

The recently released Productivity Commission draft report recommends phasing out the Tasmanian Freight Equalisation Scheme (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 claims that there is no economic rationale for providing freight assistance to Tasmanian firms simply to equalize their freight costs with mainland producers. It proposes phasing out the scheme over five years, beginning next July, 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 to be 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.

The Prime Minister, John Howard, has since promised, despite this, that the TFES will 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.

Despite the intervention of the Prime Minister, the Productivity Commission will continue with its inquiry.

Interested parties are now being invited to examine the draft report and comment on it in writing and/or by attending public hearings which will be held in Hobart on 17 October 2006 and Launceston on 18 October 2006. Submissions to be presented at a public hearing should be received by the Productivity Commission by 11 October 2006. All other submissions should be received by 27 October 2006. The final report is due for completion in December 2006 and will be prepared after the public hearings have been completed and final submissions have been received.

Copies of the draft report are available from the Productivity Commission's website www.pc.gov.au/inquiry/tasfreight/draftreport/index.html Printed copies of the report are available by contacting Jill Irvine on (02) 6240 3223.