

20 September 2024

## **SELECT COMMITTEE ON THE TASMANIAN FREIGHT EQUALISATION SCHEME**

### **Submission**

#### **Introduction**

Affairs of State Australia Pty Ltd, trading as Aerovision Partners is the private consulting firm owned and operated by Hans van Pelt, former Access Director for the Tasmania government and former CEO at Launceston Airport.

#### **Tasmania Export Freight Logistics Advisory Service (TEFLAS)**

Affairs of State, lead by Hans van Pelt, throughout 2022 and 2023 operated the TEFLAS program on behalf of the Tasmania government Department of State Growth. Affairs of State was awarded the TEFLAS contract via a public government procurement process.

TEFLAS was a program designed to support small-to-medium businesses to optimise their transport operations, connect with transport services and develop new freight channels. We supported over 150 TAS companies with ongoing supply chain issues including cost, capacity, availability, lead-times, trade advice, channel development, TFES and aggregation.

This submission is based on our TEFLAS experience, our knowledge, our ongoing Tasmania freight and logistics advisory services and Hans van Pelt's ongoing engagement with business in his role as Director and Treasurer at the Launceston Chamber of Commerce.

#### **Summary Points by Affairs of State**

Please consider the following key, summary points with regard to Bass Strait capacity, TFES, cost, delivery efficiency, competitive positions and the lack of TFES support sought by TAS SMEs shipping B2B and B2C at parcel, pallet, or Less-than-a-container-load (LCL):

- Freight capacity is the key issue (more so than any previous period) now that the additional TT-Line capacity cannot be realised this coming peak season.
- Freight is usually a solid indicator of economic activity forecasts. A large, parcel distribution business is not forecasting an increase in transaction demand from August to the peak season - they are only gearing up resources at a 1% level from August.

## Summary Points by Affairs of State (continued)

- Logistics companies minimising their gearing for the peak season will have a stronger impact for TAS - securing additional capacity across Bass Strait, and utilising capacity more effectively becomes even more important for the peak season and for TAS business to be as competitive as possible with the mainland.
- Government considers funding (or part funding with industry) a distressed freight space inventory scheme to better utilise capacity across Bass Strait;
  - More than 25% of truck and container (TEU) movements remain empty across Bass Strait. Often claimed as such, Bass Strait is NOT full.
  - A transparent inventory booking service across assets (back-filling otherwise empty truck and container movements) would help all TAS importers and exporters. It should also help minimise the increasing handling and re-packing charges between inter-modal operations.
- There is little evidence that a TFES increase on Bass Strait is warranted. The issue of cost comes from increases across door-to-door intermodal supply, multiple handling and re-packing and lack of investments by operators to service Tasmania like mainland states.
  - Any program aimed to increase TfES for Bass Strait crossing is likely to see further price increases from the existing operators - governments should not allow providers to increase transport costs because buyers enjoy greater levels of public sector support.
- Governments should support the introduction of Sunday sailings by both Strait-link and SeaRoad - both have indicated a willingness to operate these services in discussion with the Port of Melbourne.
- Governments should better supports TAS exporters by incentivising importers to import southbound goods loaded in 40" international reefers to increase refrigerated container availability in TAS for exports;
  - This strategy improves container utilisation across Bass Strait;
  - This should be relatively easy, it reduces inbound individual 40" container capacity slightly but it helps fight competitive demand for reefer containers from other domestic regions that present shipping companies with quicker turn times and higher asset utilisation returns.
  - This solution would have helped this year, especially for onion exporters in the second half of their 2024 season.

## Summary Points by Affairs of State (continued)

- The TAS government should review operating procedures at TT-Line to ensure maximum efficiency, eg adding the first new ferry into the rotation to increase the fleet to three and, operating consecutive double daily sailings within a 24 hour period (not 26 hours), which increases the risk of produce not reaching key destinations such as the Epping markets.
- Government explores potential to maintain Sea Road's LV Leikut as part of the Bass Strait fleet. Otherwise, especially with a scheduled Saturday evening departure from Devonport for the new ship the net capacity gain from SeaRoad's upgrade is negligible.
- TT-Line removes refrigerated and perishable surcharges, unless reefers are actually plugged into reefer points on the vessels.

The key to these points is utilising and improving capacity to avoid further negative impact on the competitive positions of many TAS business entities. On each of these points Affairs of State developed strategies while delivering the TEFLAS program for the Department of State Growth.

Ongoing supply chain challenges persist and the pressure on capacity even at last summer's (2023-24) levels is at a higher risk level, with logistics companies not engaging additional resources for the peak season due to their internal demand modelling.

Any potential loss of a large manufacturer and their production output exported northbound will have further negative impact on all TAS shippers.

### **The Problem for TAS SMEs**

Tasmanian small to medium enterprise producers (SMEs), sending small shipments directly to consumers and business customers on the mainland have limited, less competitive logistics options available to them. TAS SMEs send their freight at higher cost freight rates, with no guarantee of temperature-controlled deliveries.

As reported in The Australian on 24 June 2023, circa 60% of Tasmania's niche producers sell direct to customers and a similar percentage to cafes and restaurants. And they are growing, with 70% looking to expand their business and more than half planning to invest at least \$100,000 in the coming five years. Despite cost-of-living increases, Tasmanians and visitors alike are willing to dip into their pockets for top-end local food and tipples, sales of which rose almost 10% in 2020-21 to \$4.5 billion.

## TFES, Aggregation and ongoing supply chain challenges for TAS SME exporters to the mainland and beyond

TFES, Aggregation  
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(continued)

Further growth has occurred since. Wine Tasmania members in FY23 to end May have spent with Australia Post \$1,785,787 to ship 88,796 parcels. This compares to 81,333 Wine TAS member shipments across all of FY22, for an AU Post spend in FY22 of \$1,481,192. Significant growth, mostly B2C.

There has not been an aggregated freight logistics solutions for SMEs shipping 'less than a container load' of goods in the Business to Consumer (B2C) and Business to Business (B2B) area.

A dedicated, aggregated freight solution for SMEs would enable producers to lower their freight costs, improve competitive positions, improve delivery efficiency and gain access to guaranteed door to door refrigerated transport. This aggregated freight solution will improve viability, profitability and opportunity for business growth, it should also enable regional job creation and improve Tasmanian market share in high value perishable consumer market segments.

From 1st July 2023, across industry, freight rate prices increased in the 7-10%, range, placing further pressure on Tasmanian SMEs to absorb these increases or pass them onto customers. Further rate increases across door-to-door intermodal transport supply chains have been implemented since that time.

Tasmanian producers have limited access to mainland, competitive courier distribution networks on the mainland, unless an aggregated solution can be found. Affairs of State presented a solution (detailed below).

In addition, a large proportion of SMEs currently use the combined StarTrack, Australia Post to send their parcels, due to the small shipment size. Australia Post sends shipments by air to the mainland, so a significant number of SMEs cannot claim the Tasmania Freight Equalisation Subsidy (TFES). SMEs who do send their small shipments via Bass Strait also miss claiming the TFES due to effort to process a claim by shipment, versus a small reward.

The Affairs of State designed aggregated freight solution will easily enable TFES subsidies for all parcel shipments. It would be able to invoice freight, less the TFES contribution, by using the aggregated 5PL freight service.

An aggregated freight solution needs to be operated by an entity that is independent to the freight industry, is sustainable and operates to help deliver growth and strengthening of Tasmanian business.



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(continued)

**A potential, aggregated freight solution for TAS SMEs to enable business growth, business retention, improved returns, better value creation and increased (matching) competitive positions with mainland suppliers**

From the TEFLAS program, Affairs of State designed and enabled The Northern Tasmania Development Corporation (NTDC) to potentially host and provide a simple cost-effective 5PL solution for Tasmanian small to medium enterprise producers exporting parcels and 'less than a container load' (LCL) of product to mainland Australia.

5PLs are a new addition to the logistics space. A 5PL, or fifth-party logistics provider, is a business that can manage an entire network of supply chains. A 5PL provides planning, organising and management of a company's supply chain operation. 5PLs are an attractive proposition for any business needing a reliant and efficient distribution network.

This unique, aggregated 5PL freight solution enables volumes of shipment to be aggregated to increase efficiency and lower freight cost for SMEs shipping B2C and B2B at parcel and LCL levels.

Under this aggregated 5PL solution all Tasmanian shippers could cross Bass Strait at least at pallet rate and, gain access to more competitive B2B and B2C mainland courier delivery networks that can only be accessed with the aggregated volumes delivered by this unique 5PL solution.

Each shipment in this 5PL scheme would have seen an automated TFES subsidy allocation applied via NTDC, without SMSs having "claim for an hour for a few dollars from TFES.

- This proposed 5PL freight solution provided by NTDC will improve freight costs up to 30%,
- It will reduce the competitive position threat of TAS SMEs shipping B2C and B2B,
- This 5PL freight solution will guarantee refrigerated transport door to door,
- It will enable stalled investment and expansion decisions by SMEs to proceed, and
- SMEs will be able to increase their online and brick and mortar sale conversion ratios.

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(continued)

Committee  
Engagement

this 5PL solution, via NTDC was proposed to the Tasmania government as a measure to enable TAS SMEs to overcome ongoing Bass Strait supply chain issues and decreasing competitiveness with mainland companies.

Multiple case studies were presented, including the The Bruny Island Cheese Co and Mr Brown & Towns Mushrooms.

The support underwrite requested was \$820,000 for a one-year period, during which success of the scheme would have seen NTDC maintain stand-alone operations or, the scheme would utilise its design towards an ongoing, industry owned coop mode.

The efficiency of this solution including a genuine aggregated freight solution that provided a mechanism for improved delivery efficiency included a TFES automated claim process that would have addressed the simple fact that for small shipments TFES is not claimed due to effort vs return, eg per parcel.

Affairs of State Principal and Director Hans van Pelt can meet with the committee to further discuss this submission and present the aggregated SME solution detailed in this submission to the Select Committee on the Tasmanian Freight Equalisation Scheme.

Yours sincerely

**Affairs of State Australia Pty Ltd t/a Aerovision Partners**