



Productivity Commission Inquiry into Tasmanian Freight Subsidy Arrangements

The Australian Government's Productivity Commission commenced an inquiry early in 2006 into the subsidisation of containerised and bulk shipping between the mainland and Tasmania – which included a review of the Tasmanian Freight Equalisation Scheme (TFES). Its final report was issued on 24 May 2007.

The TFES was established in 1976 to compensate individual shippers for the additional costs involved in freighting their goods to and from Tasmania by sea relative to the cost of a normal road freight equivalent. In 2005-06 the Australian Government provided subsidies totaling \$92 million to eligible businesses.

The Productivity Commission draft report recommended phasing out the TFES, which subsidises about 40 per cent of container trade across Bass Strait. The draft report found that while the TFES benefits the Tasmanian economy, these benefits were outweighed by the costs to Australia as a whole. The Productivity Commission claimed that there was no economic rationale for providing freight assistance to Tasmanian firms simply to equalize their freight costs with mainland producers. It proposed phasing out the scheme over five years, beginning from July 2007, and introducing a flat rate of \$400 per eligible twenty-foot equivalent unit.

TFES payments equal about 0.6 per cent of Tasmanian gross state product and about 0.9 per cent of costs of the sectors which receive the assistance. Many Tasmanian businesses benefit from the TFES and would be severely disadvantaged if it were phased out. The TFES currently provides financial support for production activities that are otherwise "fragile" in respect of their location in Tasmania and its continued availability is one of a number of financial considerations that might dictate whether some firms or plants might close, or investment might be directed to locations outside of Tasmania.

Without the incentive of the TFES to cover the additional costs involved in the transport of freight across Bass Strait it is unlikely that new, small and innovative companies would establish operations in Tasmania. Furthermore it is likely that there would be a significant decrease in economic activity and Tasmania's economy would slow without the TFES.

Following the release of the Productivity Commission's draft report, the Prime Minister, John Howard, promised that the TFES would remain in force and that the Government will not be implementing the proposals contained in the draft Productivity Commission report. The Prime Minister claimed that the TFES remains an important element of Australian Government programs that equalize cost disadvantages between the states and the territories.

The Productivity Commission released its final report on the review of the TFES on 24 May 2007. As the Federal Government had already announced that the TFES is to continue, the Productivity Commission focused its final report on ways to improve the operation of TFES. Recommendations include:

- TFES payments should be based on the assessed cost disadvantage of individual shipments but will only be payable on the basis of evidence of actual wharf-to-wharf costs.

- Administration and auditing of TFES should focus more intensively on the verification of wharf-to-wharf costs.
- If there is continued evidence of gaming and overcompensation of freight cost disadvantage, a flat rate of assistance should be introduced from July 2010.
- The Tasmanian Wheat Freight Scheme should pay the same level of assistance per tonne to wheat shipped in containers and in bulk. Wheat should no longer be eligible for assistance under the TFES.

Copies of the final report are available from the Productivity Commission's website www.pc.gov.au/inquiry/tasfreight/finalreport/index.html Printed copies of the report are available for purchase from the Productivity Commission publication agent for \$16.00 by logging on to the above website.