

AUSTRALIAN GOVERNMENT RESPONSE TO THE PRODUCTIVITY COMMISSION INQUIRY REPORT: TASMANIAN SHIPPING AND FREIGHT

OVERVIEW

Tasmania as an island state has a heavy reliance on shipping services. The Australian Government recognises the importance of shipping and the efficient transport of goods and passengers across Bass Strait to Tasmania's broader economy.

The Australian Government remains strongly committed to retaining the Tasmanian Freight Equalisation Scheme (TFES) and the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES) to help offset shipping costs faced by shippers and passengers across Bass Strait.

For many years Australian Governments have provided significant support to Tasmania by way of the Tasmanian Transport Schemes, including the TFES and the BSPVES. The schemes are designed to reduce the shipping disadvantage faced by Tasmania and assist its producers to compete in markets on the mainland as well as alleviate the cost of sea travel across Bass Strait. Collectively, the TFES and BSPVES have cost more than \$2 billion since their introduction in 1976 and 1996 respectively.

As part of its inquiry into Tasmanian Shipping and Freight, the Productivity Commission examined the competitiveness of Tasmanian business as it relates to shipping, port, road and rail infrastructure and services. It also focussed on the effectiveness of the TFES and BSPVES and assessed whether the schemes are meeting their stated objectives. Noting the intention of the Australian Government to retain the schemes, the Productivity Commission has put forward recommendations to improve their operation.

The Australian Government welcomes the findings of the Productivity Commission's Inquiry Report on Tasmanian Shipping and Freight (the Report).

The Productivity Commission has found that there are a number of broader economic challenges facing Tasmania, including poor accessibility to markets, low income growth and high unemployment. The Productivity Commission has advocated a more strategic approach to address the underlying impediments to Tasmania's competitiveness and growth.

The TFES and BSPVES were introduced to address the higher transport costs faced by Tasmanian producers and passengers in accessing mainland Australia, as result of the need to ship goods across Bass Strait. They were not intended to address broader economic and social challenges.

In its overview, the Productivity Commission considers that simply addressing the issues with the TFES and BSPVES will not meaningfully improve the competitiveness of the Tasmanian economy, which it considers should be the policy imperative. The Report canvasses elements of an economic development approach as a future and better alternative to TFES and BSPVES including reforms that have national and Tasmanian benefits, such as coastal shipping reform and those that directly enhance the competitiveness and productivity of the Tasmanian economy such as rationalising government infrastructure assets and developing a sustainable integrated freight strategy in Tasmania.

Like the Productivity Commission, the Australian Government recognises that the economic challenges facing Tasmania reflect fundamental and broader issues which require immediate action from governments.

The Australian Government has made a clear commitment to work with the Tasmanian Government to boost Tasmania's competitiveness to provide more jobs and opportunities for Tasmanians.

The Australian Government has established the Joint Commonwealth and Tasmanian Economic Council to ensure that Tasmanian economic issues are at the forefront of the Australian Government's policy agenda.

Key points of this response to the Report include:

- the current method of calculation of the Tasmanian Freight Equalisation Scheme (TFES) will remain unchanged for goods that are currently eligible for assistance;
- the current parameters of the TFES and rates of assistance will also remain unchanged, providing certainty for all current recipients of assistance;
- from 1 January 2016 TFES assistance will be extended to goods going to markets not currently covered by the Scheme. The additional shipments that will now be covered by the TFES will receive assistance at the flat rate of \$700 per Twenty Foot Equivalent Unit (TEU); and
- maintenance of the current assistance rates for the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES).

DETAILED AUSTRALIAN GOVERNMENT RESPONSE TO RECOMMENDATIONS

The Australian Government's responses to the Report's recommendations are as follows:

RECOMMENDATION 1 - Review of Coastal Shipping Regulation

The Australian Government should proceed with the foreshadowed review of coastal shipping regulation (including cabotage) as a matter of priority. The objective of the review should be to achieve the most efficient coastal shipping services feasible for Australia.

Australian Government Response

Support.

The Australian Government believes that there is a clear case for reform of the *Coastal Trading (Revitalising Australian Shipping) Act 2012* and is currently considering options for reform of the current arrangements. This consideration follows release of a paper in 2014 that contained three broad options for reform:

Option 1 – remove all regulation of access to coastal trading in isolation;

Option 2 – remove all regulation of access to coastal trading and enact legislation to deal with the effects of other Australian laws;

Option 3 – continue to regulate access to coastal trade, but minimise industry burden and costs.

Eighty-five written submissions were received following public consultation sessions on the paper.

RECOMMENDATION 2 - The Introduction of a Flat Rate of Assistance under TFES

The Australian Government should introduce payment of freight assistance as a flat rate of subsidy per TEU (twenty foot equivalent unit) shipped.

The Bureau of Infrastructure, Transport and Regional Economics should recommend separate dollar amounts per TEU of assistance for the Tasmanian mainland, King Island, and the Furneaux Group of islands, informed by a public consultation process, and taking the following into account:

- a reasonable amount to partially offset the freight cost disadvantage associated with Bass Strait shipping and informed by the Government's overall budget commitment to the scheme
- that the flat rate should include a zone structure for eligible shippers on King Island and the Furneaux Group of islands in recognition of their relatively greater shipping freight cost disadvantage and limited shipping service options
- that the flat rate should provide assistance that is compatible with the incentive to seek the lowest shipping cost and not a percentage of transport costs incurred
- an appropriate transition period to the new flat rates reflecting any quantum of change and the tenor of shipping contracts.

The commencement of this consultation process is contingent on the resolution of the issues related to Recommendation 6.

Australian Government Response

Supported in part.

The Government has decided to retain the current method of calculation of the TFES for goods that are currently eligible for assistance. The parameters of the TFES and rates of assistance will also remain unchanged, providing certainty for all current TFES funding recipients and recognising the economic circumstances facing businesses operating in Tasmania.

In addition, the Government has agreed to the expansion of TFES from 1 January 2016 to provide assistance to goods going to markets not currently covered by the Scheme. The additional shipments that will now be covered by the TFES will receive assistance at the flat rate of \$700 per TEU. Shippers from King Island and the Furneaux Group of Islands will be eligible for a 15 per cent additional loading. This decision is made in acknowledgement of the significant challenges facing Tasmanian businesses in the current economic environment.

The flat rate applying to the additional component of the Scheme will be subject to ongoing monitoring processes. BITRE will conduct an initial review of the impact of the additional component (including on expenditure) in 2017, prior to the start of the processes outlined under the response to Recommendation 3. Thereafter, monitoring of the additional component will be included as part of the general monitoring reviews.

RECOMMENDATION 3 - Timing and Process for future parameter reviews of the TFES

Future Tasmanian Freight Equalisation Scheme (TFES) rate reviews should be undertaken every four years by the Bureau of Infrastructure, Transport and Regional Economics using a public multi-stage process, comprising:

- release of a draft report, containing the estimated rate updates and underlying assumptions and data
- a public submission process that allows interested parties sufficient time to provide input
- release of a final report that incorporates resulting feedback and evidence.

Further, to inform rate reviews and future assessment of the effectiveness of the TFES, the Bureau should seek agreement with the relevant shipping lines to provide pricing and cost data.

Australian Government Response

Supported in part.

The Bureau of Transport and Regional Economics (BITRE) will undertake monitoring reviews of the TFES every four years, commencing 2019, and produce monitoring reports to inform decisions by the Government on adjustment to the parameters and rates of assistance under the scheme. The process will improve transparency and provide an opportunity for interested parties to comment on a draft report.

The Australian Government will consider adjustments to the parameters for the Scheme based on the BITRE monitoring reports, and will respond publicly to all monitoring reports. Details of responses will be subject to Government decision making and budgetary processes.

RECOMMENDATION 4 - Public Response to TFES Rate Reviews

The Australian Government should respond publicly and in a timely manner to all Tasmanian Freight Equalisation Scheme rate reviews. All responses should be released with an appropriate lead time to provide certainty for recipients, and for any resulting revisions to payment rates to be incorporated into Commonwealth Budget processes.

Australian Government Response

Support.

See response to Recommendation 3.

RECOMMENDATION 5 - If TFES is retained in its current form, base TFES rate on BITRE parameter reviews

If the Australian Government chooses to retain the Tasmanian Freight Equalisation Scheme in its current form, the rate should be based on parameters recommended by the Bureau of Infrastructure, Transport and Regional Economics, informed by a public consultation process, and payable only on the basis of actual wharf-to-wharf costs.

Australian Government Response

Noted.

See response to Recommendation 3.

RECOMMENDATION 6 - Extension of TFES to exports in the absence of a regular direct international container service

In the absence of a regular direct international container service (direct service) from Tasmania, there is a case to extend the Tasmanian Freight Equalisation Scheme to all eligible commodities (as specified in the Ministerial Directions) shipped to the Port of Melbourne or any other mainland ports and subject to no net increase in the overall assistance provided by the scheme. The Australian Government should determine the merit and timing of such an extension following:

- discussion with the Tasmanian Government to ensure a mutually consistent policy approach
- an assessment of the extent to which the potential resumption of a commercially viable direct service would be compromised by such an extension of the scheme, and advanced by potential coastal shipping reform
- agreement having been secured with the relevant shipping lines to provide pricing and cost data to the Bureau of Infrastructure, Transport and Regional Economics (as per Recommendation 3).

Australian Government Response

Noted.

The Government's decision in relation to the scope of the Scheme is contained in its response to Recommendation 2.

RECOMMENDATION 7 - Comprehensive public reporting of information on TFES

The Department of Infrastructure and Regional Development should provide more comprehensive public reporting of information under the Tasmanian Freight Equalisation Scheme, including annual payments to recipients.

Australian Government Response

Support.

Currently, TFES programme information is available on both the Department of Infrastructure and Regional Development and Department of Human Services websites. No public information is currently available on the amounts paid to specific group of claimants or on individual claimants, other than annual aggregate payments to the top 10 claimants.

The Australian Government recognises that while this recommendation would facilitate greater transparency and broader understanding of the assistance provided to shippers through TFES, it may raise privacy concerns for some individual claimants. The Department of Infrastructure and Regional Development will ensure that privacy considerations are addressed and relevant parties consulted.

RECOMMENDATION 8 - Examination of the benefits and costs of providing greater access to on-line claiming

The Australian Government Department of Human Services should examine the benefits and costs, including compliance costs for claimants, of upgrading its technology to provide greater access to online claims under the Tasmanian Freight Equalisation Scheme and improve internal claims processing.

Australian Government Response

Support.

The Australian Government has committed to reduce red tape and compliance costs for industry by one billion dollars per year and is examining measures to achieve this goal.

The Department of Infrastructure and Regional Development will work in consultation with the Department of Human Services and shippers to examine the options and cost effectiveness of implementing this recommendation.

RECOMMENDATION 9 - Minimum claim value per invoice or per year

The Department of Infrastructure and Regional Development should examine the benefits and costs to claimants and the Australian Government of introducing a minimum value for:

- individual sea freight invoices
- a consolidated set of sea freight invoices over a 12 month period

that are eligible for assistance under the northbound component of the Tasmanian Freight Equalisation Scheme.

Australian Government Response

Support.

The Department of Infrastructure and Regional Development will explore the feasibility of introducing a minimum value for sea freight invoices and the consolidation of invoices in consultation with the Department of Human Services and shippers.

As noted in the response to Recommendation 8, the Government has an ambitious deregulation agenda. The Department of Infrastructure and Regional Development will examine on an ongoing basis areas where red tape and compliance costs on users of the scheme could be reduced.

RECOMMENDATION 10 - Encourage the uptake of self-assessment

The Department of Infrastructure and Regional Development should encourage and facilitate the take-up of the self-assessment facility under the Tasmanian Freight Equalisation Scheme where appropriate.

Australian Government Response

Support.

The self-assessment facility was introduced as an efficiency measure for claimants with high volume transactions who have a demonstrated history of accuracy and compliance with claiming TFES assistance.

While it is likely that there are a limited number of additional claimants with the capability to take up the self-assessment facility under TFES, the Department of Infrastructure and Regional Development in consultation with the Department of Human Services will assess if additional claimants meet the criteria for self-assessment on an ongoing basis.

As noted above, consistent with the Australian Government's deregulation agenda, the Department of Infrastructure and Regional Development, in consultation with the Department of Human Services, will examine on an ongoing basis areas where red tape and compliance costs on users of the scheme could be reduced.

RECOMMENDATION 11 - Simplify the assessment of southbound eligibility

The Department of Infrastructure and Regional Development should, subject to confirming feasibility, assess claimants under the southbound component of the Tasmanian Freight Equalisation Scheme on a basis that would avoid the need for claimants to establish a separate legal entity to qualify for assistance, taking into account the compliance costs for businesses and the administration costs to the Australian Government.

Australian Government Response

Support.

The Department of Infrastructure and Regional Development will consult with industry stakeholders on possible changes to the southbound eligibility aimed at simplifying the business rules, subject to consideration of the cost impact on the programme.

As noted above, consistent with the Australian Government's deregulation agenda, the Department of Infrastructure and Regional Development, in consultation with the Department of Human Services, will examine on an ongoing basis areas where red tape and compliance costs on users of the scheme could be reduced.

RECOMMENDATION 12 - Terminate the Tasmanian Wheat Freight Scheme

The Australian Government should terminate the Tasmanian Wheat Freight Scheme as its original policy rationale, and therefore the scheme itself, is redundant.

The calculation of assistance for wheat and other grains shipped in containers under the Tasmanian Freight Equalisation Scheme should be based on the lowest feasible cost option for transporting grains to Tasmania.

Australian Government Response

Support in part.

The Tasmanian Wheat Freight Scheme (TWFS) was terminated effective 1 July 2014. The termination of the TWFS has no impact administratively as the scheme was not being used; no claim had been received since 2009.

In order to avoid further complexity to the TFES, the Australian Government has decided not to introduce a separate basis for calculating the rate of assistance for wheat and other grains.

RECOMMENDATION 13 - Clearly articulate the objective of the Bass Strait Passenger Vehicle Equalisation Scheme

The Australian Government should clearly articulate the objective of the Bass Strait Passenger Vehicle Equalisation Scheme, and any future evaluation of the scheme should be assessed against that objective.

Australian Government Response

Support.

The Government considers that the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES) provides critical and substantial assistance for passengers wishing to travel with their vehicle to and from Tasmania and confirms that the aim of the scheme is to reduce the cost of seagoing travel for eligible passengers accompanied by an eligible passenger vehicle on a Bass Strait service.

The Government has noted the Report's comments in relation to possible confusion about the scheme's purpose. The aim of the BSPVES does not extend to equalising the cost of inbound and outbound travel across Bass Strait.

Past evaluation of the scheme has been assessed against the stated aim, and the consequent impact on demand for sea travel and tourism. The BITRE's BSPVES Monitoring Reports have provided an estimate of the impact of the scheme focused on increased tourists to Tasmania and their additional expenditure in Tasmania. The Government, through BITRE, will improve this assessment by better capturing and monitoring of the broader impacts of the BSPVES. The scope of monitoring will be broadened to include visitation and expenditure by the "Business" and "Visiting Friends and Relatives (VFR)" segments of the visitor economy.

RECOMMENDATION 14 - Discuss greater transparency of TT-Line pricing with Tasmanian Government

The Australian Government should undertake discussions with the Tasmanian Government on a joint approach to ensuring greater transparency around TT-Line's pricing, and an

assessment of the extent to which the subsidy offered by the Bass Strait Passenger Vehicle Equalisation Scheme is passed on to the intended recipients.

Australian Government Response

Support.

The Australian Government will discuss the issues raised in this recommendation with the Tasmanian Government.

RECOMMENDATION 15 - Tasmanian Government to articulate its objectives in owning TT-Line

The Tasmanian Government should:

- articulate its underlying objectives in owning and operating a freight and passenger/vehicle services business, and assess whether ownership of TT-Line is the most cost-effective way in which to achieve those objectives
- initiate an independent and public review of the extent to which TT-Line's freight and passenger/vehicle business satisfies the principles of competitive neutrality.

Australian Government Response

Noted.

TT-Line is wholly owned by the Tasmanian Government. The matter of its ownership and operation is ultimately a question for the Tasmanian Government.

RECOMMENDATION 16 - Tasmanian Government to facilitate an inquiry into the pricing policy of TasPorts

The Tasmanian Government should direct the Office of the Tasmanian Economic Regulator to conduct an inquiry into the pricing policies of TasPorts. In carrying out the inquiry, the Tasmanian Economic Regulator should consider and make recommendations on the extent to which pricing at the three major northern ports is efficient and, where appropriate, cost reflective of individual ports.

Australian Government Response

Noted.

The efficiency of port infrastructure is a consideration for the Tasmanian Government.

The Australian Government notes that Tasmanian port infrastructure is one of the elements put forward for inclusion in the integrated freight strategy outlined in Recommendation 18.

RECOMMENDATION 17 - Tasmanian Government to assess the viability of TasPorts

The Tasmanian Government should assess the commercial viability of TasPorts and potential changes to enhance its operation. The assessment should include a consideration of alternative models for the provision of port infrastructure, including the feasibility of privatisation or long term leases to private operators and be informed by the findings of Recommendation 16.

Australian Government Response

Noted.

The commercial viability of TasPorts and efficiency of port infrastructure is a consideration for the Tasmanian Government.

RECOMMENDATION 18 - Tasmanian Government to develop a comprehensive, long term integrated freight strategy for Tasmania

The Commission endorses the need for a comprehensive, long term integrated freight strategy for Tasmania to be developed by the Tasmanian Government. As the Australian Government will retain a role in funding Tasmanian infrastructure investments, it is appropriate that it (including through Infrastructure Australia) be consulted in developing that strategy.

In developing the strategy, there should be broad consultation between industry, all levels of government, and the community more generally. A benefit-cost framework should be applied that identifies the most efficient use of investment capital and that clearly identifies the net benefits or trade-offs arising from community service initiatives or region-specific development objectives. As a matter of urgency, the strategy should:

- identify Tasmania's likely future freight infrastructure requirements across all modes – sea, road, rail and air
- address port developments, including specialisation or rationalisation of existing infrastructure and, informed by the Tasmanian Government's consideration and resolution of the issues in recommendations 16 and 17
- address the long term role of rail in Tasmania given the high degree of substitutability with road transport
- ensure that the objectives of government business enterprises for ports, shipping and rail are consistent with commercial sustainability.

Australian Government Response

Noted.

The recommendation is consistent with the agreement of Commonwealth, State and Territory transport ministers in 2013 to put in place long-term freight plans by December 2014.

The Australian Government agrees with the Productivity Commission, as indicated in the report, that all levels of government should be consulted in the formulation of such a strategy.

RECOMMENDATION 19 - Stocktake of existing programmes

The Joint Commonwealth and Tasmanian Economic Council should initiate a stocktake of existing programmes specific to Tasmania as part of its initial work programme. The stocktake should:

- cover initiatives established by all levels of government
- clarify the nature, intent, timing, scope, governance arrangements and any areas of duplication
- assess whether the suite of initiatives represents a coordinated, consistent, targeted, and efficient approach to Tasmania's economic development
- include the release of a public report in 2015.

The results of the stocktake should contribute to, and inform the development of, an integrated economic development strategy for Tasmania.

Australian Government Response

Noted.

The Australian Government referred the recommendation to the Joint Commonwealth and Tasmanian Economic Council (JCTEC) for its consideration. The Business Members of JCTEC agreed that a stocktake and review would assist in ensuring the effective use of Government funds.

The Tasmanian Government has advised that it is committed to working closely with the Australian Government and is aligning its approach with the Economic Growth Plan for Tasmania.

The Tasmanian Government is progressing a number of initiatives and programmes to grow the economy and tackle unemployment by aggressively pursuing new investment, driving major projects through assessments and approvals processes, reducing red and green tape, addressing barriers to growth, ensuring investment in infrastructure is strategic and supports state growth and engaging with Tasmanian small business and industry to facilitate growth and create jobs.

The Tasmanian Government is also developing a suite of strategies to drive economic growth, including a population strategy, a business and skilled migration strategy, an international education strategy, Antarctic and southern ocean industry development strategy and a defence industry development strategy.

The Australian Government supports the Tasmanian Government's initiative and will supply information where appropriate and practicable.

RECOMMENDATION 20 - Review and evaluate existing programmes

The Australian Government should review and evaluate its programmes for Tasmania after a reasonable length of time. Such reviews should be transparent, be conducted by an appropriate independent body and should comprise an ex-post assessment of the aggregate benefits and costs of the strategy to date and an assessment of the benefits and costs of any continued Australian Government financial contribution to these programmes.

Australian Government Response

Support in principle.

Current programme evaluation is generally conducted separately for each programme enabling such evaluations to be tailored to address individual programme intended outcomes and objectives.

The results of these evaluations are used in the development of new programmes and policy.

Any review will properly consider the broader economic impact of the scheme, including the broader tourism industry, and the implications for competition between transport modes any change to the scheme would have.