

Productivity Commission
Tasmanian
Freight Subsidy
Arrangements
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Submission by
National Foods Ltd



Prepared by
NFL Logistics Group

Introduction:

National Foods Ltd (NFL) has three food manufacturing operations in Tasmania, two specialty cheese manufacturing sites and a milk production facility. These are located in Burnie, King Island and Hobart respectively. Collectively these sites employ over 500 people and purchase approximately 45% of all milk produced in Tasmania. These businesses have grown since the inception of the TFES in 1974 and continue to contribute to a growing State and National economy.

Tasmania, unlike the other states of Australia, is sea locked, thereby creating an uneven playing field due to the inherent higher cost base resulting from increased freight movements, greater infrastructure requirements and the specialised skills needed to manage blue water freight. Over and above this, the current inequalities are being further impacted by the emergence of global markets, land transport reforms, technological innovation in road transport and rail network standardisation. Federal Government investment in land transport infrastructure, mass management initiatives in road freight and waterfront reforms have all served to exacerbate the cost disadvantage faced by NFL Tasmanian manufacturing operations compared to our Australian mainland sites.

As well as these macro issues, our business faces the challenge of increased lead times, increased inventory holdings and inflexible transport arrangements which adds to the difficulty of meeting requirements of our customers. In particular our operations at King Island are impacted as only one shipping service per week is available and a specific vessel is required to manoeuvre into the berth. Therefore, if any operational issues prevent the vessel from docking, considerable extra costs are incurred in using air transport to deliver our products to the mainland and export markets.

As stated in 1976, the Commonwealth Government's objective was to establish a cost equalisation scheme to alleviate the freight cost disadvantage incurred by shippers of eligible non-bulk goods moved between the mainland and Tasmania by sea.

As the freight cost disadvantage has widened since that time, the rationale for the equalisation scheme is even more relevant today than it was at its inception. This view is also supported by the Tasmanian Government, which stated that its objective is to provide Tasmanian industries with equal opportunities to compete in mainland markets, recognising that unlike their mainland counterparts, Tasmanian shippers do not have the option of transporting goods interstate by road or rail.

Economic Consequences:

By shipping trans Bass Strait, National Foods operations are required to undertake two additional inter modal changes compared to that of mainland interstate line haul freight operations. A basic principle of logistics is that the more times cargo is handled, the more costs it attracts. This therefore is the basis for the uneven playing field that exists between Tasmania and the mainland operations and the current TFES tries to address.

In the event that the TFES was to be administered in a different format that negatively impacted on National Foods' Tasmanian operations, then this would make

future capital investment in Tasmania less attractive, and therefore more questionable, than similar investments on the Australian mainland.

Over the past five years or more, NFL has invested heavily in its Tasmanian based manufacturing operations, and these investment decisions have been based in part on the commitment of government to alleviate the freight cost disadvantage incurred by shippers.

Any negative change to the current scheme would cause NFL to re-examine alternative mainland manufacturing opportunities and so limit Tasmanian manufacturing sites to only producing those branded products requiring Tasmanian manufacturing origin. This would have significant impacts on the production levels and the longer term viability of our Tasmanian manufacturing plants. This in turn would also have a significant impact of the viability of the Tasmanian dairy industry.

Other considerations:

NFL opposes the flat rate approach to the TFES as this would not be reflective of movement in freight rates and would not address the core issue of the different levels of disadvantage experienced by each shipper - particularly that of our King Island specialty cheese manufacturing operation. Similarly capped assistance funding would be inconsistent with the rationale of the TFES of providing a level playing field which does not erode the real value of the equalisation over time.

NFL currently supports the method of delivering the TFES but the company also supports measures that would prevent misuse of the current system, so long as any extra administration and compliance costs are not unfairly passed onto those companies who use the system honestly

Empty containers are currently exempt from the TFES, while single use packaging material and other inputs into further manufacturing receive freight assistance. Even without the flexibility and benefits of road transport NFL is forced to ship empty containers around to ensure they are positioned in the correct locations. Given containerised freight is one of the legacies of trading trans Bass Strait, NFL does not see the justification for the exclusion of empty containers from the TFES and supports their inclusion into the TFES.

Finally NFL would support the addition to airfreight to the TFES, particularly in the case of King Island where, if for any reason shipping services are discontinued for a period of time, access to market can only be achieved through the use of air freight. This is a limited and expensive option to which the only alternative would be ceasing manufacturing operations.

Summary:

NFL supports the general principles of the TFES and considers that the scheme is well administered. NFL acknowledges that the scheme addresses the broader issues surrounding the current cost disadvantages incurred by Tasmanian shippers and is an essential component in providing a level playing field with road freight on mainland Australia.

However if the rationale for equalisation with the mainland is to remain relevant the TFES needs to more fairly reflect the actual level of assistance required to equalise the disadvantage being experienced by Tasmanian shippers.

