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# Tasmanian Shipping and Freight Productivity Commission Inquiry

## Simplot Australia Submission

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## **Simplot's Tasmanian Operations**

In 2013 Simplot will move over 15,000 TEU to Melbourne, Brisbane, Perth, and Sydney ex Tasmania (Ulverstone and Devonport) with ANL Toll Shipping ("Toll") Shipping. This is greater than 200,000 tonnes of finished goods. Seventy five per cent of finished goods are produced at Ulverstone's specialized potato manufacturing plant – with the remainder produced at Devonport's vegetable processing plant. In addition, 3,000 TEU will move southbound from the mainland. Southbound volume is a mixture of empty containers for reloading, raw material inputs for production and mainland manufactured goods for sale to the Tasmanian market.

The stability of Simplot is crucial to the well-being of some 300+ vegetable growers, to the communities of Northern Tasmania, and to the Tasmanian economy as a whole. Simplot directly employ over 580 Tasmanians.

To support Simplot production it is planned that during 2014 approximately 320,000 tonnes of vegetables, with a gross value of approximately \$96.0 million at the farm gate, will be produced on 13,000 hectares of land.

The great bulk of this vegetable production goes into processing by Simplot - overwhelmingly for consumption on the Australian domestic market. Approximately 99% of all production is shipped across Bass Strait.

## **Summary of Simplot's Shipping Task**

### **Northbound**

Tasmania to Melbourne – 10,000 TEU

Tasmania to Brisbane (via Melbourne) – 2,900 TEU

Tasmania to Perth (via Melbourne) – 1,800 TEU

Tasmania to Sydney (via Melbourne) – 300 TEU

**TOTAL = 15,000 TEU**

### **Southbound**

Melbourne to Tasmania (Laden) – 1,400 TEU

Melbourne to Tasmania (Empty) – 1,600 TEU

**TOTAL = 3,000 TEU**

### **TFES Assistance**

Simplot receive approximately \$11m of TFES assistance per annum.

### **Bass Straight Service Capability**

Simplot have contracted Toll as the primary provider of Bass Straight Shipping Services. Toll's service is very reliable, running 6 days per week, and rarely running late. Equipment (container) availability is often an issue at peak periods of the year. Simplot rarely encounter capacity issues on the Toll service. Simplot's access to capacity may be prioritised given the substantial relationship with Toll, and therefore may not be representative of the market.

A 6 day per week service is important to Simplot. Simplot operate 2 production facilities in Northern Tasmania (Ulverstone and Devonport). Simplot's Ulverstone facility operates 24/7, and therefore a 6 day sailing schedule is important to ensure container flow and equipment availability. A 7 day service would be of limited additional value to Simplot as Simplot's Melbourne DC's do not operate 7 days per week.

**Conclusion – current service offering meets Simplot's needs.**

### **Shipping Industry Competitiveness**

The commission has asked for comment on the competitiveness of the Bass Straight shipping service. The competitiveness of the industry is dictated by 2 main forces:

**Number of operators** - There are only 2 major service providers of containerised freight which creates a duopoly and potentially adverse conditions for market competitiveness. Simplot's significant freight task is sought after by both major shippers, and therefore Simplot is able to perform a competitive tender process.

**Spare Capacity** – in an environment of limited service providers it is the spare capacity in the market that will support industry price competitiveness. Ship upgrades flagged by both major providers will increase market capacity and promote a competitive environment.

The competitiveness of these 2 operations versus international peers is beyond the scope of Simplot's submission.

**Conclusion – Simplot is comfortable with the competitiveness of the Bass Straight Shipping.**

### **TFES Effectiveness**

Simplot, as major Tasmanian manufacturer, receive significant assistance from the TFES scheme. TFES support is vital to ensuring the ongoing viability of our manufacturing operations. The objective of the scheme "to alleviate freight cost disadvantage" is entirely appropriate. Although the entire disadvantage is not alleviated the scheme is contributing to alleviating the majority of the freight cost disadvantage. Simplot believe that the Equalisation Scheme is an effective scheme for Tasmanian manufactures.

The scheme is by no means perfect – a disadvantage still exists, not all freight types are covered (eg. empty reusable containers like agricultural bins) and exports are not covered.

These details are covered below but generally speaking the scheme is working effectively to meet its stated objectives.

An abolition of the scheme or a reduction in assistance rates would have significant consequences for Simplot's 'cost to serve' ex Tasmania and therefore Simplot's ability to reinvest to secure the long term future of these facilities.

**Recommendation – any reduction to the TFES mechanism must be avoided.**

### **International Services**

Simplot were a heavy user of the AAA service from Bell Bay to Fremantle. Annual volume on this service was approximately 1,000 FEU per annum. Following the cessation of this service Simplot now operate the following supply chain

- Collect empty ISO reefer from Melbourne empty yard
- Transport empty reefer to Webb Dock
- Ship empty reefer to Burnie
- Transport empty reefer to production facility
- Load reefer
- Transport to Burnie
- Ship full reefer from Burnie to Webb Dock
- Transport reefer to Melbourne International Wharf
- Load on AAA service to Fremantle

This multi-step supply chain is extremely inefficient versus the previous via Bell Bay service. ISO standard international reefers are in very short supply in Tasmania therefore the majority need to be moved down empty. An empty pool in Tasmania is cost prohibitive therefore the above supply chain is run to a 'just-in-time' model which has complications given the many legs in the chain.

The loss of the Bell Bay service was a cost blow for Simplot. Transition to a 'via Melbourne' supply chain added \$400,000 to the route per annum.

Simplot would support action that encouraged the resumption of a regular weekly international service to Northern Tasmania. Simplot would be keen to utilise a direct service from Northern Tasmania to Fremantle.

Simplot also support a review to the Fair Work Act and its impact on seafarer wage rates. The obligation to pay Australian wages rates to crew on international flagged vessels carrying coastal cargo creates 2 concerns:

1. A general increase to freight rates.
2. The preference for shipping lines to NOT carry coastal cargo if they do not reach a critical mass of containers. The impact of this is often seen around Christmas time where the AAA service is still operating but will not accept coastal bookings.

The changes to the Fair Work Act (Jan 2011) directly added \$150,000 to Simplot's Tasmania to Fremantle route. In addition the omission of coastal bookings on certain vessels creates a lumpy supply chain, excess wharf power charges and additional charges to use alternative methods to re-supply WA (i.e. train or road).

**Conclusion – Simplot would support action that encourages a direct service between Northern Tasmania and Fremantle, Sydney or Brisbane.**

**Recommendation – The Fair Work Act should be reviewed to assess the impact to coastal freight rates and service availability.**

### **Export TFES**

Simplot support the view of many Tasmanian manufactures that exports that travel via the Port of Melbourne should be claimable under the equalisation scheme. To access international markets Simplot has no choice but to ship via Victoria. Whilst an international shipping service that is capable of delivering containerised freight to a major Asian port (eg. Singapore) does not exist then mainland exports of Tasmanian manufactured items should be claimable.

**Recommendation – in the absence of an international service ex Tasmania all goods manufactured in Tasmania should be eligible for TFES.**

### **Export Assistance Packages**

Should the government wish to provide an assistance package to Tasmanian exporters Simplot would strongly encourage that this package also be available to those that conduct coastal shipping to domestic ports (eg Fremantle). A recent assistance package, to support manufactures due to the loss of the AAA service ex Bell Bay, was only made available to exporters. Simplot's freight cost increased by \$400,000 due to the loss of this service but was unable to access the assistance package because we were shipping coastal cargo to a domestic port rather than on to an international destination.

**Conclusion – Any future assistance package for Tasmania exporters should also include users of the international service for coastal purposes.**

### **Port License Fee**

The recent introduction of a Port License Fee by the Victorian State Government / Port of Melbourne Corporation is another example of additional costs borne by Tasmanian Manufactures. The port licence fee adds \$350,000 to Simplot's Bass Strait Shipping Task. A road linking Tasmania to Victoria would bypass the Melbourne wharf and as such the \$350,000+ cost would be fully avoided. Simplot propose that the TFES mechanism should be updated to include equalisation for 100% of the Port Licence Fee.

**Recommendation – TFES mechanism should be updated to include equalisation for 100% of the Port Licence Fee.**

### **TFES Administration - Northbound Claims**

Simplot have submitted claims for Northbound TFES using the self-assessment rules for many years. The claiming process is simple and efficient. Claims are paid promptly and rarely do Simplot encounter administrative difficulties with Northbound TFES lodgement. Simplot's TFES claims are externally audited annually and again this process has worked effectively for many years. The external audit is a detailed process and gives both Simplot and the Federal Government confidence that all claims lodged are accurate and legitimate.

**Conclusion – Simplot recommend no changes to the northbound 'Self-Assessment' process and encourage its ongoing use.**

### **TFES Administration - Southbound Claims**

Southbound TFES claims are lodged by Simplot on a shipment by shipment basis (not via self-assessment). The process is often cumbersome and inefficient in comparison to the efficient northbound self-assessment claims. Shipments are scrutinised individually despite the consistent nature of the southbound task. There is scope to extend the self-assessment program to southbound shipments for certain agreed commodity types.

**Recommendation – A self-assessment program for southbound TFES should be considered for major Tasmanian manufactures.**