

24 September 2024

Secretary of the Committee
Select Committee on the Tasmanian Freight Equalisation Scheme
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Dear Secretary of the Committee,

Thank you for the opportunity to make a submission for the Committee's consideration in relation to the Tasmanian Freight Equalisation Scheme and the impact that escalating freight costs are having on the viability of Tasmanian businesses.

Fruit Growers Tasmania is an independent grower association that represents the interests of 94 grower members and 41 associate members representing all parts of the fresh produce supply chain.

The farm gate value of the Tasmanian fruit industry is estimated by the Tasmania government to be in excess of \$325 million to the state's economy, employing 10,000 people annually, with 80% of the fruit is sold in mainland markets.

- Tasmania is the largest producer of raspberry and blackberry fruit in Australia with 95% going to mainland states via sea freight.
- Tasmania's fruit industry exports in excess of \$45 million worth of cherries (and apples) into Asian markets, the first leg of that journey is sea freight across Bass Strait, then repacked into international passenger aircraft.
- Tasmania contributes about 10% of the national production of apples, this is equivalent to approximately 29,500 tonnes, the vast majority of which goes into interstate markets and all via sea freight.

The Tasmanian Freight Strategy suggests that 99% of Tasmania's freight is carried by sea, with the remainder by air. Most of the Tasmania's sea freight is destined for domestic markets, with 11 per cent being transhipped, primarily through Melbourne, for international export.

In relation to the Committee's Terms of Reference, Fruit Growers Tasmania would like to make the following comments.

A. The merits and weaknesses of the scheme and if it is currently fit for purpose

The purpose of the scheme is to assist in alleviating the sea freight cost disadvantage incurred by shippers of goods moving between Tasmania and mainland Australia. In addition, it recognises that there are significant barriers to the competitive provision of Bass Strait shipping and that companies

moving goods between Tasmania and mainland Australia face a cost disadvantage that is proportionally greater than those trading between other states via the national road highway network. This cost disadvantage is real and has increased dramatically in recent times. Higher costs result from inherent lower efficiency of sea freight over shorter distances, and costs from meeting requirements for intermodal transfer, and intermodal handling. Unlike other states, there is no alternative mode of transport for freight, in particular rail.

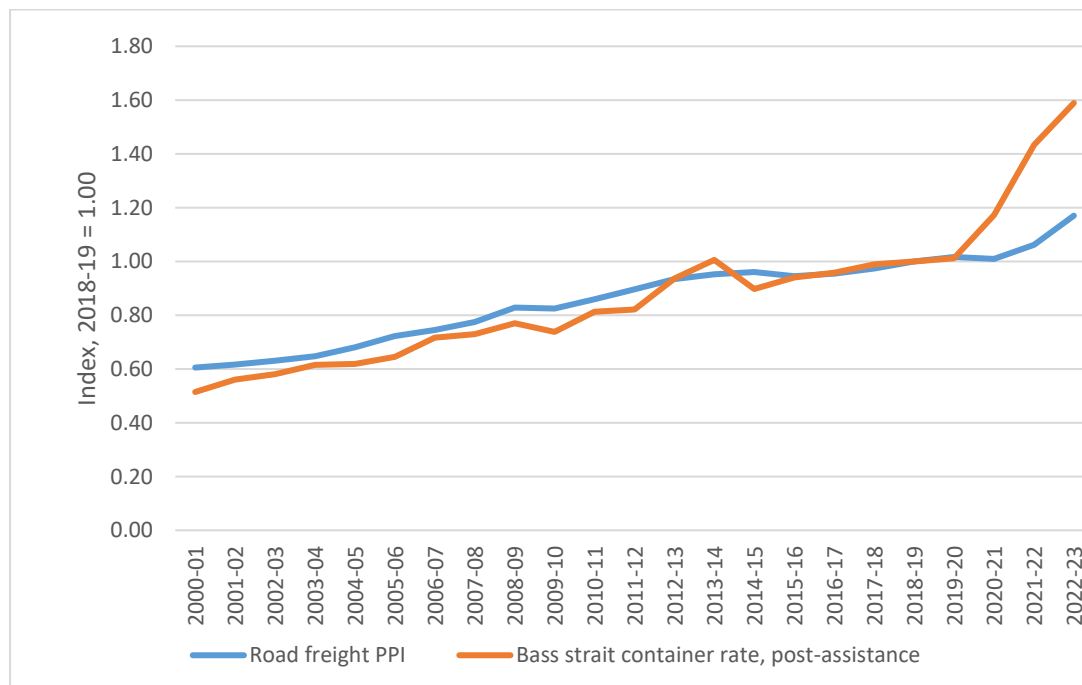
Unfortunately, the scheme is no longer fit for purpose and this enquiry is an opportunity to address the errors in the scheme and bring it into line with current freight cost arrangements. We believe this is also an opportunity to simplify the scheme to remove some of the administrative complexity.

Specific weaknesses in the Tas Freight Equalisation Scheme:

The rate of compensation has remained unchanged since 1998 and is capped at \$855/TEU including \$100 intermodal assistance.

Over the last 5 years the additional cost incurred by shippers, as represented by the difference between the road freight index and the sea freight index (post TFES rebate), has increased. According to the Bureau of Infrastructure and Transport Research Economics (BITRE), between 2019-20 and 2022-23 the cost of sea freight after TFES assistance had risen by 36% more than the BITRE’s road freight equivalent (420 kms). This increasing disadvantage indicates that shippers are having to cover a far greater proportion of the difference between the sea freight and road freight costs than was previously the case.

Graph 1: Road Freight Index vs Bass Strait Container freight (after TFES assistance)



Source: BITRE analysis of TFES database (August 2024 update).

This increasing disadvantage has been caused by both the higher increase in sea freight over road freight, and the fact that there has been no adjustment to the parameters of the scheme.

With no adjustment to the parameters of the scheme, there has been a massive shift in where the proportion of shippers fall within each class of the scheme, and hence a steady decline in the relative assistance that they receive.

Table 1 produced by BITRE shows the percentage of shippers' claims that fall within the 4 classes of the scheme.

Table 1: Percentage of TEUs moved by sliding scale Class, domestic component

| | Class 1 | Class 2 | Class 3 | Class 4 |
|---------|---------|---------|---------|---------|
| 2000-01 | 40.3% | 39.7% | 11.8% | 8.1% |
| 2001-02 | 34.6% | 39.1% | 17.2% | 9.1% |
| 2002-03 | 29.5% | 36.4% | 21.4% | 12.7% |
| 2003-04 | 28.1% | 36.2% | 24.9% | 10.8% |
| 2004-05 | 27.6% | 36.2% | 22.7% | 13.5% |
| 2005-06 | 19.9% | 37.2% | 28.2% | 14.7% |
| 2006-07 | 16.4% | 35.3% | 31.5% | 16.8% |
| 2007-08 | 11.6% | 34.3% | 34.0% | 20.1% |
| 2008-09 | 10.4% | 30.1% | 34.4% | 25.1% |
| 2009-10 | 8.3% | 32.6% | 34.4% | 24.6% |
| 2010-11 | 26.8% | 24.2% | 28.0% | 21.0% |
| 2011-12 | 8.4% | 23.2% | 37.3% | 31.2% |
| 2012-13 | 19.9% | 15.8% | 32.0% | 32.4% |
| 2013-14 | 2.1% | 14.6% | 35.8% | 47.5% |
| 2014-15 | 2.3% | 18.0% | 31.7% | 48.1% |
| 2015-16 | 3.3% | 18.9% | 36.6% | 41.2% |
| 2016-17 | 2.9% | 16.4% | 41.9% | 38.9% |
| 2017-18 | 1.5% | 14.5% | 42.8% | 41.2% |
| 2018-19 | 3.1% | 10.3% | 41.7% | 44.9% |
| 2019-20 | 3.2% | 9.8% | 34.5% | 52.5% |
| 2020-21 | 3.3% | 11.1% | 34.7% | 50.9% |
| 2021-22 | 2.3% | 7.8% | 28.9% | 60.9% |
| 2022-23 | 3.3% | 5.1% | 13.2% | 78.4% |

Note: Claims accepted and paid. Excludes entries with nil payments.

Source: BITRE analysis of TFES database (August 2024 update).

Explanation of the classifications show in Table 1:

The basis of the classifications is the calculation of the notional entitlement – this is the notional wharf-to-wharf freight cost less the road freight equivalent (RFE) cost as fixed in the Ministerial Directions. (The road freight equivalents are currently \$281 per TEU for dry goods and \$309 for refrigerated goods for interstate freight).

A sliding scale of assistance is applied to the notional entitlement. Relevant to this scale is the median level of wharf-to-wharf cost disadvantage across TFES claimants. (This has been fixed at \$671 per TEU since 1998.) The median was calculated using the freight costs of the population of shippers claiming against the TFES. The sliding scale is set out in the Ministerial Direction and decreases proportionally by the identified 'shipping class'.

The sliding scale, median disadvantage, and classes gives rise to a 'cap' of \$755 payable per TEU (exclusive of the fixed intermodal cost of \$100/TEU).

1. The calculation is as follows:
 - a. Class 1 – 100% of the first \$335.50 (this limit is half of \$671), plus
 - b. Class 2 – 75% of the second \$335.50 (up to the \$671 median), plus
 - c. Class 3 – 50% of the third \$335.50 (up to \$1006.50 which is 1.5 x \$671), plus
 - d. Class 4 – 0% of the remaining amount.
2. Addition of the fixed Intermodal costs (fixed at \$100 per TEU which was calculated as \$50 at either end of Bass Strait). The sliding scale and fixed intermodal cost allow for a maximum payment of \$855 per TEU.

With no indexation built into the scheme there has been substantial bracket or class creep, to the point where in 2022-23, 78.4% of north bound claims are in Class 4 compared to 8.1% of claims in Class 4 in 2000-01. This means that by 2022-23 78% of the claims were receiving 0% of the cost disadvantage beyond the \$855/TEU capped amount, whereas in 2000-01 only 8% of the claims were receiving 0% of the cost disadvantage beyond the \$855/TEU capped amount. Accordingly, by 2022-23 there was an additional 70% of the shippers whose assistance was capped under the scheme.

The table clearly shows that the scheme has not kept up with increasing shipping charges associated with port fees, wages, shipping operations and infrastructure costs.

The situation is even worse for exports (transhipped goods).

Currently the maximum rate of assistance is \$700 per twenty-foot container for transhipped goods and \$855 per twenty-foot container for mainland bound goods.

The vast majority of containerised freight heading to international markets is uplifted out of mainland states. Containerised international shipping out of Tasmania is virtually non existent, with international bound freight being consolidated through mainland ports. This reflects a major shift in international shipping services over the last 10-20 years.

With non existent direct international shipping options ex Tasmania, exports (transhipped goods) face the same cost disadvantage as domestic goods.

Accordingly, there is no plausible reason why the maximum rate of assistance for exports (transhipped goods) should not be the same as domestic goods (currently \$855/TEU).

B. If the scheme has kept up with increasing costs over the past decade

As is evident in Graph 1, in the early part of the last decade, sea freight cost disadvantages and road freight costs were similar or at least in close parallel. However, from 2019-20 onwards there has been a widening disadvantage being experienced by shippers between sea freight and the road freight equivalent.

Thus, for the period:

- In 2020-21 the difference was 16%,
- In 2021-22 it was 35%,
- and in 2022-23 it was 36%.

This means that shippers now face a 36% higher shipping cost disadvantage (after TFES assistance) relative to the road freight cost equivalent, for which the scheme provides no increased assistance. These numbers reflect the experience of Tasmanian fruit growers trading interstate and overseas who say that despite now claiming the maximum amount offered within the scheme, the contribution that the capped amount makes to overall freight cost continues to decline.

To ensure that the scheme remains relevant and accessible to shippers, regular comprehensive three yearly reviews with adjustments are necessary.

C. The cost and budget of the scheme

Fruit Growers Tasmania is unable to comment on the cost and budget of the scheme.

D. Shipping costs, competition and shipping industry competitive structures across Bass Strait, including alternative freight options

There are a range of fees which have largely gone unchecked and unconstrained in relation to sea freight these include port charges, diesel fuel surcharges and more recently new “terminal access” charges. Greater consideration of these impacts should be given to the competitive structure of the industry and the impact they have on Tasmanian businesses trading in interstate and overseas markets.

Of particular note is the fuel surcharge which is charged as a percentage of the total freight charge across both road and sea components by the freight forwarder. Toll/Global Express Team quoted a fuel surcharge for September 2024 of 32.75% of the total freight rate (before GST), the fuel surcharge quoted in June 2016 was 9%, an increase of 264% in 8 years.

Regarding alternative freight options there really aren't any. Sea freight out of the port of Burnie or Devonport are the only options for producers to get their freight to mainland markets. Of these there are three carriers –Searoad Shipping, TT Line and Strait Link (formally Toll/ANL).

Airfreight is not an option as capacity is restricted by cost, the limited underbelly space of passenger aircraft, limitations to weight airlift and the lack of suitable infrastructure to support requirements.

E. Eligibility criteria under the scheme

For several years, Fruit Grower Tasmania has requested that empty apple bins be included as TFES eligible south bound freight.

Wooden bins are part of the packaging requirements that growers use to transport apples to mainland packhouses and cool store facilities. Wooden bins are reuseable, sturdy and are used by the major national apple packhouses such. It doesn't make sense particularly in these environmentally aware times, that south bound disposable plastic packaging is claimable under the scheme, but apple bins and other reusable containers are not.

We would like to see this anomaly addressed so that south bound empty wooden apple bins become claimable under the scheme.

F. The operation and administration of the scheme

The scheme is very complex, and each time there is a significant review technical expertise is required to attempt to decipher its operation. If it can be simplified it could greatly reduce the administration costs both for shippers and the Department administering the scheme.

A simplified scheme would allow for adjustments to be made with less modelling and enable government to predict budgets and expenditure with greater accuracy. The concept of simplifying the scheme has been recommended in a number of enquiries including the 2006 Productivity Commission report on [Tasmanian Freight Subsidy Arrangements](#).

The short claimable period of 6 months which was instigated in 2019 is problematic from a compliance perspective. Often, south bound goods can be held up in transit to Tasmania, particularly when they are held back due to their nonperishable nature. When this occurs often the good and associated paperwork are not available until after the 6-month claimants' deadline. Particularly post Covid the shortages of space and delays in overseas shipping due to sea freight congestion has impacted business's ability to lodge claims within the deadline. In addition, smaller shippers with limited resources and capacity to lodge claims within the 6 months cut off period requires greater consideration and fairness from the scheme.

G. How the scheme impacts businesses on King Island and Flinders Island

Fruit Growers Tasmania has no comments in relation to this aspect of the scheme.

Recommended improvements to the scheme:

- That the threshold levels and payment cap be reviewed every three years to better align with changes in sea and road freight costs.
- That the same reimbursement be afforded to transhipped freight as domestic bound freight.
- That a complete review of the scheme be undertake, to not only address the increasing cost disadvantage in sea freight but to simplify the scheme allowing small claimants to use the scheme more efficiently and reduce the administrative burden.
- That consideration be given to what is claimable under the scheme to ensure greater fairness and consideration of reusable materials such as apple bins, vegetable boxes and beer kegs be addressed.
- That the 6 monthly period in which to lodge a claim be extended taking into consideration - the south bound shipping delays, the limited resources of small shippers and the significant burden the paperwork imposes on claimants.

Yours sincerely



Peter Cornish

Chief Executive Officer

Fruit Growers Tasmania Inc.