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Department of Infrastructure, Regional Development and Cities

Bureau of Infrastructure, Transport and Regional Economics

MONITORING REPORT

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Freight and Maritime

**Tasmanian Freight Equalisation Scheme
Review of the expanded component**

Bureau of Infrastructure, Transport and Regional Economics

Tasmanian Freight Equalisation Scheme
Review of the expanded component

Final report

Department of Infrastructure,
Regional Development and Cities
Canberra, Australia

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Foreword

In March 2015 the Australian Government announced that from 1 January 2016 the Tasmanian Freight Equalisation Scheme (TFES) would provide assistance to goods going to markets not currently covered by the Scheme, and that this expanded component of the TFES would be subject to ongoing monitoring processes, with the Bureau of Infrastructure, Transport and Regional Economics (BITRE) to conduct an initial review of the impact of the expanded component (including on expenditure) in 2017.

Thereafter, monitoring of the expanded component will become part of the BITRE's general TFES monitoring reviews commencing in 2019.

This final report presents results of the initial review of the expanded component of the TFES as directed under Clause 10.5.1 of the TFES Ministerial Directions (Department of Infrastructure and Regional Development 2015). A draft was released for public comment on 8 December 2017. Two submissions were received (including one after the finalisation of this report).

Tim Risbey and Mark Cregan prepared this report. Charles McLaughlin (Jacobs Group Australia Pty Limited) assisted with industry insights and freight rates data. The Tasmanian Shipping team within Surface Transport Policy provided valuable input and advice.

Gary Dolman
Head of Bureau
February 2018

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Seniors, Carers, and International Branch of the Department of Human Services,

Charles McLaughlin of Jacobs Group (Australia) Pty Limited, and

Maritime and Shipping Branch of the Department of Infrastructure, Regional Development and Cities.

At a glance

- In March 2015 the Australian Government responded to the Productivity Commission's (2014) Tasmanian Shipping and Freight Report by announcing the Tasmanian Freight Equalisation Scheme (TFES) would be expanded from 1 January 2016 to provide assistance to goods going to markets not previously covered by the Scheme.
- Under this expanded component, eligible shipments receive assistance at the flat rate of \$700 per twenty foot equivalent unit (TEU), with shippers from King Island and the Furneaux Group of Islands receiving a 15 per cent additional loading. To be eligible, shipments must be transhipped through an Australian mainland port.
- The announcement included a new monitoring process with the flat rate subject to ongoing monitoring by the Bureau of Infrastructure, Transport and Regional Economics (BITRE). An initial review of the impact of the expanded component of the TFES was to be completed in 2017. Thereafter, monitoring would be part of the general monitoring reviews of the entire Scheme every four years commencing 2019.
- This report is the BITRE's initial 2017 monitoring review. The focus is the volume and value of eligible claims for goods shipped to the mainland for the purpose of transhipment between 1 January 2016 and 30 June 2017. Volumes and values in this report are based on when goods were shipped which will differ to those based on the date claims were paid.
- Under the expanded component, 1411 claims from 163 different claimants were paid for goods shipped between 1 January 2016 and 30 June 2017, of which 294 claims were made by a claims agent on behalf of the claimant.
- Over this 18 month period payments totalled \$30.20 million for 43.2 thousand TEUs:
 - In 2016 \$15.75 million was paid for 22.5 thousand TEUs of goods shipped; and
 - In the first six months of 2017, \$14.45 million was paid for 20.7 thousand TEUs.
- Norske Skog Boyer Mill topped the list of claimants with \$4.53 million for 6.5 thousand TEUs, followed by Rio Tinto Marketing with \$4.37 million for 6.25 thousand TEUs (Table 1).
- Approximately 90 per cent of total TEUs were transhipped through Victoria (Table 2).
- Most eligible freight under the expanded component was shipped by sea. In the 18 months to 30 June 2017 only 29 claimants claimed 725 TEUs for freight shipped by air (1.7 per cent of volumes and \$0.5 million in payments).
- Claims were made for 56 commodity groups. The top three groups were unwrought metals (9.8 thousand TEUs), aluminium (8.4 thousand TEUs), and newsprint (6.5 thousand TEUs).
- Caution is needed as this data is preliminary and excludes claims lodged that are yet to be assessed.
- There can be significant lags between when a claim is lodged and accepted or rejected. This means that claims data is of limited value in predicting future trends, particularly the emergence of new claimants. For example, claims commenced in April 2017 for shipments of stripped wood logs. The claimant, Majestic Timbers, has a contract for up to 180,000 tonnes a year of wood residues from southern Tasmania.¹ This volume could result in annualised payments of up to \$9 million.
- In terms of the level and appropriateness of the flat rate for the expanded component, BITRE finds that:
 - There is little relevant information on overall rate trends for freight shipped due to a limited claims history and many destinations.
 - The appropriate benchmark for freight costs is the shipping cost across Bass Strait as, to be eligible, freight must be transhipped via an Australian mainland port.

¹ Majestic Timbers begins exporting logs from Hobart for Asia via Melbourne, Mercury 28 April 2017.

- Claims data for the main TFES suggests that Bass Strait freight rates for full TEUs shipped on a wharf to wharf basis from northern Tasmania to Victoria have been stable over the last five years (approx. \$1130 per TEU) (Figure 4).
- A draft of this report was released for public comment on 8 December 2017. One submission was received prior to the closing date from the Tasmanian Logistics Committee:²
 - The Tasmanian Logistics Committee considered that the draft report did not capture the indirect beneficial outcomes to claimants, or flow on benefits to ancillary service providers.
 - The Productivity Commission (2014) Tasmanian Shipping and Freight Review considered the broader context and impacts (benefits and costs) of the Tasmanian passenger and freight schemes.

² The Tasmanian Logistics Committee is a joint initiative between the Tasmanian Chamber of Commerce and Industry (TCCI) and the Regional Development Australia (RDA) Tasmania Committee. RDA committees operate under a national RDA Charter and report to the Australian Government on key outcomes.

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Chapter I Introduction

History of the Tasmanian Freight Equalisation Scheme

The Tasmanian Freight Equalisation Scheme (TFES) was originally introduced in July 1976. The Government's objective was to alleviate the freight cost disadvantage incurred by shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea (Productivity Commission 2007).

The TFES has undergone review in 1985, 1998³, 2007⁴ and 2014. The Productivity Commission undertook the 2014 review of the TFES as part of its Tasmanian Shipping and Freight Inquiry (2014).

In March 2015 the Australian Government responded to the Productivity Commission's (2014) report by announcing the expansion of the Tasmanian Freight Equalisation Scheme (TFES) to provide assistance from 1 January 2016 to goods going to markets not covered by the Scheme.

Eligible shipments receive assistance at the flat rate of \$700 per twenty foot equivalent unit (TEU), with shippers from King Island and the Furneaux Group of Islands receiving a 15 per cent additional loading. To be eligible under the expanded component, shipments must be transhipped through an Australian mainland port.

The current TFES operates under the TFES Ministerial Directions (Department of Infrastructure and Regional Development 2015).⁵ Another important change to the Ministerial Directions to improve the operation of the Schemes was to reduce the period for claiming TFES assistance from two years to six months.

What goods are eligible?

Southbound goods are not eligible under the expanded component of the Scheme.

Eligibility for northbound good shipped under the expanded component is the same as for goods under the main TFES. Goods that are eligible for assistance are identified in Schedule 1 to the Ministerial Directions (Department of Infrastructure and Regional Development 2015). There is also provision in the Ministerial Directions for the Minister or Secretary to consider applications for the inclusion of other goods.

As for the main TFES, goods shipped as air cargo, except in special circumstances, or shipped as bulk cargo are not eligible for assistance.

To be eligible for assistance under the expanded component, northbound goods taken to the mainland must undergo transshipment, as defined by clause 1.7.1 of the Ministerial Directions (Department of Infrastructure and Regional Development 2015):

³ The 1998 review (the Nixon Report) was conducted by the TFES Review Authority (1998) chaired by the Honourable Peter Nixon (AO)

⁴ The Productivity Commission made a series of findings and recommendations to improve the operation of the Schemes (Productivity Commission 2007). The former Australian Government (2007) responded to the report by recognising 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.

⁵ The last variations to the TFES Ministerial Directions 2015 were approved on 9 November 2017, including sub-clause 1.7.2.

*1.7.1 For the purpose of these Directions, goods are shipped to the mainland for the purpose of **transshipment** if the goods are shipped from Tasmania to a port on the mainland, and arrangements have been made for the goods to be off-loaded from the vessel on which they were shipped to the port and:*

- (a) carried on a separate voyage (whether on the same vessel or a different vessel) to a point beyond Australia within 6 months of the date of shipment; or*
- (b) carried by aircraft to a point beyond Australia within 6 months of the date of shipment; or*
- (c) handled in a manner determined in writing by the Secretary for the purposes of this paragraph.*

*1.7.2 For the purpose of these Directions, goods are also taken to be shipped to the mainland for the purpose of **transshipment** if the goods are shipped from Tasmania to a port on the mainland, and arrangements have been made for the goods to be off-loaded from the vessel on which they were shipped to the port, and:*

- (a) the final destination of the goods is unknown at the time the claim is made; or*
- (b) the goods are to be transported to a point beyond Australia at a time after 6 months from the date of shipment; or*
- (c) the date on which the goods are to be transported to a point beyond Australia is unknown at the time the claim is made.*

Note 1: If assistance is paid in respect of goods to which clause 1.7.2 applies, the claimant (or the claimant's claims agent) is required to notify the Secretary of the final destination of the goods, and the date on which the goods were transported to a point beyond Australia (whichever is applicable) (clause 5.4.1(d)).

Note 2: If assistance is paid in respect of goods to which clause 1.7.2 applies, and such goods are repurposed for permanent use, or sale, on the mainland within 6 months of the date of shipment, a claimant may notify the Secretary of this and have the amount of assistance adjusted (clause 5.7).

Administration of the TFES

Eligibility to claim assistance under the TFES is limited to persons (including partnerships, companies and other bodies) who have incurred and paid the costs of shipping the eligible goods between Tasmania and the mainland, between the main island of Tasmania and King Island, or between the main island of Tasmania and the Furneaux Group.

The Department of Infrastructure, Regional Development and Cities is responsible for funding and policy issues associated with the TFES. Funding is demand-driven and expenditure is uncapped.

Administrative matters, such as the processing of claims for assistance, are handled by the Department of Human Services (DHS) (formerly Tasmanian Transport Programs - Centrelink) on behalf of the Department of Infrastructure, Regional Development and Cities.

New monitoring requirements

This report presents results of the Bureau of Infrastructure, Transport and Regional Economics' (BITRE) 2017 initial review of the expanded component of the Tasmanian Freight Equalisation Scheme (TFES) as directed under Clause 10.5.1 of the TFES Ministerial Directions (Department of Infrastructure and Regional Development 2015).

10.5.1 In 2017, the Bureau of Infrastructure, Transport and Regional Economics (the Bureau) must review the component of the Scheme covering eligible northbound goods shipped to the mainland for the purpose of transshipment. The review must have regard to the volume and value of claims, including from the different industries, and other relevant factors. The Bureau must give the Secretary a written report on the review before the end of 2017.

10.5.2 Every four years commencing 2019, the Bureau must review all components of the Scheme. The Bureau must give the Secretary a written report on the review before the end of the calendar year in which the review is required to be undertaken.

10.5.3 Before giving the Secretary a report under clauses 10.5.1 or 10.5.2, the Bureau must allow interested parties to comment on a draft of the report.

The expanded component of the TFES was implemented on the 1 January 2016. This document summarises the results of that implementation over the eighteen months to the 30 June 2017.

Data used in this report

All TFES related data used within this report is as at 5 August 2017 and are preliminary.

Claimants have six months to lodge a claim from the date of shipment of the goods so caution is needed in interpreting the volume and value of payments.

Unless otherwise stated, all data refers to claims under the expanded component of the TFES. All data refers to claims that have been accepted (or recalculated) and paid. Payments are at a claim level but parts of a claim (a claim line item) may have different status (ie. Accepted, Recalculated, Rejected or Unassessed).

A single claim may consist of a single or multiple claim line items. Each line item of a claim reflects a freight shipment.

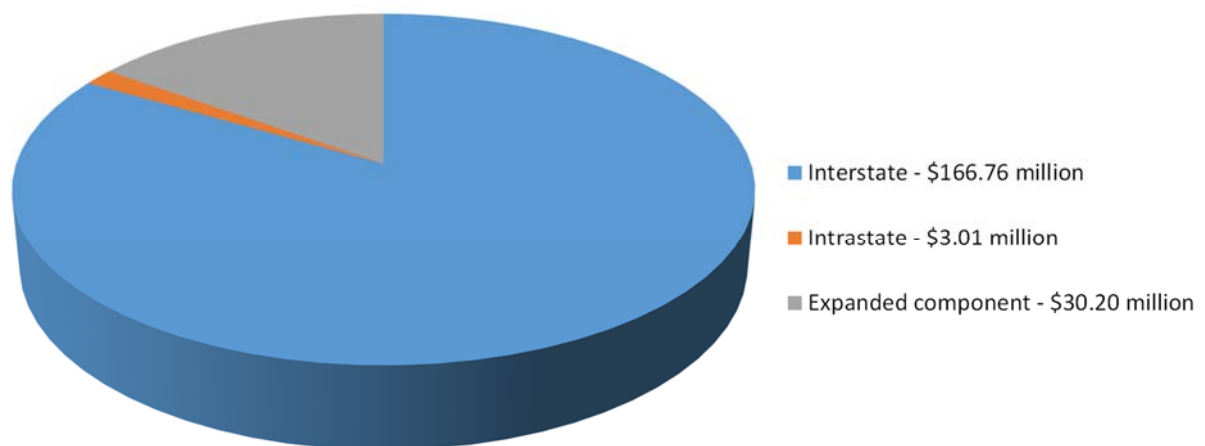
Chapter 2 Payments and volumes

This chapter summarises payments and volumes (in twenty foot equivalent units, TEUs) for the eighteen months from 1 January 2016 to 30 June 2017. All data used within this report is preliminary.

Payments by TFES component

Total payments made through the Tasmanian Freight Equalisation Scheme during the eighteen months to the 30 June 2017 was \$200.12 million, with the expanded component being \$30.20 million or 15.1 per cent of total payments (Figure 1).

Figure 1 TFES payments by component: 1 January 2016 to 30 June 2017



Source BITRE analysis of TFES database.

Expanded component payments and volumes

Preliminary⁶ data shows payments of \$30.2 million made to claims under the expanded component of the Scheme (43.2 thousand TEUs) between 1 January 2016 and 30 June 2017. There were 1411 claims of which:

- \$15.75 million was paid in 2016 (22.5 thousand TEUs); and
- \$14.45 million was paid in the six months to 30 June 2017 (20.7 thousand TEUs).

Under the definition of transshipment, eligible freight must be carried either on a separate sea voyage (whether on the same vessel or a different vessel) or by aircraft to a point beyond Australia. Most freight was shipped

⁶ Eligible claims paid as at 5 August 2017.

to its final destination by sea, with only 29 of the claimants freighting 725 TEUs by air (1.7 per cent of claims under the expanded component by volume).

A total of 163 claimants⁷ received payments for claims under the expanded component of the TFES between January 2016 and June 2017. Norske Skog Boyer Mill topped the list of claimants at \$4.53 million (6.47 thousand TEU), followed by Rio Tinto Marketing with \$4.37 million (6.25 thousand TEU).

Table 1 gives payments and TEUs under the expanded component to the top 20 claimants.

Table 1 TFES expanded component claims: Top twenty claimants TEUs and payments, 1 January 2016 to 30 June 2017

Claimant	Total volume (thousand TEUs)	Total payments (million \$)
NORSKE SKOG BOYER MILL	6.47	\$4.53
RIO TINTO MARKETING PTY LTD	6.25	\$4.37
GLENCORE AUSTRALIA PTY LTD	5.44	\$3.81
NYRSTAR SALES & MARKETING AG	4.22	\$2.95
NORTH EAST EQUITY PTY LTD T/A SUMICH	2.13	\$1.49
PACIFIC ALUMINIUM BELL BAY SALES PTY LTD	1.75	\$1.22
JBS AUSTRALIA P/L	1.50	\$1.04
FONTERRA AUSTRALIA PTY LTD	1.35	\$0.94
GREENHAM TASMANIA PTY LTD	1.30	\$0.91
GIBSONS LTD T/A SKRETTING AUSTRALIA	1.12	\$0.78
METALS X LTD	0.71	\$0.49
TASMANIAN DAIRY PRODUCTS CO LTD	0.68	\$0.48
MONDELEZ AUSTRALIA	0.64	\$0.45
MMG AUSTRALIA LTD	0.58	\$0.41
TASMANIA FEEDLOT PTY LTD	0.48	\$0.33
TASMANIAN QUALITY MEATS PTY LTD	0.42	\$0.30
PREMIUM FRESH TASMANIA P/L	0.42	\$0.29
ECKA GRANULES	0.41	\$0.29
TOXFREE AUSTRALIA (MOWBRAY)	0.39	\$0.27
FORTH FARM PRODUCE PTY LTD	0.37	\$0.26
TOTAL – ALL Claimants	43.17	\$30.20

Note Shipments for relevant year, claims accepted and paid. Trade summarised as TEUs. Excludes entries with nil payments. Data rounded to whole values. TFES claims data was provided by Department of Human Services as at 5 August 2017 and is therefore preliminary.

Source BITRE analysis of TFES database.

The bulk of freight (89.2 per cent of TEUs) were transhipped through Victoria (Table 2).

⁷ In certain cases a claim for assistance may be made on behalf of the shipper by a claim agent for a small fee. As of 5 August 2017, 294 claims were submitted by a claims agent on behalf of the shipper.

Table 2 TFES expanded component claims: transshipment route, TEUs 1 January 2016 to 30 June 2017

Route description	Total volume (thousand TEUs)	Proportion of total volume (percentage)
Northern Tasmania to Victoria	22.26	51.6
Northern Tasmania to New South Wales	3.25	7.5
Northern Tasmania to Queensland	0.98	2.3
Northern Tasmania to South Australia	0	0.0
Northern Tasmania to Western Australia	0	0.0
Southern Tasmania to Victoria	16.26	37.7
Southern Tasmania to New South Wales	0.35	0.8
Southern Tasmania to Queensland	0.05	0.1
Southern Tasmania to South Australia	0	0.0

Source BITRE analysis of TFES database.

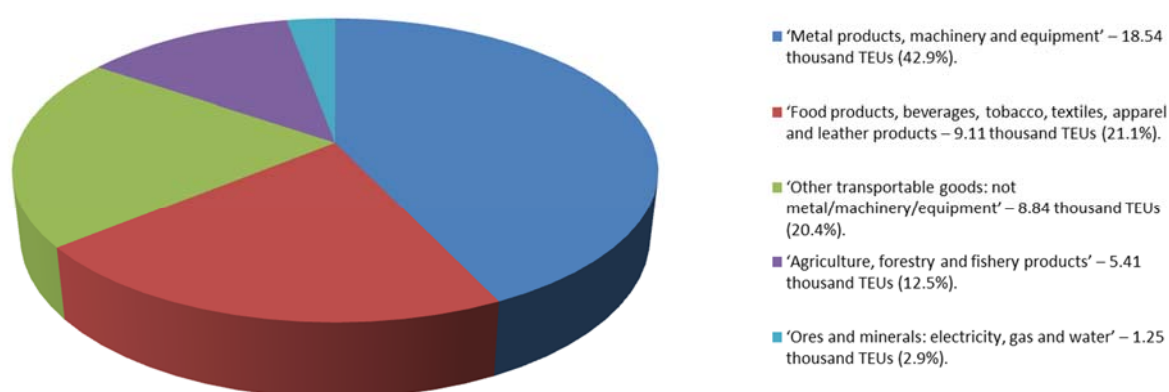
Of the 56 commodities shipped under the expanded component, the top 3 were:

- Metals - unwrought copper/nickel/lead/zinc (9.78 thousand TEUs).
- Metals - aluminium powder/paste/ingots (8.43 thousand TEUs).
- Newsprint (6.52 thousand TEUs), included in other transportable goods.

The five category aggregated commodity groupings share is illustrated in Figure 2.

Claims for metal products, machinery and equipment comprised approximately 43 per cent of total TEUs.

Figure 2 TFES expanded component claims: TEUs by major commodity categories



Source BITRE analysis of TFES database.

Table 3 TFES expanded component claims: top twenty commodity categories, TEUs and payments, 1 January 2016 to 30 June 2017

Commodity	Total volume (thousand TEUs)	Total payments (million \$)
Metals - unwrought copper/nickel/lead/zinc	9.78	\$6.85
Metals - aluminium powder/paste/ingots	8.43	\$5.90
Newsprint	6.52	\$4.56
Vegetables - fresh	3.32	\$2.32
Meat - frozen/processed/other	2.58	\$1.80
Dairy - milk (processed)	1.76	\$1.23
Animal feed - preparations	1.42	\$0.99
Meat - fresh/chilled/hanging	1.18	\$0.82
Animal products - wool	0.91	\$0.63
Wood - processed	0.81	\$0.56
Confectionary and chocolate products - other	0.64	\$0.44
Metal ores - tin	0.62	\$0.43
Waste - scrap paper or paperboard	0.60	\$0.42
Metal ores - other ores and concentrates	0.56	\$0.39
Waste - metal waste & scrap	0.52	\$0.36
Vegetables - frozen/processed/prepared	0.44	\$0.30
Fruit - fresh	0.39	\$0.26
Dairy - cheese and curd	0.37	\$0.25
Fish - fresh or chilled	0.36	\$0.23
Metals - ash/residue containing metal compounds	0.24	\$0.16
TOTAL – All Commodities	43.17	\$30.20

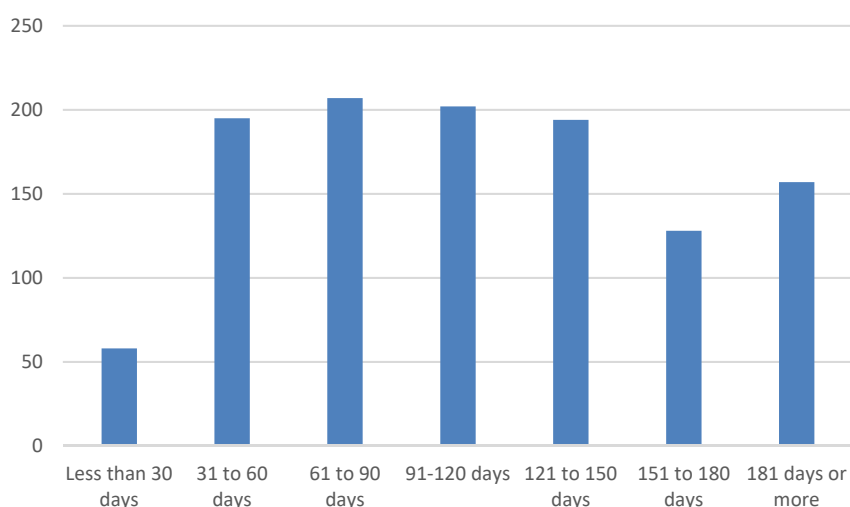
Note Shipments for relevant year, claims accepted and paid. Trade summarised as TEUs. Excludes entries with nil payments. Data rounded to whole values. TFES claims data was provided by Department of Human Services as at 5 August 2017 and is therefore preliminary.

Source BITRE analysis of TFES database.

Caution is needed in interpreting the volume and value data as these are affected by lags between when freight is shipped (date of shipment), when a claim is lodged, and when assistance is paid (date of payment).

A claimant has 6 months from the date of shipment to lodge a claim for assistance. Once lodged, there is an additional period where the claim is assessed and either accepted or rejected. The average time between date of shipment of the goods and date of payment over the 18 month period of claim data was 101.5 days (ranging from 4 days to 534 days). Figure 3 illustrated this for goods shipped in 2016.

Figure 3 TFES expanded component claims: days between shipment and payment



Source BITRE analysis from DHS TFES Administrative data

Significant lags between shipment dates and payment dates mean that monthly and quarterly claims data are of limited value in predicting future trends, particularly the emergence of new claimants. For example, claims commenced in April 2017 for shipments of stripped wood logs. The claimant, Majestic Timbers Australia Pty Ltd, has a five year contract for up to 180,000 tonnes of wood residue annually from southern Tasmania.^{8,9} Initial data suggests this volume could result in annualised payments of up to \$9 million.¹⁰

⁸ Majestic Timbers begins exporting logs from Hobart for Asia via Melbourne, Mercury 28 April 2017.

⁹ <http://www.abc.net.au/news/2017-11-08/questions-over-forest-freight-subsidies/9130570>

¹⁰ BITRE analysis of the TFES Claims Database.

Chapter 3 Freight Rates

BITRE is required to monitor the flat rates applicable to claims under the expanded component. Eligible shipments receive assistance at the flat rate of \$700 per TEU, with shippers from King Island and the Furneaux Group of Islands being eligible for a 15 per cent additional loading.

Trends in expanded component freight rates

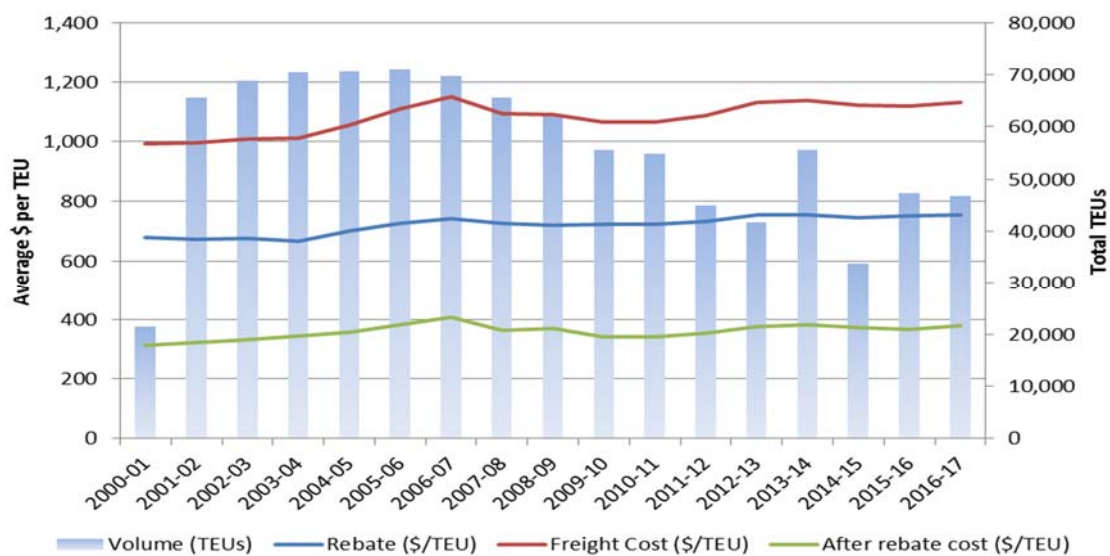
There is little relevant information on overall rate trends for freight shipped under the expanded component given the limited claims history (1 January 2016 to 30 June 2017) and many destinations. BITRE will investigate the use of weighted freight rate indices as a means of monitoring freight rate trends in future TFES monitoring reviews.

Benchmark for expanded component freight rates

The appropriate benchmark for freight costs is the shipping cost across Bass Strait as, to be eligible under the expanded component, freight must be transhipped through an Australian mainland port.

Claim data under the expanded component does not separately identify the cost of Bass Strait shipping from the total cost of shipping. BITRE has therefore used claims data from the main TFES to investigate Bass Strait shipping costs. Initial analysis of this data suggests that Bass Strait freight rates for full TEUs shipped on a wharf to wharf basis from northern Tasmania to Victoria have been stable over the last five years at approximately \$1,130 per TEU (Figure 4).

Figure 4 Nominal average freight rate and rebates, northern Tasmania to Victoria claims, \$/TEU and TEUs



Note Full container wharf-to-wharf freight rates for Tasmania to Victoria TFES claims. These routes account for the majority of freight.
Source BITRE analysis of TFES database

Figure 4 also shows that average rebates have remained relatively steady for the last five years, noting that these are average values and a significant proportion of claims would have received the maximum rebate of \$855 per TEU under the main TFES.

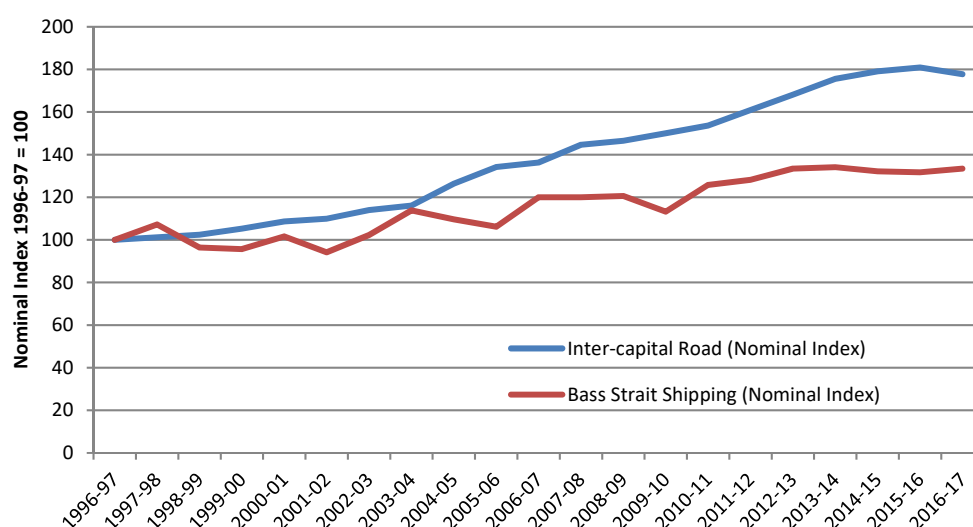
Trends in Bass Strait and road freight rates

Figure 5 compares nominal trends in sea freight rates across Bass Strait with road freight costs on inter capital routes using an index from 1996-97 to 2016-17.

Road freight rates have increased more than sea freight rates since 1996-97. Although the difference narrowed slightly in 2016-17, it was still 44.3 per cent.

Compared to inter-capital road rates, Bass Strait shipping rates have remained relatively flat since 2012-13.

Figure 5 Nominal freight rate indices: road and Bass Strait shipping, 1996 to 2017



Note Estimated Bass Strait freight rates are weighted average nominal freight rates per tonne for wharf-to-wharf full container loads in the TFES database. Inter-capital road rates assume zero empty running.

Source BITRE 2008b; BITRE 2017; BITRE estimates based on TFES data and Jacobs Group Australia Pty Limited unpublished road rates

Abbreviations

ABS	Australian Bureau of Statistics
BTRE	Bureau of Transport and Regional Economics
BITRE	Bureau of Infrastructure, Transport and Regional Economics (formerly the Bureau of Transport and Regional Economics)
c/ntk	cents per net tonne kilometre
DHS	Department of Human Services
ntk	Net tonne kilometre
TEU	Twenty-foot equivalent unit
TFES	Tasmanian Freight Equalisation Scheme

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