

J. Boag & Son Pty. Ltd.
Submission to the Productivity Commission

Tasmanian Freight Equalisation Scheme Review

Introduction:

J. Boag & Son have operated a brewery in Launceston since 1881. It currently employs 154 people of which 127 are employed in Tasmania. In 1995 J. Boag & Son produced 25 million litres of beer, predominantly for northern Tasmanian customers. In 2005, at the same site, production reached 41.3 million litres of which seventy five percent of the output was sold on mainland Australia.

Boag's endeavours to source its raw materials from local suppliers wherever possible, however the majority of its inputs need to be sourced from mainland Australia.

Freight Movements

Northbound

Northbound shipping is exclusively by way of 20-foot containers.

Southbound

Southbound freight is delivered by a variety of transport methods ranging from Tautliners for glass and aluminium products to palletised bulker bags for sugar and pallets for other items.

Freight Equalisation

Over the past eight years the Company has grown by 64%. Despite this growth the Company still represents only 2.5% of the beer market in Australia.

Our competitors have multiple manufacturing facilities throughout Australia, which enables them to place their products in the market with minimal freight and logistical cost. Boag's on the other-hand has only one production facility, located in Launceston Tasmania, and incurs a transport cost penalty that is mitigated, to some extent, by the TFES.

Based on current freight rates (and prior to any TFES adjustment) a container costs 229% more to ship from Launceston to Melbourne than it would from an equivalent distance on mainland Australia. (The equivalent comparative distance being Albury to Melbourne)

After applying freight equalisation assistance that figure reduces to a cost penalty of 65%. This analysis assumes 20 pallets loaded onto a semi trailer compared with a 20-foot container that holds an equivalent number of cartons. In reality if road transport could be used then a B Double road transporter would be used which would increase the differential.

Why is there a cost differential

The process of preparing a container for delivery into a mainland distribution centre requires the following

- Transport product to container preparation area
- Removal of cartons from pallets to enable them to be slip sheeted to maximise number of cartons per container
- Alternatively hand stack cartons inside the container
- Utilisation of material on the inside of the container to protect cartons from transport damage at sea.
- Transport container to wharf
- Loading of container at wharf to ship
- Sea transport
- Unloading containers at wharf from ship
- Transfer containers to location for de-consolidation back onto pallets
- Transport palletised cartons to distribution centre

In the case of pure road transport an equivalent 20 pallets can be directly loaded onto a semi trailer/ Tautliners at the factory and delivered direct to either a warehouse or distribution centre without further handling.

TFES Claims

Total claims by Boags for 2004 amounted to \$3.3 million and in 2005 \$3.5 million.

The Productivity Commission alternate approach of offering a flat rate \$400 per container held for 5 years would have a significant effect on Boag's operations. This reduced level of assistance would restrict Boag's ability to place its products in the market place at a competitive price given that it is already suffering a significant transport cost differential when compared with its competitors.

The proposed reduction in assistance, in today's dollars, would be approximate \$1.2 - \$1.5 million.

Boag's therefore opposes the flat rate approach, as it neither reflects movements in freight rates, nor does it address the fundamental issue of differing levels of disadvantage experienced by each shipper. In addition, we believe that, the capped assistance is inconsistent with the underlying rationale of the TFES of providing a level playing field for trade between States.

We believe that the current administrative processes of the TFES are not onerous and compliance costs are minuscule.

Capital Investment

As a direct result of significant growth in the business the owners and J. Boag & Son have invested \$34 million in the business over the past 5 years

Our 5-year forward plan identifies a further \$33 million that needs to be spent on our Launceston operations in order to meet our ongoing growth expectations.

Clearly a businesses ability to reinvest in its operations relies solely on its ability to earn profits and provide some certainty to owners that cost structures and revenue streams are reasonably controllable and attainable.

Given that we are currently operating at a cost disadvantage to our major competitors and our shelf prices are therefore higher than the rest of the market, further losses in cost recovery of the level suggested by the Productivity Commission, are of a magnitude to warrant a complete rethink as to the viability of Boag's continuing in its current format in Tasmania.

Should the Productivity Commissions outcomes persuade the Federal Government to adopt all or some of the proposed amendments to the TFES then Boags capital works program would not proceed as planned.

Summary

1. J. Boag & Son urges the Productivity Commission to recommend that the freight assistance to Tasmanian manufacturers should continue in its current form and that the scheme continues to recognise and compensate shippers for the additional costs incurred as a result of sea transportation costs relative to the cost of an equivalent cost by land transport over similar distances. TFES assistance should be linked to the relative freight cost disadvantage experienced. An arbitrary flat rate measure (with no adjustment for 5 years) as proposed is clearly inequitable in this regard.
2. J. Boag & Son notes that there have been allegations of rorting of the TFES. J. Boag & Son acknowledges that the system has to be free of any such allegations and supports any measures that are enacted to ensure there is no rorting by industry.

3. Regular reviews of assistance parameters are an essential part of ensuring the integrity of assistance arrangements. It is apparent that the existing mechanism for calculating and applying adjustments is inadequate and a framework needs to be established, with industry having direct involvement in its design, to ensure supporting systems are put in place to capture and maintain relevant data.
4. The use of wharf-to-wharf freight rates as a basis for claiming assistance provides transparency in the scheme and the calculation of appropriate levels of assistance and is therefore strongly supported. It is also noted that if the annual adjustment process mooted by the TFES Review Authority in 1998 had been applied there would have been a progressive, and in all likelihood substantial, reduction in the number of claims with door-to-wharf adjustments.

J. BOAG & SON PTY LTD

23 October 2006