

14 June 2006

Tasmanian Freight Subsidy Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Sir / Madam

Classic Foods Pty Ltd is a contract packer of UHT (long-life) food and beverage products, manufacturing a range of products to Australian food companies and supermarkets for subsequent retail distribution. Classic Foods is a significant employer in the Circular Head district, providing direct employment to over 150 local people.

Classic Foods has a turnover of approximately \$50,000,000, and will transport over 2,200 full containers (including about 100 export containers) of product in the current year. Distribution costs (before subsidy) represent about 10% of turnover. Overall, the subsidy reduces our distribution costs by approximately 1/3.

Whilst there are some anomalies in the current subsidy system, overall it works well and provides a vital offset to the excessive costs of shipping product over Bass Strait. We seek to minimise our transport costs by always supplying our customers in FCL lots except where lesser quantities are unavoidable. Over the past 16 years Classic Foods, with the co-operation of our transport contractors, have led the Australian transport industry in developing the nation's first racked (demountable) containers for the specific shipping of our products across Bass Strait in the most efficient manner. This system utilises the maximum load weight / volume available per container, yet Bass Strait shipping costs still place us at a 5% to 10% cost disadvantage compared to our mainland competitors. The current subsidy system only provides a partial offset to our higher costs, and we still face higher net distribution costs than mainland companies.

There is a distinct freight cost disadvantage borne by Tasmanian businesses due to the excessive cost of sea freight across Bass Strait compared to road or rail freight for a similar distance. This is further exacerbated by the imbalance of container cargo across Bass Strait, requiring the movement of empty containers back into Tasmania, which adds to the overall shipping cost. Interstate transport costs between mainland states can take advantage of backloading, which is unavailable to Tasmanian manufacturers.

In addition, we are aware that the current subsidy scheme is unable to be used to offset export freight costs due to various international agreements. If a system can be introduced to ensure that exports from Tasmania do not suffer the freight cost disadvantage currently experienced, Tasmanian manufacturers, including Classic Foods, would become more competitive in export markets.

One anomaly in the current system which should be reviewed is the scaling factors for states other than Victoria, which we believe are excessive. The current scales tend to provide a lower subsidy for more distant states, making shipment to these states even less competitive than into Victoria. Given that the cost applicable to the Bass Strait component of a shipment should be no different regardless of its final destination, we see no reason for a lesser subsidy to apply. Other components of the subsidy calculation should also be reviewed in an endeavour to ensure the subsidy does truly provide a sufficient offset to the freight cost disadvantage faced by Tasmanian businesses.

If the subsidy was withdrawn completely or significantly reduced without a corresponding reduction in Bass Strait shipping costs, there would be a dramatic impact on Classic foods business. Classic Foods would become uncompetitive in some market segments, and the added costs would reduce sales of other products. Between 25% to 50% of Classic Foods current business would probably be lost, with the remainder at risk, with an immediate corresponding impact on the local workforce and economy.

In summary, Classic Foods firmly believes that the current subsidy system must remain as a minimum requirement if Tasmanian manufacturing businesses are to remain viable. Preferably, the system should be upgraded, and other appropriate measures introduced, to ensure that the net cost of freight across Bass Strait does not exceed the equivalent road or rail cost for similar distances between mainland locations.

Yours sincerely

Bob Wilson
GENERAL MANAGER