition to the Australian Government funded capital works, the Tasmanian Government provides an annual operating grant of \$16.3 million to TasRail and has provided a \$130 million equity injection to allow TasRail to upgrade its rolling stock. TasRail's Corporate Plan for 2016-17 forecasts decreases in the operating grant as the above rail profits increase.

¹⁶ Freight Logistics Coordination Team Major Consultancy Support to Work Program – Supply Chains in Tasmania, Aurecon, September 2013, p 62

¹⁷ Rosemary Bolger, TasRail on track to efficiency, The Examiner, 16 November 2013

¹⁸ Annual Report 2012-2013, TasRail, page 38

¹⁹ Annual Report 2012-2013, TasRail, page 37

²⁰ Rosemary Bolger, TasRail on track to efficiency, The Examiner, 16 November 2013

Road Investments

Over 40 percent of Tasmania's freight task is carried on the National Land Transport Network connecting Tasmania's three northern ports and four major urban centres. The bulk of this freight task is generated by agriculture, construction and mining. The majority of containerised freight is transported on the network, with 80 percent carried between Burnie and Hobart.

The national road network in Tasmania generally provides good road transport infrastructure for freight vehicles. However, the safety, efficiency and productivity of the network are impacted and constrained by the capacity and connectivity of this network to cater for the increasing traffic mix.

The Midland Highway is the most critical freight route in Tasmania for truck movements from the north to the south of the island and connects access from the southern region to the northern ports, including Bell Bay. It is also the key transport link for passengers travelling between Hobart and Launceston.

Given the importance of the Midland Highway to Tasmania's economy, successive governments have allocated significant funding to improve its safety and efficiency over time. As part of its Economic Growth Plan for Tasmania, the Australian Government has committed \$400 million over 10 years from 2014-15 towards works to further improve the safety and productivity of the Midland Highway.

Freight Scheme Issues

TFES

Simplification of TFES

Many of the issues surrounding the administration of the TFES are related to the complexity of the scheme. Issues with the delivery of the Scheme emanate from its history and the complexity of eligibility rules and assistance calculations. The Scheme has been further complicated by the addition of later components which are not entirely consistent with its broader rationale, for example the assistance provided to sportspersons and entertainers and broodmares.

Complexity of the scheme increases the risk of error in administration as well as the potential risk of gaming by clients. A number of administrative issues have arisen from the complexity of the scheme including a very large overpayment (notified to DHS by the firm involved) and incorrect and inconsistent payments. Some of the factors to be considered when assessing a claim and calculating the amount of payment include a complex process to determine if the claimant is eligible, a method to convert the shipment to a twenty foot equivalent unit (TEU), the application of different rates of assistance for heavy goods, refrigerated goods, and goods that are shipped in less than a container load.

BITRE analysis of claim line items found that very small loads account for a large proportion of claim line items and a very small proportion of total TFES payments. Over the period 1

July 2007 to 30 June 2010, more than 50 per cent of the claim line items accounted for less than 2 per cent of total TFES payments.

The introduction of a single flat rate of assistance could work to eliminate the potential risk of gaming by claimants and overcome the significant incentive and compliance challenges that are evident under the current TFES. Analysis by BITRE in their 2011 Tasmanian Freight Schemes Parameter Review found that a flat rate of TFES assistance of \$650 per TEU may have provided a similar level of total payments assuming no high density discount and no changes in claim patterns. Table 18 from the 2011 BITRE Parameter Review²¹ shows that at a flat rate of \$700, about a quarter of claims in 2008–09 (in terms of TEUs) would receive more than their wharf-to-wharf freight cost, with 48 per cent of TEU claims likely to receive more than under the current Scheme parameters and approximately 83 per cent of TEU claims receiving over half of the wharf-to-wharf freight cost.²²

Table 18 Indicative impact of a TFES flat rate on shipper payments, 2008–09 (per cent)

Flat rate (\$ per TEU)	Shipments that may receive more than their wharf-to-wharf freight cost.		Shipments that may receive more than their current payment.		Shipments that may receive more than 0.5 of their wharf-to-wharf freight cost.	
	TEUs	Claim Lines	TEUs	Claim Lines	TEUs	Claim Lines
300	0.0	0.1	2.5	0.8	7.9	1.5
400	0.5	0.4	10.4	2.0	33.3	5.8
450	1.0	0.5	15.3	3.0	38.7	8.2
500	5.6	0.8	29.6	5.0	44.2	11.8
525	6.1	0.9	33.8	23.2	48.7	14.6
550	6.3	1.2	36.7	24.6	52.2	16.9
560	6.4	1.2	37.1	25.0	53.9	17.9
565	6.4	1.2	38.0	25.3	56.7	19.1
600	7.9	1.5	40.5	26.8	60.4	24.5
650	13.4	2.3	43.7	29.5	76.2	30.5
700	25.1	2.8	47.9	34.2	83.2	36.2
Totals 2008–09	100.0	100.0	100.0	100.0	100.0	100.0

Note Estimated values presented in this table may differ to actual values paid. BITRE expect that a significant number of claims for 2008–09 were either yet to be lodged or processed as at 28 July 2010.

Source BITRE (2011) analysis of TFES Database

Further work would be required to assess the dollar amount of a flat rate which would provide reasonable assistance without introducing disincentives to finding the cheapest shipping cost.

The Tasmanian Wheat Freight Scheme (TWFS) has the longest history of all the Tasmanian Transport Schemes. However, as the last payment made through the TWFS was made in

²¹ Tasmanian Freight Schemes Parameter Review 2011 – Statistical Report, Bureau of Infrastructure, Transport and Regional Economics, October 2011, p 36

²² Tasmanian Freight Schemes Parameter Review 2011 – Statistical Report, Bureau of Infrastructure, Transport and Regional Economics, October 2011

August 2009 and wheat is now shipped in containers that are eligible for TFES support, the TWFS could be abolished without an adverse impact on Tasmanian business or the freight and shipping market across Bass Strait and would remove the administrative burden of maintaining the scheme.

The assistance that is provided through the TFES to entertainers and sportspersons and to transport broodmares to the mainland for breeding, is a very small component of the scheme but one which adds complexity to administration of the Scheme. These components of the scheme do not appear to meet the Scheme's main aim of assisting Tasmanian producers to compete in markets on the mainland.

The TFES currently provides for reduced assistance for heavy weight freight to reflect the limitations heavy loads impose on road freight. The calculations are complex and introduce the potential for inequity due to difficulties identified in assessing such goods. To identify heavy freight, both the freight volume and weight are required. This aspect of the Scheme is difficult to administer effectively as large numbers of claimants do not provide both shipment weight and volume. The removal of this requirement would have the effect of increasing assistance for heavy weight freight. Based on the limited data available, BITRE estimated removing the high density discount may have increased payments by approximately \$4 million that year.

Simplification of the TFES would reduce the burden of administration and compliance monitoring that is carried out by DHS and the Department. In response to the 2011 performance report of the TFES by the Australian National Audit Office (ANAO), DHS and the Department developed a Compliance Strategy to identify measures which can be taken to increase compliance and the strategy was attached to the Head Agreement as Attachment A to Services Schedule 3. Compliance issues are discussed at the Quarterly Business Meetings of the Management Group, which consists of senior officers from DHS and the Department. A number of actions have been taken to improve compliance, however funding to pursue compliance activities remains limited. Some actions which could be taken to improve compliance, in particular improved information technology systems, have not been able to be pursued due to a lack of available funds from both DHS and the Department.

Enhancing Transparency and Accessibility

To increase the transparency and accessibility of the TFES, DHS could be required to publish 'claimant' and 'claims agent' information as recommended by the Productivity Commission in the 2006 Review of Tasmanian Freight Subsidy Arrangements, which found that the administration of the FTRS could be improved by publicly reporting annual payments made to recipient companies. The current Ministerial Directions still do not provide for the publication of information on amounts paid out.

Transparency and accessibility could be further enhanced by updating the Ministerial Directions to improve their structure and clarify the language and definitions used to reduce the risk of multiple and conflicting interpretations. This would ensure that the Ministerial Directions provide better and clearer guidance to claimants as well as claim assessors.

The Ministerial Directions could also clarify the distinction between beneficiaries of the scheme and the agents who claim on their behalf in order to ensure that benefits flow to Tasmanian industry through shippers.

In addition, the complexity of the schemes has led to a large number of requests to review eligibility of claims. This in turn has generated significant administrative work for DHS assessors who have to conduct reviews of earlier decisions, and to a lesser extent the Department which, at the request of the claimant, must review the DHS decisions that are contested.

Third Party Brokers

The Ministerial Directions for the northbound component of the TFES do not cover the activities of third parties who lodge claims on behalf of persons and companies that produce or manufacture goods in Tasmania.

Southbound and intrastate claimants are able to access approved agents who facilitate TFES claims and pass the subsidy to claimants through a reduced price for goods. Agents must pass the full amount of TFES assistance to eligible customers and are subject to annual agent compliance reviews conducted by DHS and scrutinised by the Department. However, claimants of northbound assistance do not have access to registered agents and third party brokers have emerged to fulfil this role.

Third party brokers are able to make TFES claims under the current Ministerial Directions on an inferred basis, as the existing provisions were not drafted with such service providers in mind. Third party brokers generally operate on a fee for service basis thus reducing the full amount of the TFES subsidy provided to shippers. In contrast, agents that operate in the southbound and interstate component of TFES must pass the full amount of TFES assistance to their customers. The existence of third party brokers increases the potential for ‘gaming’ by shippers and businesses. Previous reviews of the TFES have suggested the role of third party brokers be regulated.

The Ministerial Directions could be amended to require third party brokers to register as a ‘claims agent’ and therefore be subject to closer scrutiny. However, regulation of third party brokers has not proceeded in response to the view of stakeholders who consider that such brokers represent a legitimate business model that has been built around the provision of a service to claimants who have had difficulty in navigating the complex TFES claiming process. The consultation processes carried out in recent years have revealed significant sensitivities to any changes to the schemes on the part of Tasmanian business, in particular those acting as third party brokers. These brokers provide logistical and administrative services to their clients and lodge TFES claims for persons and companies that produce or manufacture goods in Tasmania and who require assistance to access support through the TFES. However, it is probable that simplifying the TFES scheme and enhancing transparency and accessibility would reduce the need for third parties to be involved in the claiming process without the need for further regulation.

Scope of the Schemes

A number of stakeholders, including the National Sea Highway Coalition, have been lobbying the Government to expand the TFES to include exports or expand the range of goods eligible for assistance under the scheme and to increase the assistance provided under the BSPVES. While the TFES does not provide assistance for exports, the withdrawal of the direct container shipping service to Tasmania has increased the focus of shippers on the cost of transshipping goods to Melbourne. Around the same time the Port of Melbourne introduced a Port Licence Fee, thus increasing the transport costs further, and coupled with this development Tasmanian producers were also facing the difficulties of selling their goods overseas as a result of the high Australian dollar. The Department has previously been advised by the Department of Foreign Affairs and Trade that an expansion of the TFES to include exports would potentially contravene Australia's World Trade Organization obligations.

Decreasing Sea Freight Disadvantage

Recent reviews of the TFES and TWFS by BITRE have shown that the sea freight disadvantage is decreasing due to the increased cost of road transport. While the sea freight disadvantage has declined, shipping costs have continued to rise and successive governments have chosen not to adjust TFES and TWFS parameters because such action would have reduced Australian government assistance to Tasmania at a time when Tasmanian producers were facing rising shipping costs and difficult economic conditions.

Current BSPVES Policy Issues

The Department has received a number of requests from interest groups to broaden eligibility for the BSPVES. Representations have been received from yachting groups to expand the scheme to cover yachts that are able to be carried on a trailer so that they can receive subsidy as caravans or motorhomes. Requests have also been received for vehicles travelling on registration permits in special circumstances, for example vintage buses and new vehicles being purchased from interstate to be eligible under the scheme.

There is one main provider of passenger services across Bass Strait, the Tasmanian Government Business Enterprise TT-Line. This has led to concern among some stakeholders about the lack of competition and alternate, lower cost sea passenger transport options in the market.

Groups such as the 'National Sea Highway Coalition' have continued to advocate for a broadening of the BSPVES and the TFES based on the notion that Bass Strait should form part of a national highway network.

The number of passengers choosing to travel by sea declined to approximately 8 per cent in 2012-13. This appears to be both the result of a large drop in sea passengers (in part due to significant fare increases) and a resurgence of air travel. The declining modal share of sea travel is of concern to stakeholders who feel that, on equity grounds, passengers who choose to travel by sea should only have to pay a fare equivalent to the cost of travelling by road based passenger transport.

International Passenger and Freight Assistance Schemes

There are a number of sea passengers and freight schemes in operation around the world which would appear to have a similar rationale to TFES and BSPVES. The eligibility requirements and levels of support offered through the schemes vary. Some schemes such as the Waterbourne Freight Grant Scheme in the UK target modal shift, chiefly to achieve environmental outcomes. In India, the Marine Products Export Development Authority has implemented a scheme aimed at supporting the development of India as a seafood processing hub and also to increase value adding and to generate employment. In Canada, British Columbia Ferries are supported by the Canadian Government to ensure services are provided to the remote island communities along the coast. Another Canadian scheme operated through Marine Atlantic Incorporated (MAI), carries a significant proportion of freight and passengers between Newfoundland and the Canadian mainland. MAI is a federal Crown Corporation and receives a significant annual subsidy through Transport Canada. Differences in the aims and design of these schemes make it difficult to directly compare the level of support provided, however it is clear that governments in a number of countries have taken a similar approach to supporting passenger and freight transport to areas that face significant transport challenges.

Conclusion

The Department recognises that Tasmanian businesses face a transport disadvantage in comparison to their mainland counterparts. The TFES and BSPVES have provided substantial freight and passenger assistance over decades. The Australian Government has committed to continuing to support the TFES and BSPVES while investigating Tasmania's shipping costs and freight industry competitiveness as well as the efficiency and effectiveness of the schemes. Various options to simplify the administration of the TFES have been examined over recent years however the difficult economic circumstances facing Tasmania and the longstanding incorporation of the schemes into the Tasmanian freight industry make changing the schemes a difficult task, even when such changes can be shown to have clear long-term benefits.

The TFES has become more complex over time. Complexity reduces transparency, complicates administration, adds to the regulatory burden and can lead to a dilution of the objectives of the scheme. To reduce complexity, some options which could be considered include the introduction of a flat rate of assistance and the removal of the reduction in assistance for heavy weight freight. Administration could also be simplified by the review of some categories of assistance that are complex to administer and do not seem to be consistent with the key aims of the scheme, for example support for sportspersons, entertainers and broodmares.

As the Tasmania Wheat Freight Scheme (TWFS) has not been utilised since August 2009 and containerised wheat shipment are being supported through the TFES, it seems likely that the TWFS could be abolished without impacting on Tasmanian businesses or the freight and shipping market across Bass Strait.

To further improve transparency, the Ministerial Directions for both the TFES and the BSPVES could be revised to enable their clearer interpretation. Improved guidance material to claimants would also improve the accessibility of the claims process. These actions together could have the effect of reducing the demand for third party brokers without the need to further regulate their business model.

Some stakeholders have called for expansion of the schemes in recent years, particularly in the light of the difficult economic circumstances facing Tasmania. However, expansion in eligibility risks diluting the aims of the schemes and has the potential to greatly increase their cost. In addition, any expansion to TFES to include exports is likely to contravene Australia's World Trade Organization obligations.

Recent BITRE Parameter Reviews have found that the TFES subsidy over compensates shippers on the basis of the sea freight cost disadvantage. However adjusting the parameters to reduce support could be counter-productive in the current economic environment and to date governments have chosen to leave the parameters at the 1996-97 rates determined in the 1998 Nixon Review. Through their actions, successive governments have accepted that the rationale for TFES support has effectively expanded beyond a simple equalisation of transport costs to the provision of assistance that recognises Tasmania's need for economic support and its dependence on sea freight to access markets.

Shipping and freight networks within Tasmania and across Bass Strait are complicated by the small size of the Tasmanian market, the short journey, and multiple Northern Tasmanian ports. Relatively shallow channel depth at each of the three main northern ports also makes the provision of a long term international service unlikely as the size of cargo vessels continues to increase. The shipping service across Bass Strait is efficient, timely and reliable however, the cost of the service represents a disadvantage to those shippers who do not require a high level service but lack an alternative.

The Department is not aware of evidence that demonstrates a direct link between any increases in freight costs and the introduction of the new coastal trading legislation, but recognises that Australian flagged ships are faced with a more expensive cost structure than their foreign flagged counterparts, primarily due to higher wage rates through enterprise agreements, higher Australian insurance costs and bunkers (fuel) at Australian prices.

Air travel is the dominant mode of passenger transport to Tasmania while the movement of freight is predominantly carried out by sea. However, air freight is becoming more competitive in relation to high-value, time sensitive cargo, and it could play an increased role in the Tasmanian freight market in the future.

The Department believes air freight offers opportunities which complement sea freight and could lead to gains in both competition and productivity.

The Australian freight task is expected to double by 2030. To ensure that Tasmanian businesses are able to participate fully in the Australian economy it is important that the TFES and the BSPVES achieve their aims of supporting Tasmanian transport links and reducing the cost of doing business in Tasmania.

In addition, the importance of the freight network and freight links across Bass Strait to the Tasmanian economy underscores the importance of the development of a Tasmanian freight strategy that is pursued collaboratively between the Commonwealth and Tasmania in the context of current national ports and freight initiatives.

The current Tasmanian transport schemes are a longstanding feature of freight and passenger market across Bass Strait. The Government has committed to continuing to support the TFES and the BSPVES whilst investigating the shipping industry and competitive structures and the freight and passenger disadvantages facing Tasmania. Some options to simplify the administration of the scheme have been given consideration and could be of benefit both in increasing the targeting of assistance and the incentive for shippers to seek lower rates and foster greater competition.

List of Attachments

Attachment A - Detailed Policy history of the Tasmanian Transport Schemes

Attachment B – Recommendations of the Infrastructure Coordinator’s 2012 Review in Relation to Tasmanian Ports and Shipping

Attachment C - Maritime Cabotage in Australia

Attachment D – List of Relevant Bureau of Infrastructure Transport and Regional Economics (BITRE) Reports

Attachment A

Detailed Policy history of the Tasmanian Transport Schemes

TFES Policy Timeline

1976

The Nimmo Report - The 1976 Report of the Commission of Inquiry into Transport to and From Tasmania (the Nimmo Report) was established in 1976 to investigate whether there were differences in cost between the transport of freight and people between Tasmania and mainland Australia and between other locations on the mainland of Australia. Based on the findings of this Report the Tasmanian freight equalisation scheme was initiated, with financial assistance provided to Tasmanian producers who shipped goods to the mainland, and to producers who shipped certain raw materials and aids to production in Tasmania. The Australian Government announced the introduction of the TFES on 9 June 1976. In November 1976 the scheme was extended retrospectively to include southbound non-consumer raw material and equipment used in the manufacturing, mining, agriculture, forestry and fishing industries that are shipped from the mainland as non-bulk cargoes. 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.

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.

1981

Review of Methodology - In 1981 the Bureau of Transport Economics (BTE) now BITRE reviewed the rates of assistance and proposed a new 'landbridge' methodology for use in calculating the TFES assistance payable. The changes would have resulted in decreased levels of assistance and were widely criticised by industry. In response to the adverse stakeholder reaction to the landbridge methodology the Minister for Transport directed BTE to recalculate the TFES rates of assistance based on the method expressed in the Nimmo Report. A 1982 BTE report demonstrated that neither the Nimmo or landbridge methodology provided an acceptable means of updating the rates of assistance. Subsequent consideration by the Government resulted in the matter being referred to the Inter-State Commission. A number of subsequent reviews and investigations of the TFES in this period were chiefly concerned with the method of subsidisation rather than questioning the rationale for the freight subsidy.

1982

Arrangements in the Event of Industrial Disputation 1982 – In recognition of the almost total dependence of Tasmanian industry on interstate shipping, the Government determined that freight assistance would be made available for goods moved by air where sea transport

was unavailable and good would be required to be moved by air to avoid contract penalties or to ensure that mainland markets were not jeopardised.

1984

Inter-State Commission Investigation – In March 1984 the Government requested that the Inter-State Commission investigate matters relating to the TFES. The Commission made a number of recommendations relating to the method of calculating assistance that were introduced in September 1985.

1996

TFES Review Authority Review of Rates of Assistance – The Minister asked the TFES Review Authority (TFESRA) to provide an advisory opinion on TFES rates of assistance. In November 1996 the TFESRA recommended that a comprehensive review of the TFES be conducted.

1997

Scheme Transfer – In October 1997 the TFES was transferred from the Transport and Regional Development Portfolio to the Workplace and Small Business portfolio in October 1997 and subsequently returned to the Department of Transport in October 1998.

1998

TFES Review Authority Review of TFES Rates of Assistance (The Nixon Review) –the Tasmanian Freight Equalisation Scheme Review Authority (TFESRA) reviewed the rates of assistance provided through the TFES. The review recommended the parameters that are still used to calculate assistance to shippers and recommend that the key assistance parameters should be reviewed annually and indexation adjustment be applied as the freight disadvantage changes over time. This recommendation was later reflected in section 26 of the Ministerial Directions for the TFES which states ‘the key assistance parameters...will be reviewed on an annual basis and changes may be made to the Directions where those parameters are considered to have materially changed. The Government accepted the recommendations of the TFES Review Authority’s Review and the modified TFES was introduced on 1 September 1999.

1999

Administration Changes - DHS took over the day to day administration of the scheme on behalf of the Department in November 1999. The Tasmanian Transport Team based in the Hobart Centrelink Office deals directly with claimants and processes claims and the Business Support Team based in Canberra provides support to the Hobart team.

2002

Amendment to the Ministerial Directions – In May 2002 the Ministerial Directions were amended to allow the appointment of agents to act on behalf of TFES customers for the southbound agriculture, forestry and fishing industries. Agents were later also permitted to assist with intrastate claims. The new agency arrangements were introduced to facilitate more efficient service delivery to farmer and other small businesses in the specified sector, by enabling suppliers of services to these sectors, such as stock and station agents, to claim

TFES assistance introduced to facilitate more efficient service delivery to these sectors. Approved southbound and interstate agents typically pass on the TFES subsidy to their customers as 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 for northbound TFES claims. In the absence of such arrangements, third party brokers began to operate offering freight rates and services net of the TFES rebate. As these brokers incur the cost for the freight ask they are eligible to claim the TFES rebate but unlike southbound and interstate agents, third party broker are not subject to the controls applied to approved southbound agents.

2006

Productivity Commission Review of Tasmanian Freight Subsidy Arrangements – The review found that there was no sound underlying economic rationale for the TFES and noted significant design and operational problems with the schemes. However, in 2006 the Australian Government decided to continue to provide support to shippers through the TFES and TWFS and agreed to the implementation of a number of reforms, subject to an extensive consultation process with stakeholders.

The response to the review outlined key changes that were to be implemented:

- a) restructuring the basis for claiming TFES assistance to minimise the adverse incentives the current TFES generates so that, as far as is practicable, assistance is paid on the basis of the demonstrated sea freight cost disadvantage as a result of having to ship goods across Bass Strait;
- b) enhancing the administration and auditing of the TFES, involving updating and enhancing systems and more comprehensive public reporting of information;
- c) revising the methodology for setting and updating the parameters used to calculate TFES assistance;
- d) expanding the TWFS to include all bulk and containerised unprocessed wheat shipments, and for eligible shipments to be paid at the same rate and not be subject to the current cap on TWFS payments; and
- e) ensuring that unprocessed wheat will no longer be eligible under the TFES.

Of these, only (b) was implemented following the consultation process with stakeholders, with system upgrades and improvements at the service delivery agency (DHS) and the public release of BITRE parameter reviews of the TFES and the TWFS.

2007

Provision of Increased Funding – In 2007 the then Australian Government provided increased funding in order to progress the implementation of the Government Response to the 2006 Productivity Commission Review of Tasmanian Freight Subsidy Arrangements. The funding was used to develop a new approach to verifying wharf-to-wharf costs, supported by

an upgraded computer system and risk management approach for the service delivery agency, Centrelink (now DHS).

2008

Inclusion of Intrastate Shipments of Eligible Goods – On 1 July 2008, the then Australian Government extended TFES to cover intrastate shipments of eligible non-bulk goods between King Island and the main island of Tasmania, and between the Furneaux Group of islands and the main island of Tasmania.

BITRE Parameter Review – The 2008 Parameter Review conducted by BITRE was released. A key finding for the TFES was that the level of sea freight disadvantage had decreased since 1996-97 and that shippers were therefore being overcompensated for the sea freight disadvantage as the parameters had not been updated. The then Australian Government subsequently announced that it considered that ‘adjustments to the parameters would significantly reduce overall assistance levels resulting in a significant negative impact on Tasmanian businesses at a time of global financial uncertainty’ and decided to maintain the existing levels of assistance by continuing to use the 1996-97 parameters determined by the Nixon Review of 1998.

2009

New Coding System - In March 2009 the DOS based IT system used by Centrelink that was more than 30 years old was replaced by a Windows based system. In addition, in September 2009, to address the Productivity Commission’s 2006 recommendation that there should be more comprehensive public reporting of information about the TFES, a new coding system for commodities, to be used by shippers when claiming assistance, was introduced, based on the internationally recognised codes. The TFES commodity codes were developed from the United Nations Statistics Division Central Product Classification (CPC). This system allowed more comprehensive public reporting of data and enabled improvements to the Scheme’s audit and compliance regime.

Draft Ministerial Directions – In 2009 the Department released a set of draft Ministerial Directions for the TFES incorporating proposed changes to the scheme made in response to the 2006 Productivity Commission review recommendations. The draft Ministerial Directions did not propose changes to the parameters for calculating the amount of assistance payable. However, changes were proposed to:

- clarify the role of a special category of claimants, the ‘agent’;
- increase and clarify audit and compliance requirements; and
- implement a series of administrative changes aimed at clarifying the interpretation of the Ministerial Directions, and the review mechanism available to claimants.

The draft Ministerial Directions aimed to provide consistency in language, clarify the review process, strengthen the audit and compliance regime, clarify the reporting and publication of information, and clarify the roles and activities of third parties.

2010

In response to continuing stakeholder concerns with the proposed changes to the Ministerial Directions, the then Minister for Infrastructure and Transport announced in May 2010 that the current arrangements would be maintained.

2011

ANAO Audit of Tasmanian Transport Programmes - The Australian National Audit Office (ANAO) conducted an audit to assess the effectiveness of the administration of TFES by the Department and DHS.²³ The scope of the audit included the programme management arrangements established by the two Departments to administer the Scheme. It also included activities undertaken to promote claimant access and to assess and pay the claims submitted by claimants. Systems and processes were assessed in terms of three high-level audit criteria:

- the Scheme is accessible to eligible claimants;
- claims are assessed and paid in a transparent, accurate and timely manner; and
- programme management arrangements (including evaluation, reporting and monitoring activities) support the delivery of the Scheme.

The report found that TFES compliance practices were not effective and processes undertaken by DHS to pay assistance were complex and resource-intensive. Although these findings are relevant to the Department as the principal agency for TFES, the primary responsibility rests with DHS as the delivery agency. The ANAO provided three recommendations focusing on:

- improving the accuracy of information used to calculate payments;
- strengthening quality assurance procedures; and
- establishing more effective data management.

In response, the Department developed a risk-based compliance strategy which outlined activities to improve compliance and quality assurance procedures and to identify and treat potential risks. DHS commenced additional compliance activities in accordance with the compliance strategy. In addition, the Department clarified the roles and responsibilities between DHS and the Department and improved management oversight of TFES. For this purpose, DHS and the Department signed a Head Agreement and Services Schedule between the two departments on 19 August 2011.

BITRE Parameter Review – BITRE’s October 2011 Parameter Review reiterated the findings of the 2008 review, finding that sea freight disadvantage had further decreased for many Bass Strait shippers. The then Australian Government decided not to revise the freight scheme parameters in response to the review.

²³ Tasmanian Freight Equalisation Scheme, Audit Report No. 13 2011-12, Performance Audit, Australian National Audit Office, 2011

2012

Infrastructure Australia Report on Tasmanian Ports and Shipping – In March 2012, the then Minister for Infrastructure and Transport asked the Infrastructure Coordinator to examine Tasmanian ports and shipping and provide an initial set of findings. On 24 May 2012, the Infrastructure Coordinator, provided his report to the Minister noting that the ports and shipping issues facing Tasmania go beyond the cessation of international container shipping services and include limitations of the existing Tasmanian freight transport network and the capacity of the Northern Tasmanian ports and shipping channels. The report's six recommendations were conveyed in a covering letter to the then Minister. A copy of the letter and report are provided at [Attachment B](#).

In June 2012, in response to the issues identified in the Infrastructure Coordinator's report the then Government announced a one-off \$20 million funding package to help Tasmania's exporters access international markets.

The funding package contained three key measures:

1. Direct and immediate assistance to Tasmanian exporters through a one-off \$14.5 million payment to help them stay competitive in the new shipping environment.
2. Investing \$4 million in infrastructure improvements at the Port of Burnie to increase container handling capacity and enhance the efficiency of movements within the port.
3. Establish a freight logistics coordination team with an industry leadership (\$1.5 million).

The Freight Logistics Coordination Team (FLCT) was formed in November 2012 and has produced two interim reports as well as commissioning a number of key consultancies in support of its work which have now been finalised and made publicly available. The final report of the FLCT has been provided to the Tasmanian Government and is expected to be publicly released before the end of the year.

Amendment to the TFES Ministerial Directions to address the status of the TFES Review Authority – In November 2012 the then Minister for Infrastructure and Transport took a decision to amend the Ministerial Directions by deleting references to the TFES Review Authority (TFESRA). The Ministerial Directions for the TFES had included a role for the TFESRA in the review of the eligibility of claimants. The TFESRA was first established following the recommendation of the 1976 Nimmo report and was convened to review the operation of the scheme in 1996 and 1998 but was never convened to review decisions made under the TFES. The review process that applied in practice involved two levels of review at DHS and the availability of a third and final review by the Department. This process was considered to be appropriate and similar to the review process employed in similar programmes administered by DHS on behalf of other agencies. As the TFESRA was not a functioning body and had never been used for the purposes specified in the Ministerial Directions, its removal from the Ministerial Directions did not impact upon the operation of the review process for TFES.

BSPVES Policy Developments

1996

Commencement - The BSPVES commenced in August 1996. The rationale for the scheme was that it would increase demand for travel across Bass Strait, with direct benefits to the local tourist industry and potential growth in jobs, investment and population in Tasmania. The rebate was calculated on the basis of charging a net fare for an eligible passenger vehicle plus driver, travelling in standard share cabin accommodation, comparable to the notional cost of driving an equivalent distance on a highway. The equivalent highway cost was based upon the sea distance of 427 kilometres between the ports of Devonport and Melbourne multiplied by an estimated running cost for an average family saloon of 39.87 cents per kilometre. This provided an equivalent highway cost of \$170 for a one-way trip. For the purposes of the rebate calculation, the fare for an “inside cabin” on the *Spirit of Tasmania* was used as the passenger fare benchmark.²⁴

2001

Extension of the Scheme - On 1 March 2001, the Scheme was extended to cover the carriage of eligible vehicles between King Island and mainland Australia. As sea passenger services were not provided on the King Island route, the rebate is available for passenger vehicles transported by sea where the driver travelled by commercial air service on or about the same day.

2002

New Ministerial Directions – New Ministerial Directions were issued in April 2002 by the then Minister for Transport and Regional Services resulting in substantial changes to the Scheme. Rebates previously linked to the season of travel were now made constant throughout the year and were no longer linked to an equalisation formula. In addition, the scheme was expanded to cover caravans, motor homes, vehicles of people with disabilities and bicycles.

2008

Amendment to Ministerial Directions – The Ministerial Directions for the Scheme were amended to increase the subsidy for eligible vehicles and to provide for the rebate amounts to be indexed annually to the CPI. In addition drivers with a medical condition who are unable to travel by sea were allowed to claim a reduced passenger vehicle fare when shipping their vehicle and flying across Bass Strait or to King Island or islands in the Furneaux Group.

2010

Amendments to the Ministerial Directions – The Ministerial Directions were again amended on 30 September 2010. Under the changes:

- provisions applying to Flinders Island were extended to the remainder of the islands in the Furneaux Group;

²⁴ Bass Strait Passenger Vehicle Equalisation Scheme, Monitoring Report No. 1, 1996-97, May 1998

- provisions allowing eligible persons travelling to and from King Island to access the scheme in the absence of a passenger ferry service were extended to the islands of the Furneaux Group while no passenger ferry service was available;
- a Service Operator could now make up to 13 claims in a financial year; and
- Service Operators were now also required to record the date bookings were made.

Attachment C

Maritime Cabotage in Australia

The Coastal Trading (Revitalising Australian Shipping) Act 2012 (The Coastal Trading Act) came into effect on 1 July 2012 and established a licensing framework to regulate access to the coastal trades, including voyages between Tasmania and the Australian mainland.

Apart from some minor differences, the cabotage arrangements established by the Coastal Trading Act are essentially the same as the previous arrangements in place under Part VI of the Navigation Act 1912. The new regulatory environment was designed to be more transparent and to provide greater certainty for the industry, including by detailing criteria for the decision making process in the primary legislation (rather than being set out in Ministerial Guidelines as was previously the case) and through the publication of all temporary licence applications and voyage patterns.

The Coastal Trading Act aims to facilitate a viable and competitive shipping industry but, as the previous permit-based regulatory regime did, recognises the vital role foreign vessels play, and continue to play, in the transport of coastal freight in Australia.

Types of Licences

General licences are available to Australian ships registered on the Australian General Shipping Register and afford holders unrestricted access to the coastal trades. Foreign flagged ships that were licensed under the previous regulatory regime were eligible to apply for a transitional general licence, which affords holders the same privileges granted to general licence holders. This option was available for a limited time as a transitional measure and new transitional general licences are no longer being issued. Existing transitional general licences may be renewed once upon expiry. Both general and transitional general licences are valid for a period of up to five years.

Temporary licences are available to owners, charterers, masters or agents of foreign flagged ships, Australian ships registered on the Australian International Shipping Register and are also available to shippers employing the services of these vessels. Temporary licences are valid for 12 months. These licences authorise the holder to engage in Australian coastal trading for specific voyages carrying set volumes of specified cargoes between specified Australian ports.

The provisions of the Fair Work Act 2009 and the Seagoing Industry Award 2010 apply onboard foreign flagged vessels operating under temporary licences on their third and subsequent voyages in a 12 month period.

When an application is lodged for a temporary licence, general licence holders are able to contest one or more voyages in the application on the basis they have a vessel available to carry the cargo. This process does not mean the temporary licence application is automatically refused.

The provision of notice triggers a consultation period between the applicant and the holder of the general licence. If an agreement about the carriage of cargo is reached between the parties, the Delegate actions the application as appropriate to reflect the agreement. If agreement is not reached, the Delegate must decide whether to approve or reject the application based on information provided by the parties against the object of the Act.

The Tasmanian trade

There are currently six general licensed vessels providing regular, scheduled services between Tasmania and mainland Australia. Departmental records indicate that, since 1 July 2012, approximately 28 foreign flagged vessels have undertaken around 127 voyages under temporary licences between the Australian mainland and Tasmania, carrying cargoes ranging from petroleum and propane to gypsum, fertilisers and metals. In addition to voyages conducted by Australian flagged ships holding general licences.

The Department is not aware of evidence that demonstrates a link between any increases in freight costs and the introduction of the new coastal trading legislation, but recognises that Australian flagged ships are faced with a more expensive cost structure than their foreign flagged counterparts, primarily due to higher wage rates through enterprise agreements, higher Australian insurance costs and bunkers (fuel) at Australian prices.

The coastal trading regulatory framework is currently being reviewed as part of the Government's broader commitment to reducing the burden of excessive red tape on the Australian economy.

Attachment D

List of Relevant Bureau of Infrastructure Transport and Regional Economics (BITRE) Reports

Australia's Bulk Ports

http://www.bitre.gov.au/publications/2013/report_135.aspx

Australian Infrastructure Statistics—Yearbook 2012

http://www.bitre.gov.au/publications/2012/stats_002.aspx

Australian Infrastructure Statistics—Yearbook 2013

http://www.bitre.gov.au/publications/2013/yearbook_2013.aspx

Australian Maritime Activity to 2029–30

http://www.bitre.gov.au/publications/2010/stats_008.aspx

Australian Sea Freight 2011-12

http://www.bitre.gov.au/publications/2013/asf_2011_12.aspx

Australian Sea Port Activity to 2029–2030

http://www.bitre.gov.au/publications/2009/sp_003.aspx

Bass Strait Passenger Vehicle Equalisation Scheme Monitoring Report - 2012

http://www.bitre.gov.au/publications/2012/mr_013.aspx

Bass Strait Passenger Vehicle Equalisation Scheme Monitoring Report -2013

[\(forthcoming\)](#)

Container and Ship Movements Through Australian Ports: 2007–08 to 2029–30, Preliminary Estimates

http://www.bitre.gov.au/publications/2008/sp_004.aspx

Freight Rates in Australia 1964–65 to 2007–08

http://www.bitre.gov.au/publications/2008/is_028.aspx

Interstate Freight in Australia

http://www.bitre.gov.au/publications/2010/report_120.aspx

Road and Rail Freight: Competitors or Complements?- Information Sheet 34

http://www.bitre.gov.au/publications/2009/is_034.aspx

Tasmanian Freight Schemes—Parameter Review 2011

<http://www.bitre.gov.au/publications/2012/tfs-pr.aspx>

Tasmanian Freight Schemes – Parameter Review 2013

<http://www.bitre.gov.au/publications/2013/tfs-pr-2013.aspx>

Tasmanian Passenger and Freight Movements – Information Sheet 48

http://www.bitre.gov.au/publications/2013/is_048.aspx

Waterline 52- April 2013

http://www.bitre.gov.au/publications/2013/water_052.aspx