



Australian Government

**Department of Infrastructure, Transport,
Regional Development and Communications**

Bureau of Infrastructure and Transport Research Economics

STATISTICAL REPORT



Monitoring Report 2020 (Consultation Draft)

Tasmanian Freight Equalisation Scheme

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INFRA-4776

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Published by

Bureau of Infrastructure, Transport and Research Economics [BITRE] 2020, Tasmanian Freight Equalisation Scheme: Review of the expanded component—Final Report, BITRE, Canberra, February.

This publication is available in PDF format on the Bureau's website <https://bitre.gov.au/>

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Foreword

In March 2015, the Australian Government announced that the Tasmanian Freight Equalisation Scheme (TFES) would be subject to ongoing monitoring processes, with the Bureau of Infrastructure and Transport Research Economics (BITRE) conducting four-yearly review of all components of the TFES, following an initial review of the expanded component (covering goods shipped to the mainland from Tasmania for transshipment) in 2018.

This report presents results of the first four-yearly review of all components of the TFES as directed under Clause 10.5.2 of the TFES Ministerial Directions (Department of Infrastructure, Transport, Regional Development and Communication 2020).

Jack McAuley, Mark Cregan and Tim Risbey prepared this report. Steve Manders (Jacobs Group Australia Pty Limited) assisted with industry insights and freight rates data. The Tasmanian and Shipping Programs team within the Department provided valuable input and advice.

Dr Louise Rawlings
Head of Bureau
January 2021

Acknowledgements

BITRE would like to acknowledge the contributions made by the:

Special Benefit, Assurance of Support and Tasmanian Transport Programmes, Seniors, Carers, and International Branch of Services Australia,

Steve Manders of Jacobs Group (Australia) Pty Limited, and

Tasmanian and Shipping Programs section of the Department of Infrastructure, Transport, Regional Development and Communications.

At a glance

- This report is the first four-yearly BITRE’s monitoring review of all components of the TFES. The focus is the volume and value of eligible claims for goods shipped between Tasmania and the mainland up to 2018-19.
- In 2018-19 \$154.3 million was paid under the TFES, covering the equivalent of 210,480 Twenty-foot Equivalent Units (TEUs) of freight¹. This was around the same as in 2017-18, but around 50 per cent higher than four years earlier, largely due to the introduction of the expanded component of the TFES covering goods shipped from Tasmania to the mainland for transshipment.
- Approximately 90 per cent of total TEUs in 2018-19 were shipped to or from Victoria, with the next most common state, New South Wales.
- Simplot Australia Pty Ltd topped the list of claimants with \$19.04 million for 23,979 TEUs, followed by Norske Skog Boyer Mill with \$10.83 million for 17,367 TEUs.
- Claims were made for 178 commodity groups. The top three commodity groups were ‘Vegetables – frozen/processed/prepared’ (33,236 TEUs), ‘Newsprint’ (16,424 TEUs) and ‘Wood – processed’ (13,073 TEUs).
- 40 per cent of TEUs shipped under the TFES in 2018-19 were in the broad commodity class ‘Food products beverages tobacco textiles apparel leather products’. The next largest broad commodity class was ‘Agriculture, forestry and fishery products’, accounting for 20 per cent of TEUs.
- The median time between shipment and payment of the TFES assistance was 119 days and the maximum was 585 days. BITRE understands the latter was due to an invoicing error related to the claim.
- Pre-TFES assistance freight rates have risen relatively quickly over the last three years, with nominal rates growing at 4.0 per cent per annum. With the TFES assistance covering the majority of the costs, this has resulted in the nominal post-assistance rate per TEU growing at 6.7 per cent per annum over the three years.

¹ For the purposes of the TFES, all freight volumes are converted into TEU equivalents, regardless of the method of carrying the freight. The conversion factors are explained in an information paper available at <https://www.infrastructure.gov.au/maritime/tasmanian-transport-schemes/tasmanian/TFES-IP-conversion-factors.aspx>

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Chapter I Introduction

Background to 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, 1998², 2007³ and 2014, with another review announced in 2019. Recent significant changes to the TFES include:

- In 2015, following the Productivity Commission's (2014) report, the Australian Government announced the expansion of the TFES to provide assistance from 1 January 2016 to goods transhipped at ports on the mainland.
- Another important change to improve the operation of the Scheme in 2015 was to reduce the period for claiming TFES assistance from two years to six months after the date of shipment.
- On 1 October 2019, the rate of assistance for high density goods increased to 100 per cent, claim processing time was reduced from 35 to 30 days, and interest began to be applied to late claim payments (after 30 days).

The current TFES operates under the TFES Ministerial Directions (Department of Infrastructure, Transport, Regional Development and Communications 2020).⁴

New monitoring requirements

This report presents results of the Bureau of Infrastructure, Transport and Research Economics' (BITRE) first four-yearly review of all components of the Tasmanian Freight Equalisation Scheme (TFES) as directed under Clause 10.5.2 of the TFES Ministerial Directions (Department of Infrastructure, Transport, Regional Development and Communications 2020).

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.

Monitoring reports will be delayed relative to the end of the financial year, as there is a six month delay between the end of a reporting year and the required lodgement of claims, as well as some additional time for the data to be complete.

² The 1998 review (the Nixon Report) was conducted by the TFES Review Authority (1998) chaired by the Honourable Peter Nixon (AO)

³ 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.

⁴ The last variations to the TFES Ministerial Directions 2015 were approved on 9 November 2017, including sub-clause 1.7.2.

Overview of the scheme

The TFES comprises several components, as described by Services Australia (Services Australia 2020). This report uses the following categorisation of the components for reporting:

- 'Interstate component', including:
 - Northbound goods: for eligible goods produced or manufactured in Tasmania for permanent use or sale on the Australian mainland.
 - Southbound goods: for persons or businesses engaged in manufacturing, mining or agriculture, forestry and fishing industry in Tasmania.
- Intrastate – King Island and the Furneaux Group, for intrastate sea freight shipped between King Island or Flinders Island and the main island of Tasmania.
- Special categories covering:
 - equipment for sportspersons and entertainers
 - brood mares and foals
- 'Expanded component' covering goods shipped from Tasmania to the mainland for the purposes of transshipment.

Goods that are eligible for Northbound assistance are identified in detail in Schedule I to the Ministerial Directions (Department of Infrastructure, Transport, Regional Development and Communications 2020). There is also provision in the Ministerial Directions for the Minister or Secretary to consider applications for the inclusion of other goods in Schedule I. Goods shipped as air cargo, except in special circumstances, or shipped as bulk cargo are not eligible for assistance.

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, Transport, Regional Development and Communications is responsible for funding and policy issues associated with the TFES. Funding is demand-driven and expenditure is ongoing over the 2019-20 to 2022-23 forward estimates.

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

Data used in this report

All TFES related data used within this report is as at August 2020.

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) up to 2018-19.

Payments and volumes by TFES component

Total payments made through the Tasmanian Freight Equalisation Scheme in 2018-19 were \$154.28 million. In 2018-19, the TFES accounted for 81 per cent of non-bulk freight loaded in Tasmania. In tonnage terms, non-bulk freight as a whole accounted for 50 per cent of freight loaded in Tasmania.

The largest components were the interstate component with \$117.59 million (76 per cent of the total) and the expanded component with \$34.22 million (22 per cent of the total). Table 1 shows total payments by component of the TFES from 2014-15 to 2018-19, in nominal terms, and Table 2 shows total payments by component in real terms, adjusted by the ABS Consumer Price Index. Table 3 shows total TEUs by component. Note that TEUs do not necessarily denote that freight is containerised. Figure 1 shows the share of the total by each component in 2018-19.

Table 1 TFES payments by component: 2014-15 to 2018-19 (thousand \$, nominal)

	2014-15	2015-16	2016-17	2017-18	2018-19
Interstate	100,930	109,675	110,439	117,235	117,590
Expanded component	0	13,156	26,460	34,912	34,215
Intrastate	1,229	1,588	1,989	2,241	2,358
Sportspersons/Entertainer	70	67	78	112	94
Brood mares and foals	30	26	23	14	18
Total	102,259	124,512	138,989	154,515	154,275

Source BITRE analysis of TFES database.

Table 2 TFES payments by component, adjusted by CPI (thousand \$, 2018-19 prices)

	2014-15	2015-16	2016-17	2017-18	2018-19
Interstate	107,827	115,574	114,424	119,167	117,590
Expanded component	0	13,864	27,415	35,487	34,215
Intrastate	1,313	1,674	2,061	2,278	2,358
Sportspersons/Entertainer	75	71	81	114	94
Brood mares and foals	32	27	24	14	18
Total	109,247	131,209	144,004	157,061	154,275

Source BITRE analysis of TFES database, ABS 2020.

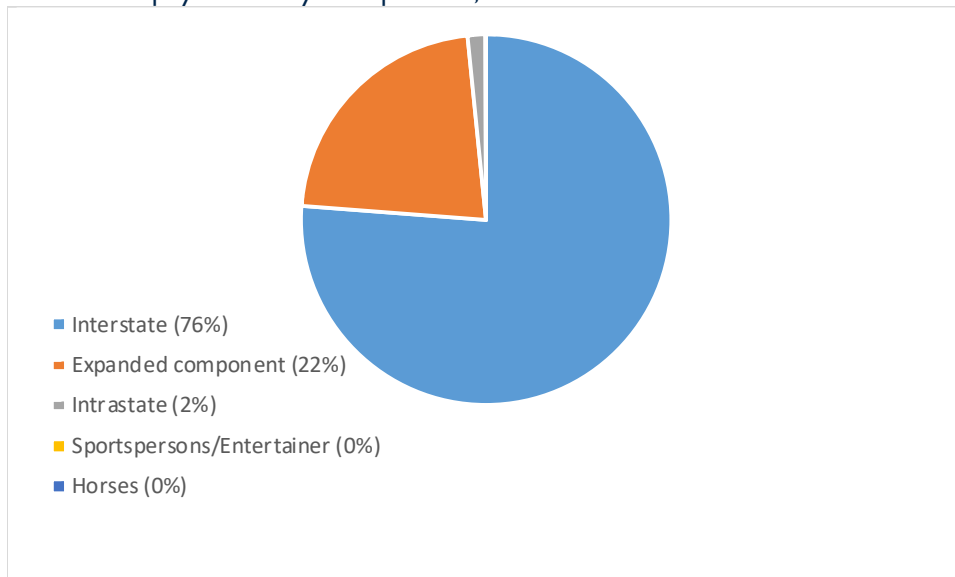
Note: Payments adjusted by ABS Consumer Price Index

Table 3 TFES volumes by component: 2014-15 to 2018-19 (TEUs)

	2014-15	2015-16	2016-17	2017-18	2018-19
Interstate	136,769	148,749	149,396	155,455	158,351
Expanded component	0	19,172	38,351	50,830	49,007
Intrastate	1,574	1,939	2,473	2,728	2,886
Sportspersons/Entertainer	107	103	269	171	215
Brood mares and foals	36	30	27	19	21
Total	138,487	169,994	190,516	209,203	210,480

Source BITRE analysis of TFES database.

Figure 1 TFES payments by component, 2018-19



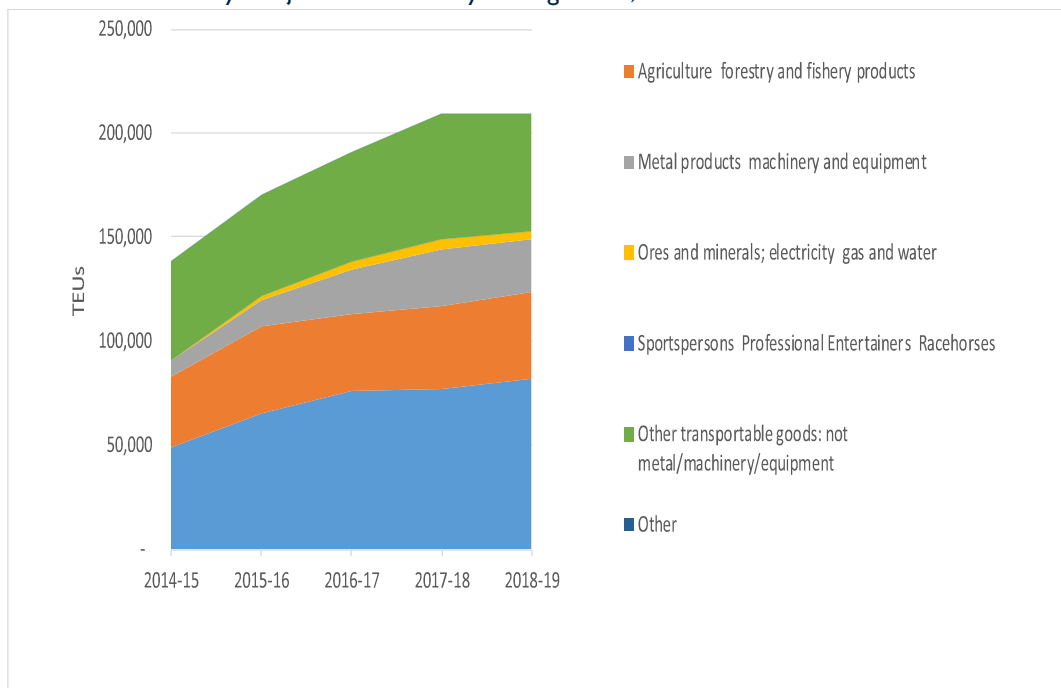
Source BITRE analysis of TFES database.

Commodities

Freight moved under the TFES is classified into 178 commodity classes for reporting purposes. These classes correspond to the list in Schedule 1 to the Ministerial Directions, which specifically applies to the northbound and intrastate components of the TFES (Department of Infrastructure, Transport, Regional Development and Communications 2020).

These can be grouped into five aggregated commodity groups. Figure 2 shows volumes for the five aggregated commodity groupings over the last five years.

Figure 2 TEUs by major commodity categories, 2014-15 to 2018-19



Source BITRE analysis of TFES database.

Of the commodities shipped under the TFES the top 5, in terms of both TEUs and assistance paid, were:

- Vegetables – frozen/processed/prepared (33,236 TEUs, 16 per cent of the total under the TFES).
- Newsprint (16,424 TEUs, 8 per cent of the total under the TFES).
- Wood – processed (13,073 TEUs, 6 per cent of the total under the TFES)
- Metals – unwrought copper/nickel/lead/zinc (10,811 TEUs, 5 per cent of the total under the TFES).
- Vegetables – fresh (8,901 TEUs, 4 per cent of the total under the TFES)

Table 4 shows the top twenty commodity categories moved under the TFES in 2018-19.

Table 4 TFES top twenty commodity categories, TEUs and payments, 2018-19

Commodity	Total volume (TEUs)	Total payments (million \$)
Vegetables – frozen/processed/prepared	33,236	26.77
Newsprint	16,424	10.34
Wood - processed	13,073	8.70
Metals – unwrought copper/nickel/lead/zinc	10,811	7.52
Vegetables - fresh	8,901	6.92
Confectionary and chocolate products - other	7,997	6.23
Animal feed - preparations	7,708	6.20
Metals – aluminium powder/paste/ingots	8,592	5.97
Fish – fresh or chilled	7,174	5.69
Dairy – milk (processed)	6,498	4.76
Animals – cattle (adult)	5,393	4.58
Dairy – cheese and curd	4,363	3.50
Waste – metal waste & scrap	4,097	3.20
Cereals - wheat	3,610	3.05
Animals – sheep (lambs)	4,000	3.00
Waste – scrap paper or paperboard	3,917	2.77
Fruit - fresh	3,467	2.59
Cereals - barley	2,910	2.05
Meat – fresh/chilled/hanging	2,389	2.04
Meat – frozen/processed/other	2,827	1.90
TOTAL – All Commodities	210,480	\$154.27

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 Services Australia as at August 2020.

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).

Routes

Table 5 shows the amount of freight carried under the TFES by each main route. The majority of freight carried under the TFES is from the main island of Tasmania to Victoria, and the second largest component is from Victoria to the main island of Tasmania. Table 6 shows the origin or destination mainland state of freight moved under the TFES.

Table 5 TFES freight routes by origin destination pair, 2018-19 (TEUs)

		Destination				
		Tasmania, main island	Bass Strait islands	Victoria	Rest of Australia	Total
Origin	Tasmania, main island	n/a	361	144,104	20,054	164,520
	Bass Strait islands	2,525	n/a	19	0	2,544
	Victoria	40,078	0	n/a	n/a	40,078
	Rest of Australia	3,339	0	n/a	n/a	3,339
	Total	45,941	361	144,123	20,054	210,480

Source BITRE analysis of TFES database

Table 6 TFES freight by mainland state, 2018-19 (TEUs)

	From Tasmania	To Tasmania
Victoria	144,123	40,078
NSW	11,366	2,586
WA	4,160	273
Queensland	3,021	239
SA	1,469	241
NT	39	0
Total	164,177	43,417

Source BITRE analysis of TFES database

Chapter 3 Claimants and payment times

Claimants

Table 7 shows the 20 largest claimants for the TFES as a whole. Tables 8, 9 and 10 show the largest claimants for the interstate, expanded and intrastate components respectively.

Table 7 Top twenty TFES claimants TEUs and payments, 2018-19

Claimant	Total volume (TEUs)	Total payments (million \$)
Simplot Australia Pty Ltd	23,979	19.04
Norske Skog Boyer Mill	17,367	10.83
Mondelez Australia Pty Ltd	8,708	6.77
Tasmanian Stockfeed Services	5,529	4.70
McCain Foods (Australia) Pty Ltd	5,288	4.49
Mon-Timberlink Australia Pty Ltd	5,598	4.24
Rio Tinto Marketing Pty Ltd	5,915	4.14
Nyrstar Sales & Marketing AG	5,875	4.04
JBS Australia Pty Ltd	4,524	3.55
Skretting Australia	4,659	3.47
Glencore Australia	4,929	3.45
Fonterra Australia Pty Ltd	4,497	3.31
Tassal Operations Pty Ltd	4,032	3.31
Forth Farm Produce Pty Ltd	3,792	2.81
North East Equity Pty Ltd T/A Sumich	3,479	2.72
Lion Beer Spirits & Wine Pty Ltd	3,221	2.69
Driscolls Australia Pty Ltd	2,492	1.91
LD&D Australia Pty Ltd	2,236	1.82
Lactalis Australia	2,343	1.81
Tasmanian Dairy Products Co Ltd	2,530	1.79
Total – All claimants	210,480	154.27

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 Services Australia as at August 2020.

Source BITRE analysis of TFES database.

Table 8 Top five claimants for interstate component TEUs and payments, 2018-19

Claimant	Total volume (TEUs)	Total payments (million \$)
Simplot Australia Pty Ltd	23,907	18.99
Norske Skog Boyer Mill	11,153	6.48
Mondelez Australia Pty Ltd	7,732	6.10
Tasmanian Stockfeed Services	5,529	4.70
McCain Foods (Australia) Pty Ltd	5,288	4.49
Total – All claimants, interstate component	158,351	\$117.59

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 Services Australia as at August 2020.

Source BITRE analysis of TFES database.

Table 9 Top five claimants for expanded component TEUs and payments, 2018-19

Claimant	Total volume (TEUs)	Total payments (million \$)
Norske Skog Boyer Mill	6,214	4.35
Rio Tinto Marketing Pty Ltd	5,915	4.14
Nyrstar Sales & Marketing	5,588	3.91
Glencore Australia Pty Ltd	4,929	3.45
Exempted under Section 9.3.2 of the Ministerial Directions	2,493	1.75
Total – All claimants, expanded component	49,007	34.22

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 Services Australia as at August 2020.

Source BITRE analysis of TFES database.

Table 10 Top five claimants for intrastate component TEUs and payments, 2018-19

Claimant	Total volume (TEUs)	Total payments (million \$)
JBS Australia	722	0.62
Waverley Station Pty Ltd	161	0.13
Rol-Markarna Grazing Company T/A Malexa Farm Trust	120	0.10
King Island Dairy Pty Ltd	92	0.08
The King Island Trust	77	0.06
Total – All claimants, intrastate component	2,886	2.36

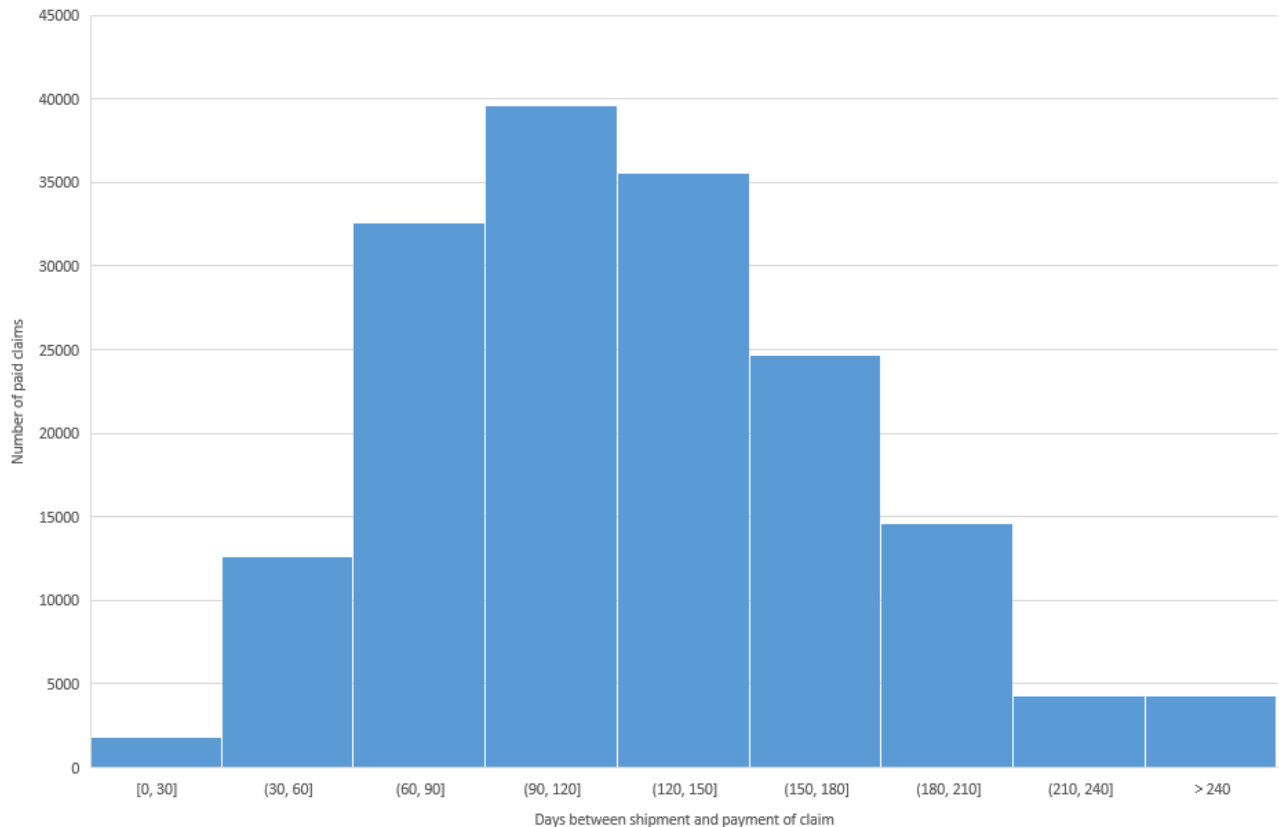
Note Shipments for relevant year, claims accepted and paid. Trade summarised as TEUs. Excludes entries with nil payments. Data rounded to whole values. TFES claims data was provided by Services Australia as at August 2020.

Source BITRE analysis of TFES database

Time between shipment and payment

A claimant has six 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. For shipments in 2018-19, the average time between date of shipment of the goods and date of payment was 137 days and the median was 119 days. The maximum time was 585 days. BITRE understands the latter was due to an invoicing error related to the claim. Figure 3 shows the distribution of days between shipment and payment, for shipments in 2018-19.

Figure 3 TFES, days between shipment and payment for claims paid in 2018-19



Source BITRE analysis of TFES database. TFES claims data was provided by Services Australia as at August 2020.

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.

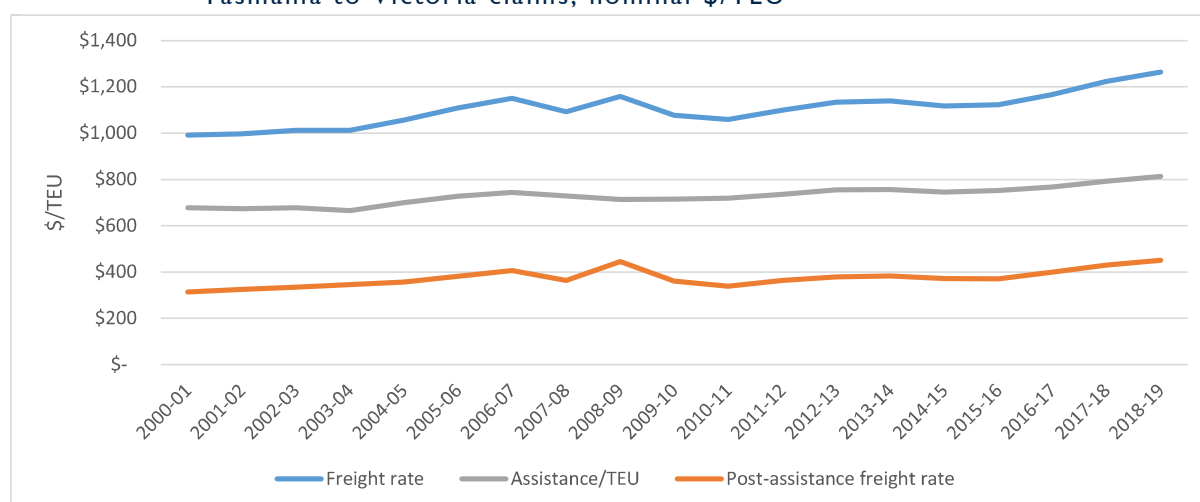
Chapter 4 Freight Rates

Trends in Bass Strait and road freight rates

Previously, BITRE has been required to undertake regular parameter reviews of the TFES, based on the relativities between Bass Strait rates and land-based freight. This is no longer required, following the Australian Government’s decision in 2016 that the parameters and rates of assistance will remain unchanged. Following BITRE’s review of the Expanded Component, the Australian Government also decided that the parameters for the Expanded Component will remain unchanged. Some freight rate information will still be presented in the Monitoring Reports for context. For the interstate and intrastate components, an appropriate benchmark is the equivalent cost of moving freight on land.

Figure 4 shows freight rates per TEU from Tasmania to the mainland, rates of assistance per TEU, and the resultant post-assistance freight rates. Figure 4 also shows that average rates of assistance have risen gradually in nominal terms over the last several years, noting that these are average values and a significant proportion of claims would have received the maximum rate of assistance of \$855 per TEU. It also shows that pre-assistance freight rates have risen relatively quickly over the last three years, growing at 4.0 per cent per annum. With the assistance covering the majority of the costs, this has resulted in the post-assistance rate growing at 6.7 per cent per annum over the three years.

Figure 4 Nominal average freight rates and post-assistance freight rates, northern Tasmania to Victoria claims, nominal \$/TEU

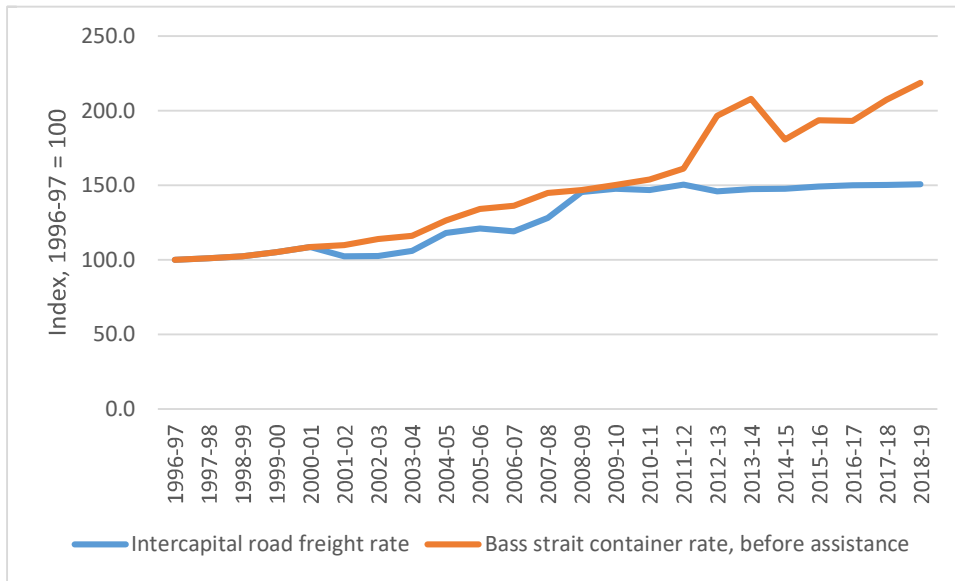


Note Full container wharf-to-wharf freight rates for Tasmania to Victoria TFES claims. In 2018-19 this comprised 42 per cent of northern Tasmania to Victoria freight under the TFES.

Source BITRE analysis of TFES database

Figure 5 compares nominal trends in post-assistance sea freight rates across Bass Strait with nominal road freight costs on inter capital routes using an index from 1996-97 to 2018-19. In the decade to 2010-11, nominal road freight rates rose around 40 per cent, but have been almost unchanged since then. Since 2010—11, Bass Strait rates have generally risen faster than road freight rates.

Figure 5 Nominal freight rate indices: road and Bass Strait, 1996-97 to 2018-19



Note Estimated Bass Strait freight rates are weighted average nominal freight rates per TEU for wharf-to-wharf full container loads between northern Tasmania and Victoria in the TFES database. Inter-capital road rates assume zero empty running
 Source BITRE estimates based on TFES data and Jacobs Group Australia Pty Limited unpublished road rates

Abbreviations

ABS	Australian Bureau of Statistics
BITRE	Bureau of Infrastructure and Transport Research Economics
TEU	Twenty-foot equivalent unit
TFES	Tasmanian Freight Equalisation Scheme

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