



Independent Review of the Tasmanian Transport Schemes
Department of Infrastructure, Transport, Regional Development, Communication, Sport, and the
Arts

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Public Submission from Oysters Tasmania

Oysters Tasmania represents Tasmania's oyster farmers. Our 40 farmers sustainably produce more than 3,000 tonnes of Pacific oysters each year, with a farm gate value of more than \$40 million. The great majority of our product is fresh oysters, shipped across Bass Strait for consumption on mainland Australia. Our product is perishable and temperature-sensitive.

Tasmania's oyster farmers are in intense competition with mainland oyster farmers, who do not face the challenges of transport across Bass Strait transport. As such, the Tasmanian Freight Equalisation Scheme (TFES) is crucial to the continuing existence of the Tasmanian oyster farming industry.

The TFES is complex. This complexity generates significant compliance costs for Tasmania's oyster farmers. The fact that there are claims agents for the TFES indicates that the complexity is extreme, and much of the complexity is unwarranted.

The following discussion outlines the unwarranted complexity and sets out recommendations to remove it. Tasmania's oyster farmers would greatly appreciate the prompt adoption of these recommendations.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Duncan Spender".

Duncan Spender

CEO

Oysters Tasmania

1.	Make freight-forwarders the claimants re northbound services	3
1.1.	<i>Changing who claims will not change who benefits</i>	3
1.2.	<i>Reasons to change who claims</i>	4
1.3.	<i>Getting information from different claimants</i>	4
1.4.	<i>Changing who claims re southbound services</i>	5
2.	Remove the northbound product condition, or update the product list	6
3.	De-link subsidies from the prices of each individual freight service	8
3.1.	<i>Administration and compliance costs</i>	8
3.2.	<i>Scheme integrity</i>	9
3.2.1.	<i>Route scaling</i>	9
3.2.2.	<i>Fixed road freight equivalent cost</i>	9
3.2.3.	<i>Sliding scale</i>	10
3.3.	<i>Market competition</i>	10
4.	Remove unprincipled import restrictions re southbound services	12
4.1.	<i>Imports with an Australian equivalent</i>	12
4.2.	<i>Old imports</i>	12
5.	Returned packaging	14
6.	Extend eligibility to air freight	15
6.1.	<i>Calculating subsidies for air freight</i>	15
6.2.	<i>Subsidising a higher quality service</i>	15
1.1.	<i>Products that would never go by road</i>	16

1. Make freight-forwarders the claimants re northbound services

1.1. *Changing who claims will not change who benefits*

The legal incidence of a subsidy refers to who completes a form to claim a payment from government.

The economic incidence of a subsidy refers to who benefits from the subsidy, after taking account of the subsidy's impact on prices. The benefit of a freight subsidy could entirely go to the freight provider, could entirely go to the freight customer, or could be shared between the freight provider and freight customer.

Where the benefit of a subsidy goes depends entirely on the circumstances surrounding freight providers and freight customers.

- The more current and prospective freight providers there are fighting for the custom of freight customers, the more the benefit of a subsidy goes to the freight customers.
- The more current and prospective freight users there are fighting for spots offered by freight providers, the more the benefit of a subsidy goes to the freight providers.

Where the benefit of a freight subsidy goes has nothing to do with whether it is the freight provider or the freight customer who completes a form to claim a payment from government. In other words, the economic incidence of a subsidy has nothing to do with the legal incidence of a subsidy.

- Suppose the price of a freight service would be \$850 in the absence of a subsidy.
 - Suppose the government then offered a \$500 subsidy per service to freight customers, and this led freight providers to increase the price of the service from \$850 to \$1,150. The benefit of the subsidy would be \$300 for freight providers and \$200 for freight customers.
 - Suppose instead that the government offered a \$500 subsidy per service to freight providers. This would lead freight providers to reduce the price of the



service from \$850 to \$650, such that the benefit of the subsidy would still be \$300 for freight providers and \$200 for freight customers.

1.2. Reasons to change who claims

A high proportion of northbound freight services are eligible for subsidy under the TFES. Northbound services eligible for TFES subsidy involve a small number of freight-forwarders and a large number of Tasmanian producers. Given this, the task of claiming TFES payments for northbound freight services should be shifted to freight-forwarders. This shift would significantly reduce the TFES's administration costs, compliance costs, and fraud risks.

The shift would lead to reductions in the price of northbound freight services such that there would be no reduction in benefits from the TFES for Tasmanian producers. In fact, the benefits from the TFES for Tasmanian producers would increase, as currently some producers do not bother to claim TFES payments they would be eligible for because of the complexity and uncertainty of the claims process. If claims were instead made by freight-forwarders, these producers would benefit from price reductions.

1.3. Getting information from different claimants

Currently producers claim TFES payments for northbound freight services by providing information regarding: the freight service and freight charges; the product code; and whether the freight is destined for overseas. These current information requirements can be dealt with under a system where freight-forwarders do the claiming.

- Freight-forwarders know as much about the freight services and freight charges as producers do.
- Freight-forwarders may not know the product codes of the freight of their customers, but the cost for them to gather this information would be low.
 - Alternatively, the TFES eligibility criterion relating to product codes could be dropped so that there would be no need to gather this information (see Recommendation 2).
- Freight-forwarders may not know whether the freight is destined for overseas, but the cost for them to gather this information would be low. Alternatively, the need to



gather this information could be done away with by standardising the subsidies with respect to goods destined for mainland Australia and goods destined for export (see recommendation 3).

1.4. Changing who claims re southbound services

A low proportion of southbound freight services are eligible for subsidy under the TFES. Given this, the case for shifting the task of claiming TFES payments from Tasmanian producers to freight-forwarders is less clear than the case with respect to northbound services.

2. Remove the northbound product condition, or update the product list

Subsidies for northbound services are restricted to the freighting of products covered by Product Codes listed in Schedule 1 to the Ministerial Direction.

The Product Codes listed in Schedule 1 are from Version 1.1 of the Central Product Classification published by the United Nations Statistics Division. This Version has been superseded. As a result, a number of the Product Codes Listed in Schedule 1 are not current. Moreover, these Product Codes are similar to Product Codes that now, in the more recent Versions of the classification system, refer to different products.

- For example, Product Code 21210 exists in Version 1.1 but not in Version 2.1 or Version 3.0 of the Central Product Classification published by the United Nations Statistics Division. Moreover, Product Codes similar to 21210 in Versions 2.1 and 3.0 refer to different products (i.e. frozen rather than fresh) than Product Code 21210 in Version 1.1.

The Product Codes listed in Schedule 1 do not accurately describe the products that are routinely shipped from Tasmania to mainland Australia and subsidised under the TFES.

- For example, Product Code 21210 is listed in Schedule 1, but is inaccurately described there as 'fish, fresh or chilled'. Version 1.1 of the Central Product Classification makes clear that Product Code 21210 is actually under Group 212 entitled 'prepared and preserved fish', and relates to 'fish fillets, other fish meat, and fish livers and roes, fresh or chilled'. Whole fish, including oysters, which are routinely shipped across the Bass Strait and subsidised under the TFES, are better categorised under the classification system's Division 04.
 - In Version 1.1. of the classification system, Division 04 includes Product Codes 04120 for 'fish, fresh or chilled' and 04220 'oysters'.
 - In Version 3.0 of the classification system, Division 04 includes Product Codes 04222 for 'farmed Salmonidae, live, fresh, or chilled' and 04422 for 'farmed oysters, live, fresh, or chilled'.

Given the above issues, Schedule 1 is currently more of a hindrance than a help. Those who administer the TFES either are not aware of the shortcomings of Schedule 1, or work around it.

It is not clear if there are any products shipped from Tasmania to mainland Australia for business customers that would be eligible for the TFES under the other provisions of the Ministerial direction (such as the provisions limiting eligibility to non-bulk goods on a



one-way trip across the Bass Strait) but that are excluded from the TFES because of Schedule 1. In other words, the only effect of Schedule 1 may be to limit TFES support for northbound freight to business customers. If this is the case, the eligibility requirement relating to Schedule 1 should be removed and replaced with a requirement that the freight customers are businesses. This would reduce administration and compliance costs and have no impact on outlays.

If Schedule 1 does serve a purpose beyond limiting TFES support for northbound freight to business customers, it should be updated to accurately describe the products that are routinely shipped from Tasmania to mainland Australia and subsidised under the TFES, such as whole fish including oysters. This could involve referring to Divisions, Groups, or Classes of the latest classification system, rather than Subclasses.

3. De-link subsidies from the prices of each individual freight service

The amount of assistance for intermodal costs, for northbound shipping of goods destined for overseas, and for southbound shipping of goods from overseas, is fixed. However the amount of assistance for the shipping of wholly domestic goods varies from customer to customer depending on the price of the individual freight service.

Assistance for the shipping of wholly domestic goods should be de-linked from the price of the individual freight service. This would ensure consistency with the treatment of intermodal costs and the movement of exports and imports. It would also:

- reduce administration and compliance costs;
- improve scheme integrity; and
- bolster price competition in the shipping market.

3.1. Administration and compliance costs

The TFES's current accounting for the price faced by each individual freight customer for each individual freight service generates significant administration and compliance costs.

If each subsidy instead represented the difference between an average wharf-to-wharf price and a road freight equivalent cost:

- there would be no need to report individual freight prices; and
 - An average wharf-to-wharf price could be determined by the Department through periodic surveying/auditing of freight-forwarding businesses, and indexation for inflation between surveys/audits.
- claimants would not need to make a 'door to door adjustment' or a 'route scaling factor adjustment'.
 - If the Department were to determine an average wharf-to-wharf price through periodic surveying/auditing of freight-forwarding businesses, the Department would have the option of considering data on freight costs beyond the Bass Strait, in which case the Department would make its own 'door to door' and 'route scaling' adjustments.



If the subsidy with respect to goods destined for mainland Australia were de-linked from the price for the individual freight service, this would allow the subsidies for goods destined for mainland Australia and subsidies for goods destined for export to be aligned. Such alignment would remove the need to report on whether a product is destined for export, to further reduce administration and compliance costs.

3.2. Scheme integrity

The current scheme takes the price faced by each individual freight customer for each individual freight service into account because of a hope that this will lead to subsidies that accurately counteract the absence of a road connection between Tasmania and mainland Australia.

However, due to route scaling, a fixed road freight equivalent cost, and the application of a sliding scale, this hope is lost, and taking individual freight prices into account fails to lead to accurate subsidies relevant to the absence of a road connection between Tasmania and mainland Australia.

The same or better accuracy would be achieved by using an average wharf-to-wharf price.

3.2.1. Route scaling

The current route scaling factors with respect to South Australia, Queensland, Western Australia, and the Northern Territory are illogical and undermine the accuracy of current subsidy calculations. The current scaling factors reduce subsidies involving Northern Tasmania and these mainland locations more than they reduce subsidies involving Southern Tasmania and these mainland locations, even though Bass Strait is a bigger proportion of trips involving Northern Tasmania than it is for trips involving Southern Tasmania.

3.2.2. Fixed road freight equivalent cost

The pairing of variable prices with fixed road freight equivalent costs further undermines accuracy. Pairing variable prices with a fixed road freight equivalent cost is illogical, because in the hypothetical scenario where there is a road connection between Tasmania and



mainland Australia, different freight customers requiring different freight services would be offered different road freight prices.

Accuracy would be improved if the subsidy for dry freight were a dry freight average price less the dry freight fixed road freight equivalent cost, and the subsidy for reefer freight were a reefer freight average price less the reefer freight fixed road freight equivalent cost.

3.2.3. Sliding scale

Any accuracy achieved from taking into account individual freight prices to generate a notional entitlement is lost when the sliding scale is applied to those notional entitlements before final TFES payments are determined.

Because of the sliding scale, freight customers charged at half the median price are currently fully compensated for the absence of a road connection between Tasmania and mainland Australia, but customers charged at double the median price receive 56.25 per cent compensation, an arbitrary amount.

Adopting an average wharf-to-wharf price would do away with the sliding scale, and hence improve the accuracy of the TFES.

- The sliding scale represents an unprincipled constraining of the fiscal cost of the TFES. If the government insists that the fiscal cost of the TFES is to remain unchanged, it would be more principled to calculate subsidies through reference to an average wharf-to-wharf price as recommended here, and then to make an across-the-board reduction in all subsidies to achieve a fiscal target.

3.3. Market competition

The provision of subsidies dependent on the price faced by each individual freight customer for each individual freight service undermines price competition in the shipping market, because the higher the freight price, the greater the subsidy. The sliding scale only slightly reduces this undermining of price competition.



Adopting an average wharf-to-wharf price would more significantly reduce the TFES's undermining of price competition in the shipping market. In fact, adopting an average wharf-to-wharf price would all but eliminate the TFES's undermining of price competition in the shipping market, as a higher freight price would not attract a higher subsidy (at least prior to the time when that higher price serves to marginally increase the Department's determination of the average wharf-to-wharf price).

4. Remove unprincipled import restrictions re southbound services

Currently there are a number of unprincipled restrictions on TFES subsidies specific to southbound services. These restrictions, relating to imports with an Australian equivalent and old imports, undermine the rationale of the TFES and should be removed.

4.1. *Imports with an Australian equivalent*

Movements from the Australian mainland to Tasmania of imports that have an Australia-made equivalent are excluded from the TFES.

This means that, in order to acquire such imports, a Tasmanian business needs to incur the full costs arising from the absence of a road connection between Tasmania and mainland Australia, whereas a mainland business does not. As such, the exclusion undermines the rationale of the TFES.

The effect of the exclusion is that government pressure on Tasmanian businesses to buy Australian is greater than government pressure on mainland businesses to buy Australian. Moreover, as 'Australian equivalent' is not defined as being an equivalent price, the effect of the exclusion is to particularly pressure Tasmanian businesses to buy Australian goods that are more expensive than imports.

Like other non-tariff barriers to international trade, this exclusion reduces the welfare of Australians by encouraging Australian businesses and workers to make things that foreigners are better at making, instead of things that Australians are better at making. The overall effect is to reduce the value of Australian production, and hence to reduce Australian incomes.

Accordingly, movements from the Australian mainland to Tasmania of imports that have an Australia-made equivalent should no longer be excluded from the TFES.

4.2. *Old imports*

Imports that were imported into mainland Australia more than six months prior to their shipment to Tasmania are also excluded from the TFES.



This means that, in order to acquire such imports, a Tasmanian business needs to incur the full costs arising from the absence of a road connection between Tasmania and mainland Australia, whereas a mainland business does not. As such, the exclusion undermines the rationale of the TFES.

This exclusion effectively applies to imports that do not have an Australian equivalent. As such, the exclusion serves no protectionist purpose. In fact, it is not clear that this exclusion serves any purpose. As such, old imports should no longer be excluded from the TFES.

Note that old imports are common inputs to production including in Tasmania. For instance, imported aquaculture equipment is long-lasting so can be imported to mainland Australia and stored for long periods before being shipped for deployment in Tasmania.



5. Returned packaging

Goods going back across Bass Strait are excluded from the TFES.

This exclusion extends to empty packaging being returned after being used to transport goods across Bass Strait.

Because of the absence of a road connection between Tasmania and mainland Australia, the cost of returning empty packaging is greater for businesses engaged in trade across Bass Strait compared to other Australian businesses. As such, it would be consistent with the rationale of the TFES for returned packaging to be covered by the TFES.

Returning empty packaging involved in the movement of oysters across Bass Strait is not common, but may become more common in the future.

6. Extend eligibility to air freight

The rationale of the TFES is to counteract the cost impact of the absence of a road connection between Tasmania and mainland Australia. The TFES should offset the additional cost of movements that could be achieved by road if there were a road connection between Tasmania and mainland Australia but that are instead achieved by other means.

Currently the TFES only offsets these additional costs when the movement is achieved by ship. The rationale of the TFES would be served if the TFES also offset these additional costs when the movement is achieved by air.

6.1. Calculating subsidies for air freight

Current arrangements and calculations are based on notional shipping costs just for crossing the Bass Strait, even when the overall freight service is between various parts of Tasmania and mainland Australia. Current arrangements and calculations are also based on the hypothetical scenario of the distance of the Bass Strait being spanned by road.

Air freight could be included in the TFES by supplementing these current arrangements and calculations. Calculations could include the notional air freight cost for a movement from an airport within, say, 70 kilometres of the North Coast of Tasmania to an airport within, say, 70 kilometres of the Coast of Victoria, even for instances where the actual air freight undertaken does not involve take-off and landing at airports in Northern Tasmania and Southern Victoria.

6.2. Subsidising a higher quality service

It could be argued that air freight is quicker and thus is a higher quality service than both shipping and road freight, such that payments under the TFES reflecting the difference between air freight prices and a road freight equivalent cost would overcompensate for the absence of a road connection between Tasmania and mainland Australia.

The higher quality of air freight could be taken into account by offering a flat rate of subsidy that is equal to the amount available for shipping, even though the price of air freight



exceeds the price of shipping freight. This would ensure that businesses engaged in trade across Bass Strait are not overcompensated for the absence of a road connection between Tasmania and mainland Australia. It would also limit the fiscal impact of including air freight in the TFES.

Note that the higher quality of air freight services should not be overstated, as air freight involves significant wait times at airports.

1.1. Products that would never go by road

It could be argued that movements that would never be done by road, even if there were a road connection between Tasmania and mainland Australia, should not be subsidised by the TFES. This may be part of the rationale for the TFES's current exclusion of bulk goods, goods shipped to Tasmania directly from overseas, and southbound shipments of fuels and lubricants, building and construction materials, and cars.

It could thus be argued that any extension of the TFES to air freight should be accompanied by a provision ensuring that freight that would never be moved by road, even if there were a road connection between Tasmania and mainland Australia, remains outside the TFES.

However no such provision currently exists with regard to shipping under the TFES. Moreover, it is not clear that there are any products currently moved by air that would never be moved by road even if there were a road connection between Tasmania and mainland Australia. As such, introducing such a provision does not appear to be a necessary accompaniment to including air freight in the TFES.