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Submission
Tasmanian Freight “Subsidy” Arrangements

Given the Prime Minister’s support for TFES, as a program aimed to “equalise cost disadvantages between the States and Territories”, the Productivity Commission should not now withdraw. To just maintain the status quo with a slight re-adjustment of the TFES formula would be entirely unjustified and perhaps leave TFES open to challenge at another time.

In this context, the TFES is clearly unsustainable in its present form. The Productivity Commission alerts us to the following major deficiencies:

- “Freight subsidies are too selective in their effect, discriminating against forms of economic activity for which sea freight is not an important part of their cost structure, or which are otherwise ineligible for TFES assistance.”
- “That the failure to define clearly the concept of freight disadvantage reduced transparency and led to a range of other problems, such as the absence of a clear rationale ‘for excluding some goods and some sea transport modes from assistance’.
- “The current rules as to which freight is eligible for a rebate result in a number of anomalies, with ongoing calls for extension of eligibility to other classes of Bass Strait shipments. “A change to the objective of the TFES to provide subsidies to passengers and freight on the basis of a notional ‘land bridge’ would significantly widen the scope and cost of the current subsidy. This rationale would imply that all freight (and passengers) transported in either direction that would otherwise go by road or rail should be eligible for assistance...”
- “The TFES discriminates against industries that are ineligible for payments under the Ministerial Directions, and favours transport-intensive industries and methods of production.”

Given these deficiencies, the scope of the Productivity Commissions task, and the policy context of the Prime Minister’s comments, a lot of further work is required to be undertaken by the Commission.

The Prime Minister says,

“The Government will not be implementing the proposals in the draft Productivity Commission Report into Tasmanian Freight Subsidy Arrangements.”

“The Tasmanian Freight Equalisation Scheme was introduced by a Coalition Government in 1976. The Scheme remains an important element of Australian government programmes that equalise cost disadvantages between the States and Territories.”

The Government will continue to review Tasmanian freight subsidy arrangements to ensure they are operating as intended and to the benefit of all Tasmanians.”

How can the Productivity Commission give effect to this policy framework and still maintain a sound policy framework for TFES, to the benefit of all?

It is important to also recognise that the Prime Minister's interstate equalisation policy framework could, in the context of Bass Strait, also apply to Victoria.

The issue the Productivity Commission will need to now ask, yet again is, are there

“Any alternative mechanisms that could more effectively address any freight cost disadvantage.”

Reports that only recommend cutbacks or the status quo offer soft options. It is very easy to cut or destroy something or to modify its procedures. Vision is hard, but it is clearly needed in respect of TFES, the BSPVES and Auslink. The Productivity Commission is well resourced to perform this task. It should do so. It is not just a team of accountants recalculating a formula. All three schemes are interlinked.

Reports by the Commission should recognise there is a time to cut back and a time to spend. That is what productivity is really about. If it is not, then this nation should be seriously concerned.

But where is the Productivity Commission wrong?

It has, in my view, advanced an unsustainable argument that is inconsistent with competition policy, existing equalisation schemes, 1996 Coalition “sea highway” policy and fair treatment between states pushing Canberra into subjective decision making - all this, when a sustainable, objective and sound policy option is readily available. This policy option will not discriminate on the nature of terrain separating states and will remove the need for a plethora of reports regarding Bass Strait in the future.

The report dismissed the purpose of the Federal Government programme to “equalise cost disadvantages between the States and Territories” by using cost as a factor.

The only problem is that this sound policy option is going to cost some money to implement. But when this approach is right, productivity cannot just mean cutting costs.

The Commission says,

“While the operational rationale for the TFES is to alleviate individual shippers' sea freight cost disadvantages relative to a road freight equivalent, there is no clear statement of its underlying objectives. Consideration of those put forward finds that none is convincing and that there is no sound underlying economic rationale for freight assistance.

I strongly disagree with this conclusion. The Prime Minister has repeated, yet again, the policy framework to assist with the Productivity Commission's dilemma. In a national context, this framework will clearly allow for northbound exports, southbound consumables and people and vehicles all to be covered by equalisation. The Commission will find no better policy context.

The Commission goes on to say,

“While the freight cost disadvantage is demonstrable, and can be readily attributed to the lack of road and rail services between northern Tasmania and the mainland, producers in other states and territories also suffer degrees of freight cost disadvantage when supplying the main south-eastern markets. For example, many parts of Australia are disadvantaged by remoteness, or absence of a rail link or all-weather roads. Differences in location, like differences in climate, soil or other natural characteristics, underpin the efficient distribution of production across Australia. Locational disadvantage does not provide a case that subsidising Tasmanian freight costs improves overall economic efficiency or that it increases the welfare of Australians generally.”

The Commission is right. Locational disadvantage is no basis for an equalisation scheme. But we have Auslink highways over mountains and deserts connecting all mainland states, billions of dollars worth! The argument I advance is not a locational argument. It is based on the right of every state to be equally connected. All people and businesses on the mainland have access to comprehensive Auslink corridors within each state and interstate but not Victoria southbound and Tasmania northbound over the boarder. Justification for the “sea highway” was an argument that had been won politically in 1996. Why rehash it yet again? We have moved on from the Commission’s argument over 10 years ago. John Howard has it right,

“The Scheme remains an important element of Australian government programmes that equalise cost disadvantages between the States and Territories.”

Well there is one sound economic rational. It is called “equalisation” and has the same name as the three “equalisation” schemes already in place. There is no need to recommend changing the name but just to ensure they all deliver comprehensive equalisation.

You say, “If the Australian Government sought to further assist Tasmania alleviate its disadvantage as a small regional economy, a more targeted approach would be to introduce an economic development program. The Government should clearly specify the objectives of any such scheme, be transparent as to the criteria for allocating funding, and publicly identify the beneficiaries. The efficiency and effectiveness of the program should be regularly assessed.

The Productivity Commission has not addressed lower cost suggestion of putting the Bass Strait equalisation schemes out to tender and thereby offering highway equivalence. Instead it suggests assistance schemes. This can mean handouts for one state and highway’s for all others and one less inter-capital highway than is justified, for Victoria.

The Commission recognises “Tasmania is an island State” but treats it as just another part of regional Australia. You have national grids for electricity, communications and transport but assistance schemes are suggested for state, in lieu of a highway!

Why not try to cut off the Auslink connections to a mainland state and offer them “sound policy” based on economic development assistance schemes. After the state has been cut off, introduce families to the \$1000 entry barrier described by the Nixon Report and maintain the cost of transport at 200% and see if 50% of that state’s families will need welfare. That state will soon become a “small regional economy”, the words that the Commission has used to describe Tasmania. All types of handouts will then be needed.

A potentially very strong state would then be cut off at the knees.

Given comprehensive links to Tasmania and Victoria they both can stand on their own two feet, far more effectively.

Tasmania is small because you have not linked it to the Nation’s transport grid. Melbourne is also disadvantaged by not having a third inter-capital link it is geographically entitled to. The amenity of living in Victoria with ready and affordable access to Tasmania is denied. There is little point in saying there are Auslink corridors within Tasmania and on the mainland but what is their use, if they are not linked. Try cutting the garden hose and expect it to deliver water. Assistance schemes are like carrying buckets of water instead of simply reconnecting the hose. If high administrative costs are desired, then “carry the buckets”!

The Commission’s reports,

“A change to the objective of the TFES to provide subsidies to passengers and freight on the basis of a notional ‘land bridge’ would significantly widen the scope and cost of the current subsidy. This rationale would imply that all freight (and passengers) transported in either direction that would otherwise go by road or rail should be eligible for assistance....”

Well, why not widen the scope of it fully. The Commission has the resources to estimate the cost. You have evidence of the cost of the BSPVES to deliver comprehensive highway equivalence in 2001 at \$28 million a year. That means \$50 one-way passenger fares and \$200, including the car and its passengers. The current application of the BSPVES is costing about \$40million. Comprehensive equivalence can possibly be delivered for the same or very little more today. For the TFES, you will have freight volumes that can possibly double the cost to the Commonwealth of TFES. Halve these estimates if you think Tasmania is only half the beneficiary and Victoria the other, and you have it. The additional cost may be about the cost of constructing about 7.5 km of highway in each state with a far greater economic impact for two states than any road. This is an annual cost of about 10% the capital cost of an inner-city racecourse! If that is unaffordable then God help Australia.

Yes, an Auslink connection will cost more. This cost is immaterial in the context of more than \$11 billion in federal funding going into substantially, other inter-capital links.

It is not valid to raise the fear that Tasmania will have to compete for Auslink funding for its one and only inter-capital link, Yes, Victoria and Tasmania will need to compete for any enhancement of the link, but it is fanciful to expect that a nation, funding about half the families in Tasmania, will deny funding for the only transport link between the two states on the nation’s shortest inter-capital route. Substantial uncapped federal funding is already in place.

The Productivity Commission went on,

“ Evidence put to this inquiry demonstrates that the sea freight cost disadvantage is significant. The freight charge for shipping a standard 20 foot container (TEU) across Bass Strait can be more than double the cost of an equivalent road journey on the mainland.”

If this is the case for 40% of all containerised freight crossing Bass Strait, then it is probably the case for the remaining 60% not covered by TFES. These include all consumables to Tasmania and Tasmanian exports transhipped in Victoria. There is no excuse for these not to be covered or for denying effective competition to Tasmanian consumers and Victorian suppliers.

The Commission, reporting as the senior economic advisory body to the Australian Government, is commissioned to take a broad view and presumably recommend that schemes should be established in a proper policy context in the interests of the community and the nation.

The Commission says,

“its function is to “encourage the development of efficient and internationally competitive Australian industries; to promote regional employment and development; and to improve the productivity and economic performance of the economy. Importantly, the Commission is required to recognise the interests of the community generally. Thus, it must look not only at the interests of Tasmania, but also consider the impacts of policies on the Australian community as a whole.”

Like TFES, the BSPVES is not delivering comprehensive highway equalisation.

The impact of the lack of comprehensive equalisation for people, vehicles and freight subjectively skews access and the economy for some of the reasons reflected in the first few paragraphs of this paper.

Given the Prime Minister’s recent comments, it seems that the Commission and its participants will now have the opportunity move to have both TFES and the BSPVES deliver comprehensive highway equivalence with no fear of the removal of TFES.

The Productivity Commission has now, in my view, two choices. Choose an Auslink equivalent approach or enhance all equalisation schemes to comprehensive highway equivalence. There are no other sound and sustainable policy choices. The status quo for TFES cannot be justified but must be recognised as filling a partial gap only in the move to comprehensive transport equalisation between Victoria and Tasmania.

The Commission says, “Sea freight is inherently more expensive, relative to road freight, over shorter distances such as Bass Strait.”

This is because the full infrastructure cost of inter-capital highways and rail are not applied to land-based transport. They are subsidised. So there is a compelling argument to do the same over water, comprehensively, for people, vehicles and freight. In my view the Commission will be entitled to abolish the TFES only when the nation decides to charge the full price for inter- capital land based highways.

The Productivity Commission report went on to say:

“The adoption of subsidy arrangements on grounds such as to fund a notional ‘land bridge’ would significantly widen the scope, scale and cost of the current subsidy. In contrast to the current discriminatory TFES arrangements, it would involve paying assistance to all freight (and passengers) transported in either direction that would otherwise go by road or rail. The end use of goods shipped would no longer be a consideration (although expansion of the TFES to explicitly take exports into account could raise WTO issues). The distribution of payments would change considerably. If there were to be budget neutrality, this would imply a much lower payment per claim.”

“To clarify the purpose of the scheme, it should be renamed to reflect that it is a Tasmanian sea freight assistance scheme.”

60% of containerised sea freight is not covered by the TFES. The possibility of fear of a “much lower payment per claim” seem to me highly unlikely because the schemes would then not offer “equalisation”. The suggested lower payments would not be “equalisation”, they would be subsidies! Why would budget neutrality be applied to the Bass Strait route when Auslink is expansive. Surely the reasons for expanding Auslink would also apply to Victoria and Tasmania.

The Productivity Commission has a responsibility to apply Federal policy and a strong indication of a Bass Strait policy has been in place since 1996 and, again reaffirmed by the Prime Minister.

In 1996 Prime Minister Howard and the Coalition offered the nation a “Tasmanian Sea Highway”, being “part of the National Highway”.

Despite this very clear policy, many actions over the last 10 years by those who have not held the expansive view of the Prime Minister seem to have done nearly everything possible to erode this position.

There have been:

- Recommendations that have caused the equalisation formula been removed from the BSPVES
- Recommendations against the National Highway connection
- Failure to support the BSPVES being applied another way to deliver highway equivalence in the absence of sea based competition
- An unwillingness to turn the limited scope of the TFES to an effective comprehensive equalisation scheme
- Reports to responsible federal ministers taking principally a one-sided, non highway focus and possibly thereby a failure to seek a public review of the BSPVES
- Made recommendation that have encouraged the maintenance and enhancement of barriers to entry into Tasmania despite a concerns raised in the Nixon Report
- Have recommended processes that act against the BSPVES being maintained in line with the cost of highway travel consistent with positive promises by the Coalition and uncapped federal funding
- Encouragement, through recommendations, of the rejection of a proposed offer by the Prime Minister of a \$50 sea passenger fare on top of the “car going free” thereby maintaining Tasmania’s isolation.
- Accepted discontinuance of the Rundle subsidy that had reduced access costs for people and resulted in a substantial increase in sea passenger travel

- Failed to ensure that the uncapped BSPVES offered transport options to deliver a focus on cost effective highway equivalence when there existed commercial imperatives to the contrary.
- Enabled the BSPVES to move towards being an assistance scheme in lieu of offering highway equivalence

And on top of all this, the Productivity Commission have recommended that:

“To clarify the purpose of the scheme, it should be renamed to reflect that it is a Tasmanian sea freight assistance scheme.”

Why turn these objective interstate equalisation schemes into open-ended subjective assistance, just because Tasmania is surrounded by water.

Without the Prime Minister’s current intervention, it seems that the Productivity Commission would have almost put the final nail in the coffin for any “sea highway link”. It is reasonable to conclude that the removal of the BSPVES would soon follow.

The BSPVES is almost now reduced to an equalisation scheme in name only. Barriers to entry into Tasmania are increasing. “Highway equivalence” will ensure that there is an all year, non-promotional surface access available to build population. I would expect that the lack of it impacts significantly by reducing those freight volumes not currently covered by TFES.

Taking a broad approach, this enquiry should cover this impact and report on it.

TFES and the BSPVES were said to be parallel schemes. The BSPVES was said to be is one of the most successful federal initiatives for South Eastern Australia in recent times. Intended to provide highway equivalence, it is being eroded.

Why would the Coalition introduce the BSPVES, another uncapped equalisation scheme in 1996 and call it an “equalisation” scheme if it wanted targeted “assistance schemes” or to limit assistance? Is the BSPVES to also be reduced to targeted assistance?

This Commission has an outstanding opportunity to enhance both TFES and the BSPVES scheme to cover people, all freight and vehicles. The decision to date will go nowhere to remove what Prime Minister Howard described as the “single greatest impediment to the growth of population, investment and jobs for Tasmania”.

Why would the Productivity Commission recommend maintaining this impediment?

It is clear that Tasmanian northbound freight, in an Auslink context, can be no more of a subsidy contrary to international treaties than the billions of dollars that go into the Hume Auslink corridor. Both access routes can be used for access to the Port of Melbourne. If Auslink is good enough for one link, why not for the other? Is one going to suggest that the Hume Highway be closed because of international treaties?

So why maintain TFES in its current form when you can introduce an Auslink equivalent and offer, legitimately, southbound consumable equalisation and full equalisation for northbound exports?

The Commission has an excellent opportunity to incorporate both the TFES and the BSPVES into Auslink, without inappropriate comparisons to remote areas. Victoria, VECCI and the writer seem to have suggested this positive outcome.

Just as on the Hume Highway, there is a fundamental connection between people, freight and vehicles that ensures that the BSPVES and the TFES are interconnected.

An Auslink type link is the only way to establish a fair and competitive, integrated national transport grid.

If Auslink is about infrastructure, then Auslink and its predecessor, the ALTDA, were about infrastructure. Both pieces of legislation both incorporate “ferries”. These are also infrastructure. But, why ignore Bass Strait ferries on the nation’s only inter-capital sea route?

Auslink is said to be about delivery of an integrated national surface transport network. Auslink may be about infrastructure but it is an integrated transport system that is its ultimate purpose. Under Auslink the nation enjoys an equalised, competitive transport system that uses substantial federal funded infrastructure. In this case the legislation then only needs to refer to “infrastructure”. If you have the same transport option overlay on federally funded infrastructure across Bass Strait then there is no need for Auslink. But we haven’t. We have waited 10 years for the sea-based competition to deliver comprehensive Auslink equivalence. It is not there yet, nor is the equivalent cost of travel or transport in place. The Commission needs to accept that the TFES and the BSPVES schemes are not delivering highway equivalence. Auslink or an “Auslink Sea” system or equivalent is needed.

Access was equalised when the great sea-lanes were the national highways. It is time to restore that equalisation, not destroy it.

The Commission reports and uses the following:

“All Tasmanian airports suffer from the competition of subsidised sea passenger and freight transport. These services are real and substantial. Subsidised sea passenger and freight transport adversely affects the revenue of airports and their tenants, particularly the hire car firms and freight companies. For example, Tasmanian salmon producers use both sea and air transport. Our advice is that it costs \$2 per case less to transport salmon by road-sea from Hobart to Melbourne, than by air. (sub. 4, p. 7)

Air competes against inter-capital highways across the nation. Should the Victorian – Tasmanian link be any different? The BSPVES has been allowed to exclusively deliver low car- fares without any policy intervention. This is not a problem with the BSPVES scheme. It is a problem of how it has been applied. For 10 years there has been no need to exclusively apply the BSPVES this way. Since 1996 “sea highway” based comprehensive passenger and vehicle equalisation has remained an option. Apply the BSPVES and the TFES to deliver comprehensive highway equivalence and air would have competed against fair and equal surface links as over every interstate border in this nation, not just mainland ones. The adverse impact referred to above was based on choice of application of the BSPVES, not equalisation.

I hope that the Productivity Commission does not intend to give air a non-competitive free go across the Victorian - Tasmanian border.

Air transport is equalised nationally. The Commission needs to recognise that the Bass Strait surface link must compete against other interstate surface connections. This is the ultimate in competition policy and it is the basis of the sound policy expressed again by the Prime Minister. Competition between air and sea access to Tasmania is not the only competition that is relevant. It is also about competition between states based on equal linkages! Tasmania’s surface connection needs to compete with other east coast inter-capital city highways based on Tasmania’s geographical location.

Given the Prime Minister’s views, and a possible and consequential substantial change in the Commission’s final report, it would helpful if a further interim report were prepared by the Commission.

In closing, as a long term bipartisan lobbyist, I would like to say that I am aware from information in the public arena and privately that Prime Minister Howard has offered everything that a prime minister could, to deliver a fully equalised “sea highway” across Bass Strait for people and vehicles. He has yet again repeated this intent for people, vehicles and freight. What more can a Prime Minister do?

I say to the Productivity Commission and the bureaucracy, help achieve the direction given by the Prime Minister. It is based on very sound policy.