

Net Sea Freight – Tasmania Pty Ltd

Response to Consultation Paper issued by the Department of Infrastructure, Transport, Regional Development and Local Government in relation to Tasmanian Freight Subsidy Reforms.

Prepared April 2008

1. Precedents to Present Paper

- 1.1. In June 2006, Net Sea Freight – Tasmania Pty Ltd (Net Sea Freight) produced a paper for the Productivity Commission’s enquiry into Tasmanian Freight Subsidy Arrangements. This paper contained several specific recommendations, among which were that the Tasmanian Freight Equalisation Scheme should continue, that assistance should be paid to shippers, that wharf-to-wharf charges as a basis for giving assistance be supplied by originators other than shipping companies, and that several of the key parameters involved in assessing the rate of assistance should be reviewed.
- 1.2. Subsequent to the release of the Commission’s Draft Report in September 2006, Net Sea Freight responded by expressing disagreement with the Commission’s suggestion that assistance be granted on a flat rate (\$ 400 per TEU) basis. It again proposed that assistance be determined on the basis of evidence supplied from a source divorced from the claimant, and reiterated that some of the Nixon parameters be revised to reflect the contemporary environment.
- 1.3. In the Commission’s Final Report of December 2006, a major recommendation was to base assistance claims on wharf-to-wharf costs only. Among its other proposals were for reviews of the system, including parameters, to be performed and published every three years. The Commission also noted that there should be a review of how wharf-to-wharf costs are defined. Net Sea Freight welcomed most of the Commission’s recommendations.

2. Comments on Issues

The Infrastructure Department’s Consultation Paper of February 2008 has raised several issues upon which Net Sea Freight seeks to comment.

Issue 2(a) Eligibility for claiming assistance

- 2.1. Issue 2(a) suggests two alternatives for claimants. Net Sea Freight strongly supports Option 1, which we note is overwhelmingly the choice of other Scheme participants.

Issue 2(b) Review of the Methodology for TFES parameters

- 2.2. We acknowledge that the Bureau of Infrastructure, Transport and Regional Development (BITRE) review of parameters is a complex and lengthy exercise. We suggest it should encompass a review wider than the parameters referred to and give consideration to the structure of the Nixon scheme, such as whether it

is desirable to maintain the distinction between classes of shippers (e.g. class one, two) and if the maximum amount of \$ 855 per TEU should be raised.

Class of Shipper

- 2.3. We have previously argued that assistance provided at the margin to shippers could be uniform, rather than variable depending upon the amount of notional disadvantage.

At present, assistance at the margin varies from

- (a) 100 % (or dollar-for dollar), for WW rates up to \$ 616.50, to
- (b) 75 % (or \$ 0.75 for each additional dollar of WW charge) for WW rates up to \$ 952, to
- (c) 50 % (or \$ 0.50 for each additional dollar of WW charge) for WW rates up to \$ 1287.50, and
- (d) zero thereafter.

The assistance per TEU is capped at \$ 855, a value which we feel is also ripe for revision.

We are unable to discern any justification or rationale for a non-uniform degree of assistance at the margin and suggest that any revision of the Scheme's bases include an investigation of, or search for, an alternative and more simplified approach to determining assistance to shippers.

Intermodal Cost

- 2.4. In respect of Issue 2(b), we have previously suggested a major re-think is needed on intermodal costs, and have asserted that in many cases the current flat \$ 50 allowance at each end of a sea leg for these is grossly inadequate.

There are several problems facing any review of this allowance.

- (a) Whether there could be a satisfactory specification of cost items for which a claim might be made (with or without an 'any other costs' item), and if so what percentage of these costs would be rebated.
 - (b) Whether a larger lump sum could be set as a means of adequately compensating some shippers for relatively large unavoidable outlays, and whether such a sum would over-compensate some shippers.
 - (c) Whether Centrelink is prepared to accept, in addition to an evidence-supported WW claim, an invoiced statement of shipping costs which have arisen as a result of a shipper not being able to utilise surface transport.
- 2.5. The latter is the course suggested by Net Sea Freight in previous submissions. That is, if a shipper must unavoidably incur any charge due to not having the

opportunity to transport product in a unimodal manner, it becomes part of the cost disadvantage compared with a road freight equivalent (RFE) and as such should be eligible for compensation.

We supply examples of these costs.

- (a) Hire of specialised equipment and towed on to a RO-RO ship.
 - (b) Consolidation and de-consolidation (loading and unloading) of containers, involving time in the case of LCL shipments.
 - (c) Quarantine charges, even in the case of products not of AQIS concern.
 - (d) Demurrage charges wharf-side and other port authority charges at both ends of a sea voyage.
 - (e) Costs involved in obtaining, hiring and de-hiring containers at either end of a sea transporting exercise.
 - (f) Cost of constructing, staffing, and maintaining an inter-change depot.
- 2.6. There are many other specific expenses which are frequently incurred solely as a result of shippers not being able to use land-based transporting methods, and which ought to be the subject of consultation between shippers and BITRE in order to determine how best these might be recognised. The example of intermodal costs the Commission highlighted in its final report as presented in the Cascade Brewery submission is an excellent listing of the typical variety of expenses shippers meet.
- 2.7. In the Net Sea Freight response to the Productivity Commission Draft Report we described a shipping operation involving freighting, by container, a shipment of goods from Hobart to Karratha (WA), which would otherwise be transported entirely by land. Some parts of the exercise are peculiar to a sea freight operation. The example below repeats what was included in that document.

	Road Expense	Shipping Expense
1. Deposit container at shipper's premises		* *
2. Transport container from shipper's premises to port of Tasmanian export	* *	
3. Wharfage expenses		* *
4. Ship container to Melbourne		* *
5. Wharfage expenses		* *
6. Transfer container to WA-bound ship		* *

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| 7. | Wharfage expenses | * * |
| 8. | Collect container from Fremantle wharf, de-stuff container and load goods on truck | * * |
| 9. | De-hire container | * * |
| 10. | Freight goods from Fremantle to Karratha | * * |

It appears that the “off-water” operations, which are potentially quite expensive, are necessarily to be met from the intermodal allowance.

Road Freight Equivalent

- 2.8. The Nixon Committee determined a road freight equivalent cost (RFE) with which a sea shipment’s cost should be compared in order to determine any shipper’s cost disadvantage. This was based on the cost of a road journey of equivalent length to a Bass Strait voyage from a northern port (420 kilometres), for a two-container load (TEU) at a charge of \$ 1.34 per kilometre, or \$ 0.67 per TEU per km, which converts to an RFE of \$ 281. Any wharf-to-wharf charge in excess of \$ 281 per TEU is then said to give rise to a cost disadvantage.
- 2.9. Several observations are relevant here.
- (a) The contemporary practise of using B-doubles to transport three TEUs has permitted a containment of road freight costs.
 - (b) More intensive use of modern road freight vehicles has further contributed to containment of road freight costs.
 - (c) Since the notional cost was determined (circa 1998) there has been a substantial increase in fuel costs – probably doubled.
 - (d) The RFE relates solely to private costs and does not factor in externalities of road freighting; if social costs are significant, the RFE understates road costs and consequently lessens the relative disadvantage of sea freighting.
 - (e) Should substantial negative externalities attach to road freight operations, it amounts to a subsidy to road users, which on equity grounds should also be available to sea transport operations.
- 2.10. Net Sea Freight views a thorough re-assessment of the RFE benchmark as highly desirable. Moreover, in the face of rapidly rising fuel costs any review if the Nixon system should also include an examination of the contemporary relevance of the \$ 855 maximum rebate.

Scaling Factors

- 2.11. Scaling factors are relatively unimportant as a part of the sea transporting environment, except that as some shippers have observed they can present

distortions when sea freight origins are close to State borders. In such cases, application of a scaling factor can penalise one shipper relative to another whose base is in close proximity but who can benefit from a more generous scaling factor. Net Sea Freight would see little problem in their abolition.

Issue 2(c) Supporting Information

- 2.12. It has been a recurring proposition from Net Sea Freight that the documentation accompanying claims for assistance should be supplied by parties other than the beneficiaries of assistance. In the case of smaller shippers this implies freight forwarders provide wharf-to-wharf charge information to support shippers' claims. A present satisfactory method is a freight forwarder's letter stating the WW cost to the shipper for inclusion with a claim for assessment of assistance by the shipper. This method should maintain confidentiality of freight forwarder and shipping company rates.

Issue 2(d) Audit and Compliance

- 2.13. Holding documentation for a period of five years to permit audit processes is satisfactory as it is a lesser time requirement than that imposed by the Australian Taxation Office.

We see no advantage to the Scheme in publishing information relating to assistance paid to claimants.

With regard to sanctions for breaches of Regulations or Ministerial Directions we are supportive of the first three listed, but disagree with the last two on jurisdictional grounds.

Issue 2(e) Review Mechanisms

- 2.14. A three yearly review is consistent with previous Net Sea Freight submissions. However, any review should avoid the concerns created by the present review. Accordingly a reviewing body will require careful structure and member selection such that claimants and users of the Scheme are ensured of adequate consultation.

Issue 2(f) Other Matters

- 2.15. i) Time Limit

The present time limit of two years for lodging claims is working satisfactorily and there is no reason to reduce it. The two year limit is particularly applicable to small and medium sized claimants and we do not consider there should be any additional administrative or data complexity with its retention.

- ii) Multi-use packaging

An integral part of some shipping operations includes multi-use packaging such as those cited. Further examples include tanktainers, gas bottles, containers specific for the product shipped, e.g. scrap steel, frozen and chilled products. It is highly desirable that assistance be extended to multi-use packaging.

iii) Minimum Amount Payable

Where a freight exercise is eligible for assistance it should be paid without regard to amount or volume.

Conclusions

Net Sea Freight supports the continuation of the Scheme as devised by the Nixon Committee, with modification of the values of some of the more vital parameters - the intermodal allowance and the road freight equivalent cost. We support a change to an assessment based solely on a verified wharf-to-wharf charge.

We feel a revision to simplify the computational mechanics of the scheme is desirable, whereby the Class of Shipper approach (depending on the extent of the net wharf-to-wharf disadvantage, in relation to a median WW rate now over a decade out of date) is abandoned in favour of a more linear model.

Net Sea Freight appreciates the opportunity to participate in the consultation process, and is available to offer assistance should it be required. A remaining concern is the BITRE deliberations which when available may require a further response.