# SUBMISSION TO THE PRODUCTIVITY COMMISSION
# For its Public Inquiry on Tasmanian Shipping and Freight

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# Executive Summary

Mondelez International is the new name of the former Kraft Foods/Cadbury business. It is one of the largest employers in Tasmania contributing $550 million to the economy (Attachment A)

Mondelez International has substantial manufacturing facilities in Tasmania employing 600 people directly in its manufacturing (Claremont Cadbury), plus a further 340 people indirectly across dairy supply chains, sales operations and other supply chain elements.

**The TFES is critical to Mondelez International's operations in Tasmania**. Mondelez International ships approximately 10,000 twenty-foot equivalent units (teu) between Tasmania and the mainland in both north (finished goods) and south (raw materials, ingredients, finished goods and work in progress) directions. Of this approximately 7,500 teu are eligible for TFES.

Mondelez International freight is transported by Toll Tasmania, Searoad Logistics, TT Line and ANL using all the shipping services available between Tasmania and the mainland.

The freight services between Tasmania and the mainland are reasonably adequate in terms of time and capacity. However, the inefficient costs of the freight on Bass Strait results in substantially higher costs for the operations of Mondelez International in Tasmania.

The current level of TFES assistance **does not fully compensate Mondelez International's total level of disadvantage it experiences for manufacturing in Tasmania.** ***The current level of assistance falls short by approximately 30% and places us in an uncompetitive position when compared with Swiss and German peer chocolate companies. Correcting the freight inequity is pivotal to future investment in our Tasmanian operations.***

This submission addresses:

1) The questions raised in the Productivity Commission.
2) Identifies costs incurred by Mondelez International due to numerous activities specifically required by the location of the facilities in Tasmania.

The aim of this submission is to enable the reviewing committee to ensure that all impacts upon a Tasmanian operation are taken into consideration when determining the methodology for future payments of TFES assistance.

Following are the important elements of TFES and its review for Mondelez International:

1. **Mondelez International supports a review of the methodology for the parameters used to calculate assistance under the TFES scheme.**
    a. Mondelez International recommends the use of a mainland B-double operation route based comparison to determine the level of subsidy.
    b. Mondelez International recommends that the freight assistance should be equal to a direct difference between a determined road freight value and the actual sea freight value.

2. Mondelez International recommends **the review and payment of TFES on the basis of evidence of actual wharf-to-wharf costs, plus the intermodal allowance.**
    a. Mondelez International would like to emphasise that the current level of TFES does not sufficiently compensate the actual disadvantage experienced on the freight.
    b. Consideration should be given to the continuation of the current door to door based assistance as a backup on a case by case basis where sea freight costing is difficult to determine.

3. Mondelez International **recommends the review of intermodal assistance for the additional cost** incurred in the transport of intermodal freight**.**
    a. The intermodal allowance must be increased with immediate effect to reflect the actual additional costs incurred by Mondelez International.
    b. Mondelez International recommends the annual review of the intermodal assistance to adequately compensate shippers for the annual rise in intermodal costs.

4. Mondelez International recommends the **regular review of the parameter values used to calculate the relative freight cost disadvantage under the TFES scheme.** Our recommendation is that such a review should be conducted through the TFES review authority instead of Centrelink.

5. Mondelez International **strongly recommends the application of TFES for the return of empty units of dedicated multi use equipment or packaging for re-use.**
    a. The definition of multiuse packaging should include ISO tank containers or shipping containers that are solely dedicated for use by one business entity for a dedicated commodity (e.g. sugar tank containers owned by Mondelez International and glucose tanks operated by Toll Tasmania for Mondelez International)

6. Mondelez International **DOES NOT support "flat rate" assistance.**
    a. Mondelez International shipments constitute a vast variety of products ranging from bulk commodities to high value packaged refrigerated confectionery.
    b. The variety of shipments require varied handling methods
    c. Such variety cannot be treated as homogeneous.
    d. Additionally products shipped by different suppliers attract different costs due to the characteristics of the products.

7. Mondelez International **strongly recommends including certain <u>imported</u> raw materials and ingredients that are not produced in Australia at all** such as cocoa and aluminium foil to compensate for the <u>additional cost of delivering</u> these products to Tasmania via the mainland.
    a. Imports made eligible for TFES could be subject to specific criteria and require approval from the Department on a <u>case by case</u> basis for example:
        1. Imported raw material must not be made in Australia
        2. Imported raw material must be used completely as an input in the manufacture
    b. TFES applied to imports should not offend any WTO directive or rules as it is a local subsidy to be applied to imports to compensate a state within Australia.
    c. Imports which arrive into Tasmania via mainland incur high costs due to:
        1. Cost of transfer to Hobart from Melbourne
        2. Longer transit time resulting in higher safety stock inventory

8. Mondelez International strongly recommends the **application of TFES for exports**. Tasmania's exports are severely disadvantaged in comparison to the mainland plants by the high cost of freight between Tasmania and Melbourne.

# GLOSSARY

| | |
|---|---|
| AUD | Australian dollar |
| BASS ST | Bass Strait |
| B/L | Bill of lading |
| BITRE | Bureau of Infrastructure, Transport and Regional Economics |
| CBM | Cubic metres |
| DC | Distribution Centre |
| DOI | Department of Infrastructure, Transport, Regional Development and Local Government |
| 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 |

# Introduction

This submission is prepared by Mondelez Australia Pty Ltd in response to the request from the Productivity Commission for its public inquiry on Tasmanian Shipping and Freight.

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

## Mondelez Australia Pty Ltd Operations:

Mondelez International is a foods, confectionery and beverages manufacturing business with factories, distribution centres and sales offices based in most Australian states.

Mondelez International's largest confectionery manufacturing operations in the Australia and New Zealand region are based in Tasmania.

These manufacturing operations comprise two main facilities as follows:

1. Claremont – Chocolate confectionery and crumb manufacturing
2. Burnie – Milk processing facility processing dairy products and operating as a feeder to other Mondelez International operations in Tasmania and the mainland of Australia.

## Impact of the Location of our Tasmanian Operations to Mondelez International:

The location of the facilities in Tasmania has the following impacts on Mondelez International's operations:

- **Most supplies to the factories have to be sourced from outside Tasmania:**
  - Higher cost of delivery to Claremont of sourced raw materials, ingredients and packaging.
  - Higher cost of imported raw material such as cocoa products, ingredients and aluminium foils which are not produced in Australia but require shipment via Melbourne.

  **A higher cost of distribution of all produced goods is incurred by the company.**
  - The finished goods are transferred from Claremont to Mondelez International's Distribution Centres in Ringwood and Dandenong, Victoria.
  - Approximately four per cent of the product produced in Tasmania is returned to Tasmania for retail from the Victorian Distribution Centre.
- **A higher cost of transferring** Work in progress material and ingredients to and from Claremont and other Mondelez International sites on the mainland is incurred by the company.
- Considerable **overall cost disadvantage in comparison** to other manufacturers based on the mainland of Australia is incurred by the company**:**
  - Higher cost of transport to and from the facilities
  - Longer lead times for all raw materials and finished products
  - Higher levels of inventory and safety stocks
  - Higher levels of handling results in higher levels of damages and losses to stock
  - Investment in new specialised dedicated equipment for the supply of raw material to Claremont
    - 29 x 20' ISO Tanks owned by Mondelez International and dedicated for sugar (on the mainland sugar is supplied direct by trucks)
    - 4 x 20' ISO Tanks dedicated long term for glucose
    - Truck, trailer and reefer equipment dedicated and built for transportation of Mondelez International products

- The plants at Burnie and Claremont do not have sufficient warehouse capacity for the storage of finished goods**.** Both sites are consequently dependent on the daily transfer of goods offsite immediately after production.
    - **Claremont Production is shipped daily to the DC on the mainland** and this high volume requires the consistent **daily availability of Bass Strait shipping.**
    - Burnie volume is stored offsite until ordered to production by Claremont or Ringwood**.**

## Transport Utilisation by Mondelez International

**Northbound:**

Finished goods manufactured in Claremont use either refrigerated containers or refrigerated trailers on a FCL or FTL basis.

All containers and trailers are moved by road from Claremont to the northern ports of Burnie or Devonport using B-doubles.

B-doubles will carry two or three containers based on weights or a container and refrigerated trailer or a variety of other combinations.

Mondelez International volumes northbound approximates to **5600** Teu to the distribution centres in Victoria and about **600** Teu exported directly from the plant to international markets.

**Southbound:**

The majority of products from the mainland to Claremont comprise of raw materials and ingredients, and are moved as LCL as order sizes are too small to achieve FCL or FTL. Occasional shipments may be FTL/FCL in the trailers/containers.

LCL cargo is received by the transport company at its depot in Melbourne and occasionally stored in transit prior to consolidation for shipment to Claremont.

Mondelez International volumes southbound include Australian sourced products and approximates to 2200 teu.

**Imports**

All cocoa products and  other minor ingredients are imported. All imports arrive at Melbourne and are transhipped via the northern Tasmanian ports to Claremont.

Total Mondelez International import volumes approximate to**1200** Teu with the entire volume of this transhipped via Melbourne.

## Mondelez International's Cadbury Plants' Contribution to the Tasmanian Economy

**Turnover:**
Mondelez International's Claremont facility contributes **$550 million** to the Tasmanian economy each year.

**Employment:**
Mondelez International's Cadbury plant employs 650 staff directly in Tasmania. It is estimated that Mondelez International's operations indirectly support the employment of a further 1500 people in Tasmania.

**Procurement:**
Mondelez International's Tasmanian facilities purchase substantial quantities of Tasmanian produce:

- **73 million litres of Tasmania's milk** production for processing at Cadbury's Burnie plant
- **$14 million of freight, warehousing and support services**
- Major customer for:
    - AMCOR Launceston
    - Natural gas – approximates 156,000GJ per annum
    - Other local energy services

## Tasmanian Freight Equalisation Scheme

The majority of the supplies sourced for Mondelez International's Tasmanian facilities are from outside Tasmania originating on the mainland or imported.

Finished goods produced in Tasmania are sent from the factory to the Distribution Centres in Victoria or are exported directly.

Hence the majority of Mondelez International's operations in Tasmania requires the use of shipping services across Bass Strait.

The high cost of the freight across the Bass Strait in both north and south directions adds substantial stress to Mondelez International's manufacturing operations.

The TFES plays a critical role to alleviate this high sea freight cost across the Strait. The TFES is vital to ensure the market competitiveness of Mondelez International's products manufactured at Claremont.

The **current level of TFES does not fully compensate** the cost disadvantage incurred by Mondelez International for conducting manufacturing operations in Tasmania.

The continuing existence of the TFES was a major contributing factor in Mondelez International's decision to invest substantial funds over $80 million in the last seven years to upgrade the Tasmanian facilities. This investment highlights Mondelez International's commitment to Tasmania**.**

**Recent announcements have been made with the Australian Federal Government to invest additional funds into the Claremont facility to allow for an expansion that will lead it to becoming a competitive asset by global standards. However it must be stressed that a more competitive production asset is being offset by an uncompetitive freight system.**

**Without a satisfactory freight resolution future site investment is compromised.**

The current TFES process for calculation of rebates is complicated. This results in:

1. High level of administrative attention to detail.
2. Possibility for errors and incorrect claims.
3. Opportunities for misinterpretation of the calculation process.
4. Higher maintenance and systems costs.

Mondelez International supports a review and reform of the process to efficiently and effectively manage TFES. Any changes should improve the calculation methodology without disadvantaging the business.

## TFES and Identification of Critical Items Impacting Operations Costs in Tasmania

## ELIGIBILITY

Mondelez International is eligible for TFES under the criteria determined by the Commonwealth Government.

Mondelez International currently processes all claims directly with Centrelink and does not employ agents for the management of TFES process.

Mondelez International does not intend to employ agents to manage this process in the future.

## REVIEW OF METHODOLOGY

**Mondelez International would like to strongly emphasise the necessity for a proper methodology to calculate the freight subsidy rebate.**

The methodology to determine the rebate should include:

1. A detailed assessment of the logistics requirements for Tasmania based manufacturers and shippers
2. Inclusion of various costs that are caused due to the unique nature of running a business in Tasmania.
3. Additionally, while emphasis on a wharf-to-wharf costing is understandable, consideration should be given to the use of door-to-door rates on a case-by-case basis where only such rates may be available.

Apart from the expensive shipping freight cost, there are certain costs incurred currently that are not included in the TFES. These costs are critical to Mondelez International operations and must be included in assessing the level of compensation.

These additional costs are created due to the logistical disadvantage of manufacturing in Tasmania:

1. Higher total freight costs.
2. Higher inventory costs due to extra lead time.
3. Multiple handling and damage costs.
4. Peak season demand.
5. Dedicated or purpose built equipment required – multi-use packaging or equipment.
6. Tasmanian Quarantine costs and delays.
7. Management of special shipping line relationship management.

# SEA FREIGHT COSTS

The shipping services on Bass Strait have provided sound schedule integrity throughout the year over many years. The services are operated well albeit at a high cost to the users.

### Inadequacy of Current TFES Computation Formula

The TFES primary goal is to compensate traders to and from Tasmania for the freight disadvantage created by the Bass Strait.

The various components used for the computation of the TFES assistance in the current formula do not adequately address the actual disadvantage experienced by Mondelez International.

On current rebates, Mondelez International's assistance level is 30% lower than optimal levels. This is on the basis of a direct comparison between a purely mainland based costing for a B-double on an equivalent distance.

The computation of the Standard Weight Assistance currently appears to be a mathematically derived formula. This formula is difficult and time consuming to understand and has the potential to contribute to errors and misrepresentations while calculating claims.

The cap of $855 was set in 1998. The costs are far higher now and the maximum cap must be raised to meet the requirements of 2009 and onwards. This cap should be **indexed** to allow for year-on-year changes to prices on the Bass St. which have changed substantially since 1998.

Shortcut formulae include the fixed intermodal costs parameter with median wharf to-wharf disadvantage within the complex class structure calculation. The derivation and intent of the intermodal costs, scaling factors, class cut off parameters and door to door adjustment are not clearly documented. The median wharf to wharf and hence the classes, door-to-door adjustment, scaling factors are all out of date.

### LCL Shipments:

Mondelez International moves large quantity of LCL (less than container load) shipments south bound.

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 per cent 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.

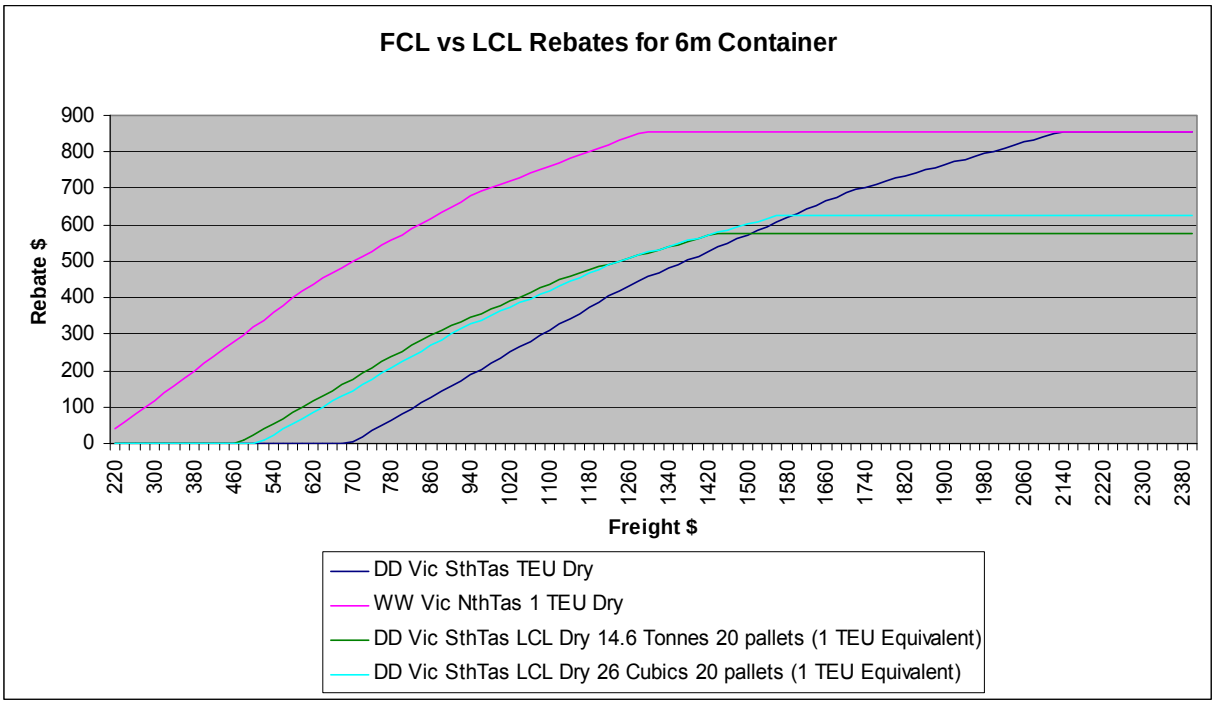
TFES uses a volume of 30 cubic metres per TEU instead of 26 cubic metres per TEU to apportion rebates.

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 graph below indicates the maximum rebates for a one TEU equivalent for FCLs vs. LCLs.




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

## Road Freight Equivalent

The use of B-double operations on the mainland to determine a road freight equivalent freight rate for the sea freight between Melbourne and the Northern Tasmanian ports is welcome. Such a determination should ensure that the correct industry standards are utilised to calculate the differential applicable.

The current industry standard rate for calculation of refrigerated B-double road freight is $2 per km.

WHARF TO WHARF:

Majority of Mondelēz International's cargo (approximately 70-75 per cent of the total northbound volume) is carried in 20' refrigerated containers.

To achieve a fair comparing between a mainland road freight B-double equivalent rate to 20ft containers across the Bass Strait, the following has been used:

The sea freight distance from Burnie to Melbourne is 400km.

The road freight equivalent B-double rate for refrigerated cargo over this distance would be $800 using the industry standard of $2.00 per km.

B-doubles operated at maximum efficiency can carry three twenty foot containers of cargo. This thus gives a road freight equivalent rate of $ 266.67 per TEU for a refrigerated container from Burnie to Melbourne.

Mondelez International sea freight rate per twenty foot container is $1210 (variable +/- 5 per cent due to variable fuel surcharge).

**The disadvantage** to Mondelez International due to sea-freight is over **$900 per TEU.**

DOOR TO DOOR:

Road freight estimate Claremont to Ringwood = 780kms x $2 per km / **3** TEUs = $520 (consistent with submissions in Productivity Commission Report 2006).

## Intermodal Costs

Intermodal component of the costs should have two separate components:

1. **LCL component**
2. **FCL component**

The impact on LCL or FCL is different due to differing intermodal activity involved as explained below.

The majority of freight on the Australian mainland involves loading goods on a truck at source and unloading the goods at the final destination. Therefore there is no other handling of the goods en-route.

**Whereas transit of Bass Strait forces an intermodal transfer between the land and sea modes at both ends of the sea freight leg.**

1. LCL component:

LCL cargo requires cross docking and transit storage from truck to container at the Port of Melbourne and again at the port of unloading in Tasmania from container to truck.

Majority of Mondelez International' south bound shipments consisting mainly of raw materials and ingredients for Claremont, Tasmania are LCLs.

Currently an intermodal allowance of $100 per TEU is included in the TFES. This equates to $5 per pallet.

Based on standard industry rates, below is a description of costs incurred:

2. FCL component by container:

Mondelez International's shipments northbound are predominantly FCLs or FTLs. These are shipped direct to the distribution centre in Victoria.

The FCL containers or FTL vehicles are subject to wharf handling and temperature control management costs.

The extra cost of the time for delivery of container to the terminals, plugging in of reefers to the power supply at load port and deliveries ex terminals at unload port, plug in to power supply equates to 225 AUD per container. This is 125 per cent higher than the current $100 being allocated.

Freight providers for shipments to and from Tasmania have to perform additional administrative work for the seafreight legs that is not applicable on the mainland. Administration costs are incurred by the freight provider in terms of:

- Bookings to vessels.
- Additional seafreight documentation for consignments (manifest for the vessel in addition to normal consignment notes prepared for the shipper).
- Modifications and changes to bookings.
- Equipment management.
- Timeslot management.

## Tasmanian Quarantine Charge has Added Cost

The quarantine fee of $3 per consignment implemented by the Tasmanian Government has added an annual cost of approximately $40,000 to our business.

This new regime now requires an extra two-three days of safety stock to allow for any quarantine delay and additional costs if the goods are to be unpacked and repacked for inspections.

### Melbourne Port Licence Fee

The Port of Melbourne introduced a port licence fee applicable on each movement in and out of the Port.

Since the withdrawal of international shipping from Tasmania, Mondelez International has adapted the supply chain for the Claremont plant by storing all Raw Materials at an owned facility in Derrimut.

Consequently, all raw material for Claremont are unpacked and stored in Melbourne. These are shipped out to Claremont as required for production.

The imported raw materials therefore attract the Port of Melbourne Licence Fee as follows:

a. On arrival in Melbourne.
b. On transfer to Claremont.
c. Again on the finished goods produced from the Raw Materials when moved from Claremont to DC.
d. On the exports departing Victoria.

This is an excessive charge on the products.

### Higher Inventory Costs are Being Incurred

- **Longer Lead Time and Safety Stock**
  The time taken for all raw materials sourced from outside Tasmania requires an additional transit time of at least 3 days and for LCL shipments up to six days.

  The annual average transit from Melbourne to Claremont is five days.

  This extra transit time is due to the necessity of receiving freight at the Melbourne depot, cross docking into a container for Bass Strait transit and connecting to vessel before a rail or road connection to Hobart.

  The extra transit time results in at least one week's additional safety stock inventory to be held for all products.

  **Such excess inventory across large number of ingredients increases Mondelez International operation costs by $4 million.**

- **Peak Season Demand**

  Peak season demand on shipping services is high and there is a regular short shipment of cargo on the southbound voyages, often making transit times longer. As a result of the higher lead time a higher safety stock of raw materials must be maintained at the factory to prevent production delays.

### Multiple Handling Damage Costs are Being Incurred

All shipments to or from Tasmania:

1. Require additional handling to load and unload vessels.
2. For LCL cargo additional cross dock activity into and out of containers plus loading and unloading to vessels.
    a. LCL shipments are additionally exposed to contamination and taint during the cross dock process when exposed to other incompatible goods or elements.
3. Require additional securing to withstand sea voyage.
4. Experience rough weather and sea conditions.

As a result, Mondelez International has consistently experienced damage to both finished goods and to raw materials crossing Bass Strait.

**Mondelez International estimates the annual average for damages to be approximately $50,000.**

# LAND BASED TRANSPORT

### Scaling Factors are Too High

The Productivity Commission Report 2006 identified that the current scaling factors are too high.

The Nixon Review set scaling factors in 1999. The scaling factor for southern Tasmania should be **removed** completely as the state's northern ports are the only ports available for freight users in South Tasmania or other inland locations with no other option.

### Higher Fuel Surcharges and Costs are Incurred in Tasmania

The location of the factory in Claremont adds a 320km road transport leg to the northern Tasmania ports for all Mondelez International goods.

Fuel costs in Tasmania are on an average eight per cent higher than the mainland. While compensation is being restricted to the wharf-to-wharf component, all shipments incur a higher road freight fuel surcharge in Tasmania in comparison to the mainland.

Additionally, Mondelez International uses temperature controlled transportation for longer road freight legs between Claremont and the northern Tasmania ports of Burnie and Devonport. Temperature controlled transportation consumes higher quantities of higher priced Tasmanian fuel.

# Impact of Bass Strait on Cost of Imported Raw Materials and Ingredients

Mondelez International imports certain ingredients that are not produced on the Australian mainland. Additionally, these commodities are now shipped to Tasmanian plants via Melbourne.

Tasmanian ports are not directly serviced by international shipping.

As a result, Mondelez International's raw materials are considerably more expensive to supply to Claremont than it is to supply to the factories on the mainland.

FCL commodities (eg Cocoa products)

**As a direct comparison, delivery of cocoa to Claremont factory costs an average of $93 per metric tonne higher than the delivery of the same product to the Ringwood factory.**

| Cocoa imports: | | | | | |
|---|---|---|---|---|---|
| | **Ocean Freight (Aud)** | **BAF (Aud)** | **Destination Local Charges (Aud)** | **Melbourne to Hobart Arbitrary** | **Cost per MT (Aud)** |
| Singapore to Melbourne | 600 | 600 | 400 | NA | 80 |
| Singapore to Hobart via Melbourne | 600 | 600 | 460 | 1800 | 173.00 |

With an average import of greater than 14,000mt of cocoa products, the location disadvantage to Mondelez International is approximately **$1.3 million** for cocoa products alone.

Allowing for all other imported commodities, the total additional cost of supplying imported raw materials to Claremont is close to $2 million per annum.

LCL commodities

The disadvantage for LCL commodities on a metric tonne or per cubic meter basis is higher. In majority of the cases, the LCL commodity requires clearance, unpack and cross docking in Melbourne.

The activities of clearance, cartage, unpack and delivery to a Tasmanian carrier contributes an additional **$125 per MT or CBM** and up to a week's delay to the cargo. As a result most imported LCL raw materials require at least a week of extra inventory safety stock in addition to the higher freight costs.

IMPORT Commodities, TFES and International Obligations:

Providing TFES subsidies to selected imported commodities should have minimal negative impact on international trade.

Such assistance will not create any international anti-competitive element and should therefore draw no attention to the subsidy. The freight equalisation for specific commodities which have no Australian source of production should be considered as a local assistance between mainland and Tasmania for imported material.

## Impact of Bass Strait on Cost of EXPORT from Tasmania

Mondelez International is a major exporter from Australia. Some of the exports are shipped directly from the plants in Tasmania. Claremont and Burnie plants export approximately 600 Teu per annum directly to New Zealand, Singapore, Thailand and Malaysia with the likelihood of more countries receiving product directly from these plants. If an efficient supply chain and associated assets can be maintained, opportunities for export to China will be available. An additional 200 TEU worth of production from the Tasmanian plants is exported indirectly from the Victorian distribution centres.

Shipping exports from Tasmania via Melbourne adds approximately $1400 for each TEU of refrigerated product. This is a major cost disadvantage to Claremont or Burnie production especially when compared to Mondelēz International plants based on the mainland.

For a volume of 600 TEU exported directly, this adds approximately $840,000 to the cost of exports from Tasmania.

To facilitate direct exports, Mondelez International made significant investments between 2009 and 2012 to develop the despatch area to load International shipping containers, slip sheeting equipment and new palletisers.

This places the production in Claremont at a considerable disadvantage and hence Mondelez would like to strongly recommend that **all exports be eligible for the freight equalisation**.

## Flat Rate Methodology is Not Supported

**Mondelez International does not support the implementation of a flat rate per TEU for equalisation compensation as recommended by the productivity commission 2006.**

The suggested levels of flat rate compensation will disadvantage Mondelez International by 50 per cent on the current level of assistance. Such a reduction in assistance will negatively impact production costs and consequently operations in Tasmania.

Flat rate compensation does not:

a. Accurately reflect the freight cost disadvantage experienced – eg a suggested flat rate of $400 would reduce Mondelez International's compensation by over 50 per cent.
b. Allow for the differences in freight services provided or the multi-modal characteristics.
c. Recognise the differences in product characteristics such as dry cargo or the much higher valued refrigerated cargo.

Instead of a flat rate, there could be a case for investigating simplified calculated percentage rate compensation. This percentage level could be obtained on a comparison of mainland road freight with Bass Strait sea freight rates.

Such a method would consider the variable levels of freight rates for differing commodities and volumes shipped by the different users of Bass Strait freight services.

# Multi Use Dedicated Equipment or Packaging

Multi-use dedicated equipment or packaging can be defined as any cargo transport unit (eg. an ISO tank container) or a packaging unit (eg. an intermediate bulk container) that is:

1. Dedicated to the transport of one specific commodity for an extended period of time.
2. Generally one-way loaded transport, discharged at destination followed by the empty unit being transported back to the supplier for loading to complete a round trip, reloaded and then repeated.
3. Cannot be easily used for other commodities without considerable expense and time required for preparation for a different commodity.

Mondelez International uses dedicated equipment for the following:

| | | |
|---|---|---|
| **Sugar** | Mondelez International owned 25 ISO tank containers of 6.4 metres length with load capacity of 23ts. These tanks are only used for supply of sugar to Claremont and are returned empty to Yarraville to load sugar. | Annual volume of approximately 1100 shipments for about 24,000ts of sugar. |
| **Glucose** | Long-term leased tanks dedicated for the supply of glucose to Claremont. | Annual volume of 75 shipments. |

Mondelez International strongly recommends the **introduction of assistance for multi-use equipment or packaging**. This assistance would provide substantially alleviate the high cost of dedicated equipment currently operated by Mondelez International for the Tasmanian facility.

The repositioning of both the sugar and glucose tanks is a specific example of costs incurred by Mondelez International because multi-use packaging is excluded.

Due to the nature of production and the location of the manufacturing operation in Claremont, Mondelez International has been forced to use dedicated equipment for the supply of raw materials to Claremont.

TFES covers the loaded southbound component for the tanks. The north bound leg of the tanks for refilling is a high cost borne by Mondelez International. As a part of the review the dedicated multi-use packaging, in these cases ISO tanks should receive TFES assistance for the northbound leg of the round trip shipment.

1. **SUGAR**:

To ensure continuous availability of suitable hygienically compatible equipment Mondelez International has purchased 29 twenty foot ISO Tank containers for the transport of sugar from supplier to Claremont. These tank containers are used solely for supply of sugar to the factory. After unloading in Claremont, each tank is returned empty to Yarraville, Melbourne for refilling to Sugar Australia.

**The cost of repositioning the empty tank containers is substantial.**

Sugar supplies to nine other mainland Mondelez International factories use generic sugar transport vehicles contracted by the sugar suppliers. This was not possible for Claremont. The mainland factories thus do not incur the high cost of dedicated equipment borne by the Claremont operation.

## 2. GLUCOSE

Mondelez International, through its freight forwarder Toll Tasmania uses four twenty foot ISO Tank Containers leased on a long-term basis for the supply of glucose. Similar to the sugar supply process, these four tanks are dedicated for the transport of glucose to Claremont from Melbourne. **After unloading these four tanks also return to Melbourne empty and repeat the sequence.**

**ENDS**