Fruit
Growers
Tasmania Inc

Tasmanian Freight Subsidy Arrangements

Productivity Commission Enquiry

Submission on behalf of Tasmanian Fruit Growers

June 2006

Background

Fruit Growers Tasmania Inc is the industry body representing around 250 growers in the State including apple, pear, cherry and other stone fruits.

These industries produce a combined average farm gate value of around $50 Million with market value well in excess of $100 Million at present.

Export value of the industries is currently $24 Million which is expected to experience steady growth as new markets are developed.

Among agricultural industries the apple industry is one of the largest employers of casual labour. Current employment combined with Stonefruit is 265 full time and 2200 casual and contract employees.

Over the next five years there is the potential for the stonefruit industry to treble its production which will significantly increase employment levels.

Fresh fruit production and packaging is very labour intensive and so as an employer is of prime importance to the individual growing regions and Tasmania as a whole.

The geographical isolation of Tasmania, and in particular its island status, adds significant freight costs for northbound fresh fruit.

The fact that more than one mode of transport is required to deliver Tasmanian fresh fruit to mainland markets results in significantly higher costs for Tasmanian growers when compared to growers in mainland growing regions.

Tasmania is responsible for almost 65% of all Australian apple exports to overseas markets. These shipments to overseas markets have to be transhipped through Melbourne. The fact that exports are not covered by the TFES is clearly inequitable to the Tasmanian grower and exporter.

Scope of Enquiry

The Commission is to report on the merits and weaknesses of the current arrangements for subsidising containerised and bulk shipping between the mainland and Tasmania and provide recommendations on an appropriate future approach and/or arrangements.

In making assessments in relation to matters above, the report of the Commission should –

Characteristics of the freight task for containerised and bulk goods between Tasmania and the mainland of Australia, including a comparison with the freight task between regional centres and metropolitan centres on the mainland and related costs.

The following information and table clearly demonstrates the cost disadvantage for Tasmanian apple growers. A similar set of figures would apply for shipments of cherries that will develop further in the near future.

- Distance – for example Adelaide to Melbourne by road (around 800kms) is similar to the Huon Valley in Southern Tasmania to Melbourne.

- Costings provided in the following table are per pallet. A pallet is equivalent to 72 x 12kg cartons.

- Freight Equalisation is equivalent to .87cents per carton, ie $62.64 per pallet regardless of destination.

It is important to also note that these costs do not include the Fuel Surcharge of around 9.75% or GST.

Destination			Departure
Melbourne	**Sydney**	**Brisbane**	
$171.00	$248.50	$305.50	Huon, Tasmania
$77.50			Adelaide, SA
	$60.00	$130.00	Batlow, NSW
+$94.00	**+$188.50**	**+$175.50**	**Additional cost to Tasmanian Growers per pallet**
62.64	*62.64*	*62.64*	*Freight Equalisation*
+31.36	**+$125.86**	**+$112.86**	**Net Additional cost to Tasmanian Growers per pallet**

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Source: Edwards Toll Transport

Further comparisons with the freight task between regional centres and metropolitan centres on the mainland and Tasmania are set out below -

- Fresh fruit is extremely vulnerable and highly perishable so must be kept cool to cold with full protection from the elements and makes the fruit one of the most sensitive commodities to transport across Bass Strait.

- Shipping from southern Tasmania to the north and then sea freight across Bass Strait involves a number of handlings. This increases the difficulty in maintaining the fruit in peak condition ready for the market.

- Timing – next morning delivery into mainland wholesale markets is the preferred practice for fresh fruit. Whilst this is achievable from regional and metropolitan centres on the mainland, due to shipping schedules across Bass Strait this is impossible from Tasmania.

Quantify any comparative freight cost disadvantage for goods eligible under the TFES, identify its primary causes and assess the impact of that freight cost disadvantage on Tasmanian business in terms of cost of business inputs and access to markets on the mainland.

- Road haulage time is for example only 10-12 hours between Adelaide and Melbourne and is therefore more efficient per hour per carton of fresh apples than the southern Tasmania/Bass Strait/Melbourne freight route.

- Additional time involved in getting fresh apples from the farm to the market, ie up to 2-3 days from Tasmania compared to the next day delivery from mainland regions can result in product quality problems and lost marketing opportunities. Major supermarket chains regularly require "just in time" supply to replenish stocks and this is only possible through road transport from mainland suppliers.

- Freight forwarders are reluctant to supply the 40ft reefers required because the capital cost of equipment necessary to move fresh apples across Bass Strait is high.

Assess the effectiveness of the current scheme arrangements as a mechanism for addressing any freight cost disadvantage, including identification of the costs and benefits, the impact on stakeholders, and any unintended consequences or distortionary effects of the current arrangements.

The bulk of cartons from Tasmania for apple shipments are now 2 layer cartons or plastic returnable crates. This is to meet supermarket requirements.

Freight equalisation was originally calculated on 4 layer (18kgs) cartons. When the market moved to 3 layer (12kgs) cartons several years ago, the freight equalisation entitlement was re-calculated based on the 3 layer carton only being .75 of the previous 4 layer carton.

More recently, with the introduction of the 2 layer (12kgs) carton, the freight equalisation is calculated as only being .68 of the previous 4 layer carton rate. This means effectively that growers are only receiving .68% of the original freight equalisation.

Accordingly, the TFES for Tasmanian growers has eroded with the market demand for 3 layer cartons and now has diminished even further with the Australian supermarket requirement for 2 layer cartons. The outcome for growers is approximately 7% reduction in the TFES payments per kilogram of fruit over the past decade. When this is combined with the significant increases in freight rates for the sea leg during this time, the effectiveness of the TFES has been significantly reduced.

There are other aspects to the TFES which are just as important. Tasmanian growers have no choice but to import apple trays into the State as they are not manufactured here. Grower/packers in mainland States can avail themselves of apple trays supplied locally.

Identify any alternative mechanisms that could more effectively address any freight cost disadvantage, including assessing the full economic costs and benefits of any alternative mechanism.

Fruit Growers Tasmania are unaware of a viable alternative for accessing domestic and international markets other than the current shipping arrangements across Bass Strait. The service provided by freight forwarders and ship owners appears to be as efficient as can possibly be achieved as competition in the trade has been the key driver in rates and services offered.

Additional Information

The Tasmanian industry is extremely concerned that export shipments are not eligible under the Tasmanian Freight Equalisation Scheme.

The Tasmanian apple industry has been very pro-active in gaining access to a number of overseas markets, however most export shipments to overseas markets have to be transhipped through Melbourne resulting in additional costs.

Australian growers compete in global markets with producers from countries whose Governments provide a range of incentives to exporters and which is proving to be an increasing challenge to Tasmanian producers. Lower labour and other production costs are also enjoyed by overseas competitors.

Currently, export shipments from Tasmanian growers are not eligible for Freight Equalisation on the transhipping sector from Tasmania to Melbourne, for example. This adds to the inequity for Tasmanian growers in competing in global markets.

The Tasmanian Cherry industry production is currently increasing and has the potential to treble over the next five years.

There has already been a disadvantage for Tasmanian cherry growers because AV air containers cannot be flown directly out of Tasmania due to differences in configuration of domestic aircraft servicing the State versus aircraft on international routes. As the export volumes increase in line with production increases, Tasmanian growers are already utilising sea freight to link with overseas air services from Melbourne and Sydney.

However, if the high quality of the fruit is to be maintained, growers also have to endeavour to keep the shipment time to a minimum. As with apples, all export shipments of cherries will have to be transhipped through mainland ports and then there is the serious challenge of co-ordinating the arrival of the fruit in a timely manner to make the best international shipping connection.

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