

Independent Review of the Tasmanian Transport Schemes

Response to the Issues Paper and Consultation Questions

Thank you for the opportunity to provide a response to your Issues Paper and the consultation questions you pose.

We have endeavoured to provide responses to those questions where we hope our thoughts might be insightful and have not responded to questions where we feel we could add little value.

We appreciate the approach you have taken to recognise and respond to the issues raised during consultation and/or those you have identified would be relevant to progressing a thorough review of the schemes. While the breadth of questions is wide and generally relevant, we do hold some concerns that some of the questions that go to the underlying rationale and philosophy of the Tasmanian Freight Equalisation Scheme (the Scheme) are not necessarily addressed.

Accordingly, we have tried to raise these where relevant within the individual responses to the questions but also at the end of this submission.

We look forward to participating further in your consultations during February and beyond that we hope will result in recommendations that will lead to a more fit for purpose, equitable and appropriate scheme that delivers fairer equalisation for producers moving goods across Bass Strait.

Yours sincerely,



Peter Cornish
Chief Executive Officer
Fruit Growers Tasmania

Fruit Growers Tasmania is the industry body which represents the interests of apple, pear, cherry, stone fruit and berry growers in Tasmania. The farm gate value of the Tasmanian industry is estimated at \$401 million and provides employment for more than 10,000 people annually. More than 80% of total production volume is sold in interstate or overseas markets.

Rates:

- 1. Many producers get a single invoice for the door-to-door costs of freight so do not see the wharf to wharf and/or the intermodal costs. For producers who get an itemised invoice that breaks out the door to wharf, wharf to wharf, and wharf to door costs, and/or the intermodal costs, how well do these costs align with the standardised cost used in calculating notional entitlement?**

We understand most fruit producers do not see the breakdown of freight costs and therefore the accuracy of \$230 as an estimate for the door to wharf (or wharf to door) component is unknown.

From our discussions with Bureau of Infrastructure and Transport Research Economics (BITRE), less than 30% of claims made are based on wharf to wharf charging. Accordingly, we suggest that the Government could undertake further investigations with freight forwarders or shipping companies in an effort to better understand the wharf to wharf component.

Perhaps the Tasmanian Government could be approached to share the TT Line freight charges to better inform the model regarding wharf to wharf charging rates and the sea component of the freight charge.

Perhaps the Reviewers could reach out to BITRE and Infrastructure Australia to seek the information that could assist in filling the information gaps in the model.

- 2. Should intermodal costs be adjusted annually? Is the Consumer Price Index an appropriate index to adjust the intermodal costs? Are there better alternatives?**

Yes the Intermodal costs should be adjusted annually.

We believe the CPI is as good a measure as any to apply, although there may be more appropriate indices that focuses on freight transport/intermodal such as the [TransEco Road Freight Cost Indices](#) or the ABS Producer Price Index.

The Review has been asked to investigate the extent to which the fixed intermodal cost component of assistance reflects the actual intermodal costs paid by TFES claimants.

The Issues Paper identified that the fixed intermodal component has not been adjusted since the 1998 Nixon Review.

We are informed by shippers that the intermodal costs are well above the current assistance. The interim adjustment to the fixed intermodal cost for 2025 to 2027 was a 25% increase in comparison to the requested 100% increase. This is broadly comparable to the movement in CPI which has increased 113% since 1998.

If the Scheme is intended to fully offset the additional sea freight cost, then the intermodal must be better equalised. A doubling of the intermodal would therefore seem conservative to \$200/TEU, with annual indexation applying beyond.

The Government has indicated to us that it would consider the early advice from the Independent Review should the Review decide that the current 25% increase in the intermodal assistance is not reflective of the current costs. We would greatly appreciate the Reviewers providing that advice to the Government.

3. Does the Class approach encourage producers to negotiate lower freight prices?

The aim of the Class system is to provide a reduced amount of equalisation the greater the sea freight charge. The concept being shippers will be incentivised to seek a lower freight rate when a smaller proportion of the cost is equalised by the Scheme, thus keeping downward pressure on freight charges.

We believe that given the competitive nature of the business environment the class system is punitive, not necessary and results in inequity between claimants.

Producers across the board operate in a competitive environment where there are constant pressures and challenges to be profitable. Accordingly, there is always the incentive for producers to negotiate lower freight prices as they do for all input costs. Producers don't pursue freight rates to maximise the Scheme equalisation – they pursue reduced freight rates to improve profitability.

Producers who utilise the Scheme are not just competing against other producers who utilise the Scheme but also producers from other parts of Australia. Mainland producers have the option of road freight. Further, producers in other parts of Australia may be less than 420 kilometres from market or be larger and hence able to negotiate lower road freight rates. This competitive pressure drives Tasmanian producers to minimise their freight costs no matter what the parameters of the Scheme are.

We question the rationale of the class system if its only role is to incentivise producers to seek a reduction in their freight rates. There are more than sufficient competitive business pressures in play without this.

Further to this we believe the class system is profoundly inequitable and undermines the basic concept of the Scheme to provide equalisation. This is clearly demonstrated as follows.

- A claim in Class 1 receives 100% equalisation.
- A claim at the top of Class 2 receives 87.5% equalisation.
- A claim at the top of Class 3 receives 75% equalisation.
- Claims in Class 4 receive ever declining rates of equalisation as they exceed the cap.

The current class system addresses the equalisation for those in Class 1, largely those with the greatest capacity to negotiate a lower freight rate. The small to medium sized businesses paying higher freight rates in Classes 3 & 4, receive a far lower amount of equalisation. This punitive model deliberately under equalises for smaller producers and therefore fails to address the sea freight disadvantage equitably for everyone.

4. Would a flat rate make it easier to estimate your rebate, and would this be helpful?

Yes, a flat rate may make the estimation of the rebate easier and possibly provide greater certainty to businesses bidding on interstate contracts but it is the amount of rebate that matters the most. The complexity of the Scheme is secondary to ensuring that the Scheme works in the way it is intended.

We suggest it is more important to focus on making it fit for purpose and then consider what might make it more user friendly.

The issue with a flat rate system would be to ensure that the level of the flat rate was not more than the Actual/Notional Equivalent. It is not a subsidy rather an equalisation scheme and it is essential to ensure any such criticism is not valid. Given the different rates of sea freight (per 20ft TEU) and therefore the different levels of sea freight disadvantage being experienced, a single flat rate rebate cannot deliver equalisation without potentially subsidising some claimants and under-equalising others. We are not in favour of a single flat rate.

Further, the flat rebate for freight bound for export markets needs to be adjusted to be consistent with the way other north bound freight is assessed, regardless of the end point, as the costs experienced are the same. There is no international shipping service for reefer freight directly out of Tasmania

5. Would a fixed share of NE be easier to calculate than the current class system? What share of NE should be applied and why?

Yes, possibly a fixed share of the NE would be easier to calculate but really the sliding scale of the classes is not that complex. What matters more is that the Scheme equalises the sea freight disadvantage for shippers.

Therefore, we recommend that full equalisation of the cost differential between freight rate and the road freight equivalent should be the stated aim of the Scheme. Anything less than 100% of the NE does not provide equalisation.

This would render equalisation of any share of the NE less than 100% inconsistent with the intent of the Scheme.

In addition, the fact that the Notional Entitlement is so much greater than the Road Freight Equivalent is a very significant consideration from a competitive perspective. As outlined in the Issues Paper, the least disadvantaged Class 4 claimants who face 150% of the Notional Entitlement (that is \$1,006) receive only 112.5% of their disadvantage (that is \$755). Accordingly, their disadvantage is not in any way equalised and they face additional transport costs of \$252.

An additional transport cost of \$252 means they are paying a minimum of 90% more than their interstate counterparts who only face a Road Freight Equivalent of \$281. And this is the best situation facing a Class 4 claimant, a situation that only deteriorates as freight rates paid and disadvantage faced increases. This is guaranteed non-equalisation.

84% of claimants currently fall in Class 4 and hence face this situation.

- 6. Is the differential treatment of Flinders Island and King Island producers justified? What is the best way to help the Island producers remain competitive with their Tasmanian and Australian mainland peers?**

We have no comments on this question.

Coverage:

- 7. What would be the benefit in reduced administrative costs of removing the 6-month requirement on imported inputs shipped south, and/or the requirement to demonstrate the input is not available in Australia?**

The 6 month requirement is an arbitrary timeframe. A number of instances have been raised where this restriction has stopped otherwise eligible claims under the Scheme. In addition, the nature of import and resale may mean there is longer than 6 months between the import of the product and its resale to a Tasmanian producer.

While it makes sense that the timeframes for claiming under the Scheme should not be open ended, investigation seems warranted as to whether the 6 month timeframe should not be increased to somewhere between 9 and 12 months.

The requirement to demonstrate that imports are not available in Australia is also arbitrary and inappropriate. Producers importing inputs or equipment suffer the freight cost disadvantage of shipping across Bass Strait whether the input/equipment is imported or locally produced. Producers in mainland states do not face this disadvantage if they use imported items so why should Tasmanian producers?

- 8. What would be the benefit to Tasmanian producers of expanding TFES to the southbound shipment of reusable packaging used to ship products north?**

Please see answer to the second question 11.

- 9. What would be the benefit to Tasmanian industry of expanding TFES to include specialist services in the currently eligible industries?**

We have no comments on this question.

- 10. Is the requirement to submit a claim within 6 months of the date of shipment difficult to comply with? What would be an appropriate time limit and why?**

The 6 month requirement is an arbitrary timeframe. A number of instances have been raised where this restriction has stopped otherwise eligible claims under the Scheme.

Many producers, in particular small to medium producers, may not claim regularly under the Scheme for a variety of reasons. They group claims together and their focus is not trying to utilise the Scheme rather their focus is on staying viable.

While it makes sense that the timeframes for claiming under the Scheme should not be open ended, investigation seems warranted as to whether the 6 month timeframe should not be increased to somewhere between 9 and 12 months.

11. Is there a need to have a separate category for brood mares?

We have no comments on this question.

11. Should TFES be applied to the return of reusable packaging? What would this cover? Should this be limited to the return of fruit crates?

The use of wooden bins is a clear example where the current coverage of the Scheme is not fit for purpose. Empty bins, which are essentially packaging, should be eligible for assistance when moved southbound.

Numerous apple and cherry producers in Tasmania send their fruit to Victorian packhouses for grading, storage and packing. A similar situation occurs for producers in Victoria, South Australia and New South Wales.

Wooden bins have long been the preference for apple producers to maintain the quality of their fruit. Wooden bins are usually manufactured in mainland states, have a long working life, avoid the use of plastic and can be used earlier in the season for mainland production areas then sent to Tasmania for the later Tasmanian season. Tasmanian apples are regularly placed into long term storage by Victorian packhouses.

Wooden bins are not eligible for assistance under the Scheme when moved empty southbound for use by Tasmanian apple growers, whereas other forms of packaging are.

This is both an anomaly under the Scheme and places Tasmanian growers at a cost disadvantage to growers in other areas who benefit from the lower road transport cost of repositioning empty bins.

12. Should there be an exemption for bulk shipments of fertiliser or other produce that if repackaged qualifies for TFES?

We have no comments on this question.

13. What would be the benefit to Tasmanian producers of expanding coverage to building materials? Would this assist these producers to compete with mainland producers?

We have no comments on this question.

14. How can the definition of special circumstances be improved to provide greater clarity on when they apply? Should this definition be expanded to cover all time sensitive production on King Island and Flinders Island given they do not have an alternative of road or rail freight? Would this same logic apply for all Tasmanian producers of time sensitive freight? Would this give Tasmanian producers of fresh product an advantage over mainland producers?

There is no question that the freight disadvantage faced by Tasmanian producers is both cost and time. This has specific implications for time sensitive products that are unable to utilise cost effective, convenient and speedy road freight services at any time of the day or night.

A minimum 12 hour addition to the journey time in comparison to comparable mainland road transport, or given the high perishability of the produce, may make air freight the only option or an unacceptably high cost option when normal road freight transit times would be more than adequate.

While there is not necessarily a freight disadvantage purely on the basis of an air freight comparison, a 420km mainland road freight transit may be eminently manageable to not warrant air freight, while a 16 hour (2 hours waiting either side) point to point movement across Bass Strait might well justify assistance to air freight.

15. Are there other products that should be covered? What are they and why would their coverage assist Tasmanian industry to grow?

We have no comments on this question.

16. What products could be removed to allow other products to be covered?

We would be very concerned if currently eligible categories were arbitrarily denied their current level of equalisation without a clear rationale.

Complexity:

16. Are there better alternatives to the current system for lodging claims? Can the portal be made easier to use and how?

We have no specific comments on this question.

17. While confidence that claims being paid by TFES are not fraudulent is important for public support for the Scheme, is there a better way to demonstrate claims are eligible? Do audits provide a required level of confidence?

We have no specific comments on this question.

18. Is there any potential to use the Business Activity Statement information submitted quarterly to the ATO to confirm the accuracy of shipment cost and product eligibility?

We have no specific comments on this question.

19. Can the need to register southbound inputs be streamlined and improved?

We have no specific comments on this question.

20. Apart from reducing the tight definitions of who and what is in scope, and/or introducing a flat rate for the currently variable rate products, what other ways could the administration of TFES be streamlined?

We have no specific comments on this question.

Competitiveness:

21. What leverage do producers have to negotiate freight prices and/or reliable access to a freight service? Can that leverage be increased and, if so, how?

Generally speaking there is competition between the three freight services operating across Bass Strait and also between freight forwarders and transport companies who use these services and regularly provide end to end solutions for growers.

However, we don't believe that small/medium sized producers have any capacity to negotiate freight charges and limited ability to command access freight services. We have stated some of the reasons in question 3.

Larger producers do to some degree have the bargaining power to negotiate rates, however it is limited because the trading period can be relatively short, it occurs during a period of peak demand, further transporting perishable freight is specialised and only a handful of freight forwarders offer the service.

TT Line is the shipping service which offers greatest certainty for shippers largely because of the discipline enforced by their passenger operations. Their overnight service allows perishable freight to be in the market or on an international air service the next day. The other shipping services don't always provide that level of schedule certainty.

Producers are generally price takers at the end of the supply chain - fuel costs, labour costs and port charges continue to increase and freight forwarders pass these costs on to producers.

Of benefit is the implicit practice by shipping companies that fresh produce takes priority over non-perishable freight.

22. What are the challenges in providing an efficient freight service by freight forwarders and the shipping lines? How can these challenges be addressed?

We have no specific comments in relation to this question.

23. TasPorts operate most of the ports in Tasmania. Is there effective oversight on their investment planning and delivery, and administration by the State Government? Would more competition from private ports be beneficial, and how could this be achieved?

TasPorts has a critical role in the success of the Tasmanian economy. Its mandate should be to operate an efficient and effective port system that maximises the benefit to all Tasmanian businesses trading across Bass Strait. In recent times, the TasPorts Board has failed to ensure that the organisation adequately fulfils its core functions. Greater pricing oversight by the Tasmanian Government, in the absence of competition, would be welcome.

TasPorts manages a range of non-commercial ports including at Port Arthur, Stanley and Coles Bay. It has responsibility for the Devonport airport and operates a community grant program. All these non-core elements have potential to draw resourcing away from their service delivery obligations to support Tasmanian businesses.

TasPorts is required to deliver a dividend to the State Government. For the period 2024-25 the amount was \$10.7 million, this seems counterproductive given the need to replace aging infrastructure and better service the logistic requirements of shipping companies and their customers.

24. Are there changes that could be made to improve the economic viability of shipping services to the Furneaux Group and King Island? What improvements in these services would promote economic activity and the demand for shipping services on the Islands?

We have no specific comments on this question.

25. How common are shipping price differences for similar products that cannot be explained by the actual costs of handling? What approaches could be made to reduce unwarranted pricing differentials?

We have no specific comments on this question.

26. What are the growth opportunities for the Tasmanian economy? How dependent are these opportunities on the availability of TFES?

There is no question that growth opportunities for the Tasmanian economy are heavily reliant on the operation of the TFES and it touches every sector of the State's economy.

For the fruit industry it provides the strategic certainty needed for our producers to compete and undertake long term investment.

Securing the longer term certainty of the Scheme going forward must be a key outcome of this review, especially given bipartisan support for the improvement of the Scheme.

Additional comments

There are some principles at the core of the Scheme which we believe should be fundamental for the review to consider being embedded going forward.

These include the following.

- The Scheme must as closely as practicable equalise the sea freight disadvantage (and intermodal cost) for all claimants. Even following the recent (but interim) 25% increase, is the Scheme falling short?
- The Scheme must be able to be regularly adjusted to ensure it continues to deliver equalisation. This is a responsibility of Government.
- The measures (including the data/indexes) used in the calculations must be kept up to date and must happen as part of the Scheme's management.
- That the simplification of the Scheme, administrative improvements and additional categories must not come at the expense of equity for existing claimants.
- That no claimant should be made worse off under a new Scheme arrangement. The claw back of equalisation that provided a 25% boost to payments was hard fought, long overdue and any deterioration of this position would not be considered reasonable by industry.
- The Scheme utilise a single fixed Road Freight Equivalent. This is not a realistic assumption. Larger producers have sufficient market power and offer significant benefits to road transport operators that enable them to negotiate lower road freight rates. In short, the bigger the customer the lower the road and sea freight rates. Accordingly, the Scheme should focus on the freight disadvantage at all levels.