



**Simplot Australia Pty Limited** ABN 98 070 579 609  
Chifley Business Park  
2 Chifley Drive Mentone Victoria 3194  
Locked Bag 3005 Braeside Victoria 3195 Australia  
Phone (03) 9588 3000 Fax (03) 9588 4423

# Tasmanian Shipping and Freight Productivity Commission Inquiry

## Simplot Australia Response to Draft Report

Submission Author: Stephen Cathie  
National Logistics Manager  
Simplot Australia

Submission Date: 11<sup>th</sup> February 2014



The Home  
of Australia's  
Favourite Food  
Brands

## **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.

## **TFES**

Simplot, as a 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.

Simplot is concerned with the recommendation to adopt the BITRE parameters as a basis for updating TFES payment rates. Simplot as a significant user of both Bass Straight Shipping and mainland interstate transport have significant data to suggest that payment rates should not be reduced but rather should be increased to close a current equalisation gap.

It is concerning that the draft commission report makes reference to BITRE parameters but fails to reference the counter evidence from multiple Tasmanian manufactures that producers are not over compensated (as suggested in the report) but in fact are, and continue to be, under compensated. A disadvantage still exists.

The commission report states that the economic rationale for the scheme is not clearly understood and that any meaningful assessment of the scheme against its objectives is difficult. Simplot reject this assessment. The scheme is in place to equalise the freight disadvantage experienced by Tasmanian manufactures. The purpose of the scheme is clear and an assessment of the scheme’s worth is also quite clear. Simplot are able to make investment decisions between mainland and Tasmanian manufacturing sites with the knowledge that freight costs will not significantly disadvantage Tasmanian operations. This is testament that the scheme is largely achieving its equalisation objectives i.e. the Tasmanian economy is able to compete on a mostly level playing field with the mainland.

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.

The draft report highlights the ‘endemic’ problems facing the Tasmanian economy including lower income growth, higher rates of unemployment and lower labour productivity. The report also suggests that TFES funds could be redirected to policies and programs that better target the underlying issues. Given the economic problems facing the state, Simplot are puzzled as to why the commission would recommend directing funds away from the existing “bright spots” in the Tasmanian economy (i.e. the major manufactures that dominate the list of top 10 TFES claimants). These manufactures directly and indirectly employ thousands of Tasmanians and therefore should be encouraged to retain their existing investments in the State. In addition they should not be discouraged from future investment through the widening of the already existing freight disadvantage.

### **Bass Straight Freight Cost Comparison**

**With TFES equalisation it is 10.4% more expensive per tonne kilometre to freight between Ulverstone and Melbourne versus Simplot's average cost per tonne/kilometre between eastern seaboard states.**

This disadvantage does not include any allowance for other additional costs unique to containerised freight, such as:

- Specialised container loading / unloading equipment
- Multiple equipment types in use. Simplot utilise three different container varieties to service Fremantle, Brisbane/Sydney, and Melbourne. Three different pools of equipment increases the complexity of managing container availability and ultimately results in greater safety stock of equipment (at a higher cost) and additional administration effort (at a higher cost) versus a supply chain where a single homogenous road vehicle/trailer could be used on every lane. Furthermore, when a specific equipment type is unavailable (i.e. Brisbane rail containers are unavailable but Melbourne RORO containers are) then Simplot wears additional handling costs to bring containers via Melbourne and arrange land transport to Brisbane.
- Effect of extended transit time on mainland storage (i.e. an increased inventory safety stock requirement). For example, a despatch from Simplot's Ulverstone manufacturing facility at 2pm on a Monday is likely to arrive at our Melbourne DC:
  - o Wed Afternoon/Thursday morning if travelling via Toll vessel, or
  - o Monday evening if Bass Straight could be traversed via road
- Increased risk of temperature abuse – Toll's RORO reefer equipment is not powered during land transport. This creates additional risk versus a refrigerated land based door-to-door solution such as a pan-tech trailer. A transition to self-powered door-to-door temperature controlled containers would increase cost and further extend the gap versus mainland road transport.
- Cost of coordinating (Simplot administration effort) the build-up of containers/inventory at two wharves.

Consideration must be given to the complexities that containerising freight adds to the supply chain. To conclude that loading and transporting a container is no different to loading and transporting a trailer is simply incorrect.

Simplot note the draft recommendation that all TFES claims should be lodged based on Wharf-to-Wharf (WW) basis. Simplot currently lodge claims using the WW method and agree that this approach should be mandated.

Simplot disagree with the concept of excluding all southbound claims in order to fund an extension to the northbound export commodities. This approach would be a move away from the current activity based approach where each shipment is assessed on its merits. The purpose of the scheme and its transparency would be compromised if each shipment north and south was not assessed on its merits. Furthermore individual manufacturers would not receive equalisation assistance in line with the actual disadvantage experienced.

Simplot is also disappointed not to see a recommendation from the commission to include reusable shipping containers as an eligible southbound item. Reusable shipping containers (e.g. Produce bins) are used by many manufactures to reduce waste and leverage a more sustainable solution than one-way disposable packaging. Manufactures should not be disadvantaged through a lack of TFES assistance for shipping a packaging format that is more environmentally friendly.

### **Coastal Shipping Recommendations**

Simplot strongly agree with the draft report recommendation to immediately review all Coastal Shipping legislation and impact of the Fair Work act on coastal shipping. Simplot were a significant user of the coastal service from Bell Bay to Fremantle prior to the cessation of the AAA service calling Tasmania. Simplot remain a heavy user of Melbourne to Fremantle coastal freight.

Simplot's Tasmania-to-Fremantle supply chain incurred a cost increase of \$400,000 p.a. when the AAA service stopped calling Bell Bay and we were forced to move to a 'via Port of Melbourne' chain. In addition Simplot incurred an immediate \$150,000 p.a. increase to the Melbourne to Fremantle coastal shipping lane when the Fair Work amendments came into force.

Simplot note that there is a school of thought that combining northern Tasmanian port infrastructure to centralise containerised freight may help attract an international service. Simplot disagree with this assertion. In the past Simplot were required to transport containers to Bell Bay to 'catch' the international service (as opposed to all other Simplot freight departing Burnie). Simplot remain willing to deliver our freight to any Northern Tasmanian port that an international service may call. Therefore, port consolidation is not required to attract Simplot's international containerised cargo.

### **Export TFES**

The draft report requested feedback on the concept that TFES could be extended to cover all eligible northbound commodities. Simplot sees this as a reasonable and logical response to the change in market conditions (i.e. no internal service calling Tasmania). Quite simply - there is a true cost disadvantage to Tasmanian exporters and the purpose of the TFES legislation should see this disadvantage equalised.