

PRODUCTIVITY COMMISSION RECOMMENDATIONS AND COMMONWEALTH GOVERNMENT RESPONSE

Productivity Commission Inquiry Report No. 39 “Tasmanian Freight Subsidy Arrangements”

The Commonwealth Government (‘the Commonwealth’) recognises that Tasmanian producers can be at a freight cost disadvantage when competing in mainland markets by not having land access to the mainland states and territories. The Commonwealth therefore remains strongly committed to the programmes it has in place to alleviate the cost disadvantages faced by passengers and freight across Bass Strait.

In this context, the Commonwealth agrees with the findings of the final Productivity Commission (‘the Commission’) Report and will implement its substantive recommendations. In particular the Commonwealth will ensure the Tasmanian Freight Equalisation Scheme (TFES) and the Tasmanian Wheat Freight Scheme (TWFS) (‘the Schemes’) more strongly focus on effectively addressing sea freight cost disadvantage, and will put in place further reforms ensuring that the Schemes operate effectively and to the benefit of the people of Tasmania.

Key changes to be implemented as a result of this decision are:

- (a) restructuring the basis for claiming TFES assistance to minimise the adverse incentives the current TFES generates. This will involve ensuring that, as far as is practicable, assistance is paid on the basis of the demonstrated sea freight cost disadvantage as a result of having to ship goods across Bass Strait;
- (b) enhancing the administration and auditing of the TFES, involving updating and enhancing systems and more comprehensive public reporting of information;
- (c) revising the methodology for setting and updating the parameters used to calculate TFES assistance;
- (d) expanding the TWFS to include all bulk and containerised unprocessed wheat shipments, and for eligible shipments to be paid at the same rate and not be subject to the current cap on TWFS payments; and
- (e) unprocessed wheat will no longer be eligible under the TFES.

These reforms will be subject to a report to the Commonwealth in three years from implementation to assess their effectiveness.

The Commonwealth intends to implement the changes from 1 July 2008. Prior to this date there will be extensive consultation with stakeholders to ensure the revised Schemes are implemented in a practical manner that minimises any additional burdens on claimants and other parties. The consultation process will focus on:

- (a) documentation and evidentiary requirements for the revised Schemes;
- (b) updating and enhancing the information technology systems used to administer the Schemes;
- (c) designing an appropriate auditing, compliance and fraud prevention programme for the revised arrangements;
- (d) updating the methodology for calculating the parameters used for the Schemes, and ensuring the parameters are reviewed every three years in future; and
- (e) designing the new methodology for calculating assistance under the TWFS.

In addition to these improvements, the Commonwealth has agreed to give further consideration to:

- (a) specific circumstances facing King and Flinders islands; and
- (b) assistance for packaging designed and used for multiple northbound trips.

The Commonwealth will finalise the details of the revised Schemes early in 2008 following consultations with stakeholders on the matters raised above.

The Commonwealth's responses to the individual Commission recommendations are as follows:

Recommendation 1

The basis for claiming TFES payments should be restructured to minimise the adverse incentives that the current Scheme generates.

Recommendation 2

Assistance under the TFES should only be payable on the basis of evidence of actual wharf-to-wharf costs:

- *Centrelink should specify the documentary evidence that it will accept as proof of wharf-to-wharf costs. As far as practicable, this should be based on original carrier wharf-to-wharf invoices.*
- *Parameter adjustments of \$230 per twenty foot equivalent unit (TEU) for door-to-wharf and wharf-to-door costs should no longer apply. Other parameter adjustments would continue to be used.*

Recommendation 4

Department of Transport and Regional Services (DOTARS) and the Bureau of Transport and Regional Economics (BTRE) should revise the methodology for setting and updating the remaining parameters, and review them every three years. In particular, they should review how wharf-to-wharf costs should be defined. The results of parameter reviews should be published.

Commonwealth response:

The Commonwealth accepts recommendation 1, recommendation 2, and recommendation 4. The TFES is based on alleviating the cost disadvantage associated with being unable to use land transport across Bass Strait, and assistance is based on the sea freight cost disadvantage. The Commonwealth agrees that restructuring the TFES by making actual wharf-to-wharf costs the basis for assessing TFES claims will minimise the potential for a component of land freight costs to receive assistance, contrary to the Scheme objectives. The abolition of the \$230 per TEU door-to-wharf and wharf-to-door parameter adjustments is consistent with this.

The move to the sole use of actual wharf-to-wharf costs, and the associated removal of the parameter adjustments for land-based costs, will necessitate the introduction of new evidentiary requirements for Scheme claimants and a revision of the methodology for setting the remaining parameters. DOTARS will consult with the transport industry and other stakeholders about the documentary evidence required to support wharf-to-wharf claims. The intention of these consultations will be to ensure that a practical and sustainable approach to documentation is established, that will be consistent with audit

and compliance requirements into the future. The Commonwealth will review the parameters every three years and results of the review will be published.

The Commonwealth will specify the documentary evidence required for wharf-to-wharf claims and the updated parameters in revised ministerial directions for the TFES to be in place when the revised arrangements are introduced, from 1 July 2008.

Recommendation 3

The administration and auditing of the TFES should focus more intensively on the verification of wharf-to-wharf costs:

- *The system required to administer the Scheme should be updated in the light of the more detailed evidence and data processing needed to verify wharf-to-wharf costs.*
- *There should be more comprehensive public reporting of information, including the annual payments to recipients.*

Commonwealth response:

The Commonwealth accepts recommendation 3. A new approach to verifying wharf-to-wharf costs will be developed and supported by an upgraded computer system and risk management approach. The consultations with industry and other stakeholders will also canvas options for best practice approaches to lodging claims and compliance measures.

From 2008, the Commonwealth will publish comprehensive information about the TFES and TWFS. This will include:

- (a) payments to claim recipients receiving \$1,000 or more in a financial year;
- (b) the break down of assistance by industry/goods;
- (c) the results of the methodology and parameter review for 2008 and subsequent reviews; and
- (d) annual reporting on the Schemes and their audit/compliance.

Recommendation 5

DOTARS should monitor the operation of the revised Scheme to investigate whether there is evidence of ongoing gaming and overcompensation under wharf-to-wharf claiming arrangements. It should report to Government on this matter during 2009.

The report should also examine:

- *The effectiveness of administration and audit controls.*
- *The role of all actual and potential claimants who are not producers and shippers of goods assisted under the TFES.*
- *Any aspects of the ministerial directions judged to be causing difficulty at that time.*

If the Government concludes that gaming and overcompensation of freight cost disadvantage remain significant issues, it should introduce a flat-rate of assistance per TEU as per finding 7.1 to operate from 1 July 2010.

Commonwealth response:

The Commonwealth accepts recommendation 5 in part, with the report to the Commonwealth to be made within three years of the implementation of the revised arrangements and with the form and content of the review to be determined by the

Commonwealth in 2010. The Commonwealth will monitor the Schemes and any amendments will be considered as part of this review in 2010.

Recommendation 6

The TWFS should pay the same level of assistance per tonne to wheat shipped in containers and in bulk:

- *Payments under the TWFS should not be capped.*
- *Wheat should no longer be eligible for assistance under the TFES.*

The level of assistance should be based on the least cost method of shipping wheat across Bass Strait and a rail freight equivalent cost:

- *Given the lack of recent data on these measures, the Bass Strait wharf-to-wharf container rate and the TFES road freight equivalent should be used in the interim. As such, for three years, the TWFS should pay assistance of \$23.12 per tonne, or the shipper's actual wharf-to-wharf costs, whichever is the lesser.*
- *In concert with the first three-year parameter and operational review of the TFES, the BTRE should estimate the cost of bulk shipments of wheat and the rough rate equivalent, to update the rate of subsidy from that time.*

Commonwealth response:

The Commonwealth accepts recommendation 6 in part. The TWFS will be expanded to include both bulk and containerised unprocessed wheat shipments, and the current cap of \$1.1 million per annum will be removed. The interim rate to be applied will be determined as part of the methodology review to be undertaken by the BTRE, and implemented from 1 July 2008. This rate will be reviewed on a three yearly cycle along with the parameters for the TFES, and the results of this published.