

SUBMISSION TO THE PRODUCTIVITY COMMISSION

RESPONSE TO DRAFT RECOMMENDATIONS AND INFORMATION REQUESTS

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GLOSSARY

Aud	Australian Dollar
BASS ST	Bass Strait
B/L	Bill of Lading
BITRE	Bureau of Infrastructure, Transport and Regional Economics
CBM or cbm	Cubic Metres
DC	Distribution Centre
DIRD	Department of Infrastructure and Regional Development
FCL	Full Container Load
FTL	Full Truck Load
ISO	International Organization for Standardization
LCL	Less than Full Container Load
LTL	Less than Full Truck Load
MDLZ	Mondelez International Pty Ltd
MT	Metric Tonnes
NDC	National Distribution Centre, Ringwood, Victoria.
Plts	Pallets
TEU	Twenty-foot Equivalent Unit
TFES	Tasmanian Freight Equalisation Scheme
Ts	Tonnes
WIP	Work In Progress
WTO	World Trade Organisation

	TASMANIAN FREIGHT EQUALISATION SCHEME SUBMISSION
	Response to Draft recommendations and Information Requests

Introduction

This submission is prepared by Mondelez Australia Pty Ltd in response to the draft recommendations and information requests raised in the Draft Report on Tasmanian Shipping and Freight from the Productivity Commission.

Mondelez Australia Pty Ltd shall hereinafter be referred to as Mondelēz International.

Mondelēz International welcomes the review being conducted by the productivity commission. Mondelēz International is a willing and eager participant in this review. The results of the review could possibly have substantial impact on the operation of Mondelēz International's Cadbury chocolate manufacturing plant in Claremont and the milk processing plant in Cooee.

This document will address directly the draft recommendations and information requests listed in the Draft Report on Tasmanian Shipping and Freight prepared by the Productivity Commission.

Mondelēz International response to Draft Recommendations

DRAFT Recommendation 1

The Australian Government should proceed with the foreshadowed review of coastal shipping regulation as soon as possible. The objective of the review should be to achieve the most efficient coastal shipping services feasible for Australia.

Mondelēz International fully supports a review of coastal shipping regulation.

It is vital that this review understands the capability of coastal shipping to support commercial enterprise in Australia. It is particularly critical that such a review understands and considers the unique geographical impact on commercial enterprises in Tasmania.

Any such review should include a detailed consultation with the industry.

Additionally, the review should consider the long term impacts and viability of successful commercial coastal shipping to provide reliable, consistent and cost effective shipping service.

Mondelēz International's Tasmanian operations at the Cadbury Claremont plant and the Burnie milk plant require an efficient and cost effective daily shipping service in to and out of Tasmania to ensure supply chain and business objectives are met. Additionally, as the largest food exporter from the state and as one of Tasmania's largest employers, it is essential that the review carefully considers the business and wider- economic impact of any changes.

DRAFT Recommendation 2

If the Australian Government chooses to retain the Tasmanian Freight Equalisation Scheme in essentially its current form, it should ensure that the payment rates are based on the findings of Bureau of Infrastructure, Transport and Regional Economics parameter reviews. These reviews should be conducted every two years. Payment rates should be revised to reflect the latest available parameter estimates.

Mondelēz International is in favour of regular reviews which will consider the impacts of inflation, consumer price indices, changes in maritime industry salary/wage structures, developments in infrastructure and technology.

Mondelez operations in Tasmania suffer from considerable disadvantage when compared to the plants located in Victoria for similar products.

- As identified in Mondelez's original submission, the current level of rates were designed in 1998 and this level has not been amended or adjusted for any of the changes that have taken place. The current level of rates appears to be about 30% lower than the required level.

- On basis of a direct comparison between the operation of a B-Double vehicle on the Hume Highway and the freight rates on the Bass St, the TFES maximum cap should be raised from \$855 to to \$1 150 at least.
- Any adjustments to the level of payment rates should correctly reflect the freight rate disadvantage experienced by the users of freight services.

DRAFT Recommendation 3

Future Tasmanian Freight Equalisation Scheme parameter reviews should be undertaken by the Bureau of Infrastructure, Transport and Regional Economics using a public multi-stage process, comprising:

- *release of a draft report, containing the estimated parameter updates and underlying assumptions and data;*
- *a public submission process that allows interested parties sufficient time to provide input; and*
- *release of a final report that incorporates resulting feedback and evidence.*

Mondelēz International welcomes the above process for the reviews and would like to emphasise the importance of industry input into such a process carrying sufficient weight to ensure that the level of TFES is maintained at correct levels.

DRAFT Recommendation 4

The Australian Government should respond publicly and in a timely manner to all Tasmanian Freight Equalisation Scheme parameter reviews. All responses should be released before the end of the calendar year in which the parameter review is completed to provide certainty for recipients, and provide sufficient lead time for any resulting revisions to payment rates to be incorporated into Commonwealth Budget processes.

Mondelēz International requires a certainty and understanding of ongoing financial impacts on its operations in Tasmania. In view of that Mondelez will continue to work with and support the Australian Government accordingly.

DRAFT Recommendation 5

The Australian Government should introduce payment of sea freight assistance as a single flat rate of subsidy per TEU (twenty foot equivalent unit) shipped.

The Bureau of Infrastructure, Transport and Regional Economics should recommend a dollar amount for assistance, taking into account:

- *the parameter or parameters that the flat rate should be based on; and*
- *that the flat rate should provide assistance that is compatible with the incentive to seek the lowest shipping cost.*

If the Government does not adopt a flat rate, assistance under the Tasmanian Freight Equalisation Scheme should only be payable on the basis of evidence of actual wharf-to-wharf cost.

Mondelēz International does not support a flat rate structure due to the following:

- Flat rate does not recognise the difference between the various different product categories such as refrigerated cargo or general cargo or containerised liquid bulk or containerised dry bulk.
- Refrigerated freight rates are much higher than those for general cargo which are different to containerised bulk commodities.
- Flat rate does not allow for differences in freight services provided or the multi-modal characteristics.

Mondelēz International's claims are currently mainly based on wharf to wharf component of the rates only. Any other type of claim would be an exception purely based on information provided by the supplier who may not have a wharf to wharf rate available.

While Mondelēz International may, in future, accept an assessment based on wharf to wharf component, we would like to draw the Commissioner's attention to the fact that the fuel costs in Tasmania are typically 8 to 12 percent higher than on the mainland resulting in marginally higher road freight costs.

DRAFT Recommendation 6

The Department of Infrastructure and Regional Development should provide more comprehensive public reporting of information under the Tasmanian Freight Equalisation Scheme, including annual payments to recipients.

Mondelēz International has no objections to the current method of public reporting or if the reporting is maintained at a totals level.

Mondelez would prefer that breakdowns of the claims are not disclosed publicly due to commercial confidence. Certain level of data can easily be interpreted to arrive at conclusions that may compromise commercial confidentiality.

DRAFT Recommendation 7

The Department of Human Services should examine the benefits and costs, including compliance costs for claimants, of upgrading its technology to provide greater access to online claims under the Tasmanian Freight Equalisation Scheme and improve internal claims processing.

Mondelēz International supports this recommendation and will work with Department of Human Services as required when new technology is to be implemented.

DRAFT Recommendation 8

The Department of Infrastructure and Regional Development should impose a threshold on the minimum value of a claim line item under the northbound component of the Tasmanian Freight Equalisation Scheme to distinguish between business and minor transactions.

Mondelēz International does not support this recommendation.

It is important to understand the nature of the trade. The small value claims are generally for LCL business.

While FCL claims for TFES form the majority, a substantial proportion of Mondelez TFES claim is based on supply to the two factories of small quantity LCL supplies.

Mondelez' southbound operation is based on LCL deliveries rather than FCL due to this supply method. Most days the quantities of LCL supplies are insufficient to consolidate in to an FCL and hence the LCL mode of delivery requires to be maintained.

If a minimum threshold were implemented a large proportion of Mondelez southbound claims would be ineligible and hence this would seriously impact on the financial operation of the plants at Claremont and Burnie.

Mondelez International has received substantially lower assistance for LCL shipment than for FCL (Full Container Load) cargo.

A comprehensive review of LCL rebate calculation methods is necessary.

Lower LCL rebates have resulted in substantial freight disadvantage incurred by Mondelez International. Over the past few years the disadvantage for LCL shipment has been an additional 32% of freight costs compared to FCL cargo.

The reasons for this are detailed below.

Shipping industry statistics indicates:

- One TEU (Twenty Foot Equivalent Unit) weighs on average 14.6 tonnes.
- 26 cubic metres per TEU is indicative of maximum stowage on non-homogenous cargo.

These averages include chep pallet volumes and weights.

TFES uses a volume of 30 cubic metres per TEU instead of 26 cubic metres per TEU to apportion rebates.

TFES also deducts CHEP pallet volumes from the shipment before the apportionment which results in a double disadvantage. Thus the 26 cubic metres average needs to be reduced to 22 cubic metres to allow for 4 cubic metres of CHEP pallets per TEU.

In summary, a factor of 22 cbm and not 30 cbm is a more accurate apportionment factor for volume rebates. The use of a factor of 30 results in the maximum rebate per TEU being reduced from the allowed rebate of \$855 to an upper limit of \$627. This is a disadvantage of 27% for LCL claims.

Similarly, when weights are used to apportion LCL rebates the TFES uses a weight factor of 21 tonnes per TEU instead of 14.6 tonnes per TEU. This results in the maximum rebate per TEU being reduced from the allowed rebate of \$855 to an upper limit of \$587. This is a disadvantage of 32% for LCL claims.

The correct computation of TFES assistance is therefore of critical importance to Mondelez International. The Bass Strait imposes a considerable disadvantage on Claremont's Cadbury plant in comparison to Mondelez International's operations on the mainland.

DRAFT Recommendation 9

The Department of Infrastructure and Regional Development should extend the self-assessment facility under the Tasmanian Freight Equalisation Scheme to more claimants.

Mondelēz International is in full agreement to this proposal.

DRAFT Recommendation 10

The Australian Government should terminate the Tasmanian Wheat Freight Scheme as its original policy rationale and therefore the scheme itself are redundant.

The calculation of assistance for wheat (and other grains) shipped in containers under the Tasmanian Freight Equalisation Scheme should be based on the lowest cost option for transporting grain to Tasmania.

Mondelēz International has no comments on this recommendation.

DRAFT Recommendation 11

Given that the main objective of the Bass Strait Passenger Vehicle Equalisation Scheme appears to be the provision of support for Tasmania's inbound tourism, the Australian Government should examine alternative use of the funds under the scheme to pursue this objective more effectively and transparently.

To the extent that the scheme has a broader objective — including outbound travel from Tasmania, the Government should clearly articulate this objective and evaluate the scheme on that basis.

Mondelēz International has no comments on this recommendation

DRAFT Recommendation 12

The Tasmanian Government should articulate its underlying objective/s in owning and operating a shipping business and assess whether ownership of the TT-Line is the most cost-effective way in which to achieve those objectives.

Mondelēz International requires the operation of all current suppliers of shipping services on the Bass St.
Mondelēz has no specific comment on the ownership of these entities

DRAFT Recommendation 13

The Tasmanian Government should assess the commercial viability of TasPorts and potential changes to enhance its operation. The assessment should include a consideration of alternative models for the provision of port infrastructure, including the feasibility of privatisation, long term leases, and targeted divestment of port assets.

Mondelēz International requires efficient port operations in Tasmania.

Past experience with the rail services has shown that privatisation (Pacific National Rail) was unsuccessful in Tasmania with rail services suffering and number of derailments and damages increasing with substantial cost to Mondelēz.

Consequently any privatisation would have to be conducted so as to ensure that consistently effective port services are maintained.

DRAFT Recommendation 14

The Commission endorses the need for a comprehensive, long term integrated freight strategy for Tasmania. As the Australian Government will retain a role in funding Tasmanian infrastructure investments, it is appropriate that it (including through Infrastructure Australia) have a role in developing that strategy.

In developing the strategy, there should be broad consultation between industry, all levels of government, and the community more generally. A benefit-cost framework should be applied that identifies the most efficient use of investment capital and which clearly identifies the net benefits or trade-offs arising from community service initiatives or region-specific development objectives. As a matter of urgency, the strategy should:

- *identify Tasmania's likely future freight infrastructure requirements across all modes — sea, road, rail and air*
- *address port developments, including specialisation or rationalisation of existing infrastructure*
- *address the long term role of rail in Tasmania given the high degree of substitutability with road transport*
- *ensure that the objectives of government business enterprises for ports, sea freight and rail are consistent with commercial sustainability.*

Mondelēz International would support such an approach to determine a cost effective solution for the state's economic development.

It is imperative that any such approach removes the current disadvantage suffered by Mondelēz International's Tasmanian operations due to the location of the plants.

Rail plays an important role in the cost effective delivery of Mondelez products and hence it is an important part of our operations.

DRAFT Recommendation 15

The Joint Commonwealth and Tasmanian Economic Council should undertake or commission a stocktake and review of existing policies and agencies associated with the pursuit of economic development in Tasmania as part of its initial work program. The review should:

- *cover initiatives established by all levels of government*

- *clarify their nature, intent, timing, scope, governance arrangements and any areas of duplication*
- *assess whether the suite of initiatives represents a coordinated, consistent, targeted, and efficient approach to Tasmania's economic development*
- *include the release of a public report by the end of 2015.*

The results of the stocktake and review should contribute to and inform the development of an integrated economic development strategy for Tasmania.

Mondelēz International would support the above initiative.

DRAFT Recommendation 16

The Australian Government should review and evaluate its programs for Tasmania after a reasonable length of time. Such reviews should be transparent, be conducted by an appropriate independent body and should comprise an ex-post assessment of the aggregate benefits and costs of the strategy to date and an assessment of the benefits and costs of any continued Australian Government financial contribution to these programs.

Mondelēz International would be willing to participate in such reviews and support as necessary.

Information requests: MONDELĒZ INTERNATIONAL'S Response

Information request 1

What would be the potential impacts (both positive and negative) on Tasmanian firms and industries, and the Tasmanian and Australian economy more broadly, of the following optional changes to the coverage of the Tasmanian Freight Equalisation Scheme within current funding levels:

- *extending the northbound component of the scheme to include all eligible goods shipped from Tasmania to the Port of Melbourne*
- *extending the northbound component of the scheme to include all eligible goods shipped from Tasmania to the Port of Melbourne and removing the southbound component of the scheme for all goods shipped from the Australian mainland to Tasmania?*

1. **NORTHBOUND COMPONENT: Mondelēz International** fully supports extending the northbound component to include all eligible products shipped from Tasmania to Port of Melbourne.

This extension should include all products exported and any products that are returned to Tasmania for sale. Such a change will reduce the administration costs of the scheme for both DHS and Mondelez.

2. **SOUTHBOUND COMPONENT: Mondelēz International ABSOLUTELY OPPOSES the removal** of the southbound component of the scheme. Mondelez operations in Claremont and Burnie require a substantial input of raw material and packaging sourced on the mainland that is currently eligible for the TFES. If the southbound component were removed the cost of operation of the factory in Claremont would be unsustainable.

Additionally, Mondelez would like to request the Commissioner to consider the inclusion of selected imported material in the eligible products list. One such material Mondelez would like to include is COCOA in all its variants. COCOA products are not available in Australia and are sourced internationally. The cost of delivering these to Claremont is substantial and greater than twice that of delivering these to our Ringwood, Victoria plant. As a result Claremont production faces a major cost disadvantage on its primary ingredient.

Imported materials which cannot be substituted by Australian sourced product should therefore be made eligible for TFES.

Information request 2

What minimum claim value (per claim line item) would meet the objective of the Tasmanian Freight Equalisation Scheme while reducing administration costs for government and compliance costs for businesses?

Mondelez International believes that no minimum claim line value should be introduced. Mondelez do not submit claim lines where the administrative processing costs outweigh the assistance benefit and believe that this is self-regulating.

Adding a minimum claim line value would also unfairly disadvantage small business.

Mondelez believe that the main burden of administrative costs to both government and business is from proving Southbound eligibility. This necessitates splitting larger consignments into smaller ones to separate eligible and ineligible materials resulting in a proliferation of small claim lines and supporting documentation.

Mondelez suggests that removing the "Australian made or process" for Southbound eligibility would greatly simplify the scheme.

Please refer to Mondelez response to the draft recommendation 8 above.

Information request 3

To what extent does the government-owned TT-Line provide competitive pressure in the Bass Strait shipping market? Would a scenario with only the two commercial shippers provide a more cost-effective outcome?

Mondelez International believes TT Line is an essential contributor on the Bass st. Apart from providing competitive pressure, TT Line is possibly preventing the potential development of a logistics duopoly on the island.

Tasmania's links to the mainland and consequently the state's logistics market is entirely dependent upon the services provided by shipping operators on the Bass St.

The three shipping operators are used by all other logistics service providers in Tasmania and on the mainland. Of the three, only TT Line is a pure ship operator and does not provide additional logistics services. Toll Shipping (via Toll Tasmania) and Searoad Shipping (Via Searoad Logistics) offer door to door services.

TT Line is primarily a passenger ferry service providing a freight service as well whereas Toll and Searoad are purely freight operators.

There are numerous other logistics providers in Tasmania and Mainland who perceive a potential conflict of interest from both Toll Shipping and Searoad Shipping. TT Line thus provides a neutral option to many other logistics services providers.

Perhaps the Productivity Commission may wish to study the impact of Searoad Logistics and Toll Tasmania being involved in the ownership of the two commercial ship operations and whether this ownership is creating or likely to create a logistics duopoly on the island to the exclusion of independent operators.

Information request 4

What would be the potential impacts (both positive and negative) and efficacy of an alternative approach to the current TFES/BSPVES model whereby the Australian and Tasmanian Governments would use their current financial commitments under the schemes to cease paying individuals and businesses and instead secure more directly the Bass Strait freight and passenger services they are seeking through a periodic open tender process?

Mondelez International would require more information and detail on the methodology of the suggested operation to provide an informed response.

The primary consideration in any scenario would be the financial impact coupled with long term reliability, consistency and sustainability of the proposal.

Information request 5

What specific benefits would there be for Tasmanian shippers from removing restrictions on coastal shipping?

Mondelēz International supports a review and improvement of coastal regulations to enable shipping to become more cost effective, particularly on the Bass St. Mondelez operations in Tasmania require a daily service into and out of the state. Will this efficiency still be available if the shipping industry and regulatory environment changes?

Shipping is a capital intensive industry. Removal of restrictions may lower the cost of operation slightly. The only impact visible appears to be on the crew costs. The fuel and other costs will not change. Crew Costs typically comprise about 18 % of vessel operation and as such even halving the crew costs will only reduce operation costs by 5% or so.

Following points will require consideration:

- What impact will removal of Cabotage create on the shipping services?
- Can container ships on International voyages service Tasmania at a lower cost?
- Will these even divert to Tasmania for the volumes?
- Will Tasmania still have a daily service left once cabotage is relaxed or removed?
- Will Tasmania's ship operators continue to invest in new vessel if the volumes are reduced or non-coastal carriers start carrying same cargo?

RORO is the quickest and most cost effective short distance operation. Hence most ferry services globally are RORO based. How will the new services evolve in the new climate?

Information request 6

To what extent will the Tasmanian Government and TasPorts' plan for port specialisation enable Tasmanian ports to capture the efficiencies available from greater scale?

Mondelēz International supports plans that will improve cost effectiveness and port efficiency without lowering of the daily and timely service standards.

Port specialisation does raise the following questions:

- Whether any one of the northern ports can accommodate all three shipping services simultaneously,
- Whether the access to any one of the northern ports will accommodate the full

level of traffic that will be necessary to handle the full volume through one specialised port only.

Information request 7

To what extent is uniform pricing distorting decisions in regards to activities and investment at Tasmanian ports?

To what extent does the current pricing strategy of TasPorts reflect efficient costs of providing the port infrastructure and services?

Mondelēz International is unable to comment on this item.

Information request 8

Is the current gazetted road network a significant constraint on the use of High Productivity Vehicles in Tasmania? Is there a case for allowing the use of higher mass limit vehicles on some routes?

Mondelēz International moves cargo that has a wide range in weights. A high proportion of southbound raw materials to the factory are in the heavy weight range.

Considering this there is a considerable case to allow higher mass limit vehicles on the major routes.

This will considerably lower the logistics costs where B-double could carry the heavier containers in twos and threes.

Information request 9

How do road freight costs in Tasmania compare with costs of equivalent services on the mainland? Are there any competition issues in the road freight market given the presence of integrated freight logistics businesses?

Road freight costs in Tasmania are marginally higher than on the mainland. The main contributor to this higher cost appears to be the higher cost of fuel on the island.

Information request 10

What scope is there for parts of the rail network in Tasmania to be rationalised?

What are the nature and extent of any positive spillover benefits from rail that justify continued public subsidisation of rail freight charges? If rail charges were to be increased to reflect the full cost of service provision, what would be the impacts on current users and on the commercial sustainability of TasRail?

What is the scope for some form of private investment or operational service provision in rail?

Mondelēz International is a substantial user of rail services in Tasmania. A large proportion of the heavy raw materials, such as, Sugar, Cocoa and some ingredients travel by rail from the northern ports up to Hobart.

Heavy containers shipped by rail reduce considerable wear and tear on the road network in Tasmania. Simultaneously, this mode is environmentally less damaging than the heavy loads travelling by road. Therefore the Tasmanian government requires to analyse the following:

- The subsidisation of the rail services is more expensive than the maintenance of the roads
- If rail service is reduced or lowered then consequent higher heavy vehicle traffic on the roads and its impact on other road users and higher costs

If rail charges were to be increased this would have to be quantified. A small increase of 3 to 5% may have minimal impact but a larger increase may have substantial detrimental impact on the cost of logistics for the major users of the rail.

Mondelēz International opposes changes to rail services that would return previous experiences where poorly managed private operations caused regular rail incidents and derailments. These incidents cost Mondelez large sums in administration of claims and damaged products.
