



CUTHBERTSON BROS. PTY. LTD.

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Tasmanian Shipping Inquiry
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Submission – Tasmanian Shipping and Freight Inquiry

Cuthbertson Bros Pty Ltd processes hides and sheepskins from its St Leonards, Launceston processing facility employing 20 people. The company is also a primary producer.

The company services Tasmanian farmers and exports on average 250 containers annually to predominantly Asian markets at a value of US\$15 million.

This submission primarily addresses;

1. Tasmanian Freight Equalisation Scheme (TFES) issues; and
2. International Shipping service; and
3. Bass Strait shipping costs and competition.

1. The TFES has a major flaw which discourages capital investment and employment in Tasmania to the benefit of Victoria, in particular.

This matter has been raised previously with the Commission during its 2006 Inquiry however it has worsened since the direct international shipping service ceased in April 2011, impacting exporters shipping direct to overseas markets.

While goods for export so not attract a subsidy from the TFES, the \$885 subsidy per 20' container is available to exporters who process or repack and grade their Tasmanian produce in Victoria, and also to competing businesses based in Victoria sourcing Tasmanian produce.

This inconsistent interpretation benefits exporters via Victoria and reduces competition on Bass Strait freight costs.

While Cuthbertson Bros Pty Ltd employing Tasmanians and investing in the Tasmanian economy is ineligible as a direct exporter, a competitor in Victoria on same volume is entitled to \$260,000 per annum TFES subsidy. As we make profits, should you capitalise this \$260,000 into the profit it increases the business value, thus \$260,000 @14% ie 7.14 times, to \$1,854,000.

This represents a significant benefit to any small business and provides a distinct opportunity for Cuthbertsons to **move** business to Melbourne and employ Victorians. How does the loss of 20 Tasmanian jobs a \$1.2million in payroll and all add on business expenses and the multiplier effect benefit the Tasmanian economy?

Cuthbertsons is not proposing the removal of TFES. In the current economic climate the level of subsidy must, at least, be retained.

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What is required is a level playing field. TFES was not designed or intended to advantage Victoria, for example, at the cost of Tasmanians.

It has been suggested that all Tasmanian exports be included in TFES. Cuthbertsons believes this does not encourage competition across Bass Strait, indeed it protects the status quo, and adds many millions of dollars to TFES subsidies.

This could only be supported while 'a direct international shipping service is not available to Tasmania, as a method of support to exporters by offsetting their additional Bass Strait shipping costs.

I am aware that the whole Tasmanian rural industry is in a similar position. Wool, milk, onions, fruit, meat (lamb and beef) are all exported products which will grow with the move into Asia.

2. The reintroduction of a direct international shipping service to overseas ports from Tasmania is paramount. The loss of the former service has impacted significantly on Cuthbertsons financial position by adding exorbitant additional freight costs (see point 3).

There continues to be significant interest from shippers in reintroducing a service, using appropriate vessels through Bell Bay port.

The volume / costs lessons learned from the demise of the previous service are now well recognised by shippers and exporters. There are some 16,000 containers available for direct export now and there is clear potential for this number to increase.

The Tasmanian State Opposition's proposal to provide a subsidy of up to \$11million for each of three years to underpin the reintroduction and rebuild of a direct international service is applauded.

This over time will allow international freight to come direct to Tasmania and reuse the internal export box with Tasmanian product.

3. Bass Strait shipping costs must be reduced and competition improved. They are synonymous.

It is recognised that fixed costs represent about 80% of Bass Strait shippers, Toll and Sea Road, costs. These fixed costs must be addressed and reduced.

The Cabotage arrangements in place for Australian coastal shipping contribute significantly to fixed costs.

The Bass Strait shippers, Toll and Sea Road, are regularly increasing their freight rates, as is the Port of Melbourne, for example on one occasion Cuthbertsons suffered a 25% increase overnight for shipping Burnie to Melbourne, no warning, no discussion, pay or don't ship, and also when you have forward contracts you pay.

Two and a half years ago, when a direct international shipping service was available Cuthbertsons was shipping 40 foot containers from Bell Bay to China for \$1090. Today that price is road Launceston to Burnie \$500, shipping Burnie to Melbourne \$1000 and shipping Melbourne to China \$500, a total of \$2000.

Copies of relevant invoices are attached.

There is no competition at the Burnie port as Toll and ANL have a lease on the port until 2028.

Could the Inquiry please examine this arrangement?

Clearly Tasmania can't compete and does require assistance, but let's minimise the cost to the Australian taxpayer and to Tasmanian business.

The taxpayer, through TFES, should not be assisting Victorian business and Tasmanian business could save around \$1000 - \$1200 per container with a direct export shipping service.

Currently approximately 40,000 containers are exported annually with 16,000 of these previously referred, available for a new international service.

The savings are obvious.

In conclusion solutions to the export problem and Bass Strait competition will improve Tasmania's economy.

Unfortunately the current position:

- Reduces competition
- Reduces capital investment
- Reduces employment
- Reduces Tasmanian confidence and opportunities
- Increases the burden of Australian taxpayers
- Increase Tasmanian shipping costs; and
- Increased the shared costs of services for Tasmanian businesses.

Cuthbertson Bros Pty Ltd looks forward to the Commission's public discussion paper and to contributing to the proposed public hearing.

Thank you for the opportunity to present this submission.

Doug Dickinson
Managing Director
16 December 2013