TFGA Submission to Productivity Commission Inquiry into Tasmanian Freight Assistance Arrangements

The Potential Impact of TFES Removal on the Tasmanian Vegetable Industry

June 2006

Foreword

The Productivity Commission is undertaking a review of the Tasmanian Freight Equalisation Scheme (TFES) and the Tasmanian Wheat Freight Scheme (TWFS).

This case study has been prepared on behalf of the Tasmanian Farmers and Graziers Association (TFGA) to provide an insight into the potential impact of removal of TFES on the vegetable industry.

The vegetable industry makes up around 20 per cent of the gross value of agriculture in the State and vegetable establishments make up 13 per cent of all establishments. Apart from the farm sector there is a large processing and packing sector dependent on vegetable production. The vegetable industry is a major contributor to income and employment across the north of the State. It provides most of Australia's frozen vegetables.

The project has been undertaken Davey & Maynard.

davey & maynard

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Tasmania's Vegetable Industry

- The vegetable industry is a major part of the agricultural sector in Tasmania. It is a significant source of income and employment and underpins many of Tasmania's rural communities across the north of the state.

- Vegetables make up around 20 per cent of the total gross value of agriculture in the State. The industry is dominated by the processing sector and produces the bulk of Australia's frozen vegetables.

- The vegetable industry is more important in Tasmania than in other states. Around 13 per cent of Tasmanian establishments are vegetable growers compared to the next highest (Queensland) with 5 per cent

- Over the past 20 years the vegetable industry has grown at a compound rate of around 4.8 per cent per annum. However, growth has flattened off since around 1997-98. A resumption of growth in the early 2,000's has been reversed since 2003-04 as the processing industry has come under increasing pressure from imports. Current gross value of production is estimated to be around $160 million – slightly down on the 1997-98 result.

- While it is not a vegetable crop, most of Tasmania's vegetable growers also grow poppies and until recently this was the second most valuable crop after potatoes. Since 2002 the area of poppies grown in the State has fallen from 20,000 hectares to an expected 7,000 hectares for the coming season. This has placed increased pressure on vegetable farm profitability.

- A recent ABARE survey of vegetable farm returns showed an average farm business profit of $25,000 and a return on capital (at full equity) of 2.9 per cent. This was before the recent reductions in vegetable and poppy contract areas and prices, which will have completely eliminated the $25,000 average business profit.

Impact of TFES Removal

- Northbound TFES payments on vegetables in 2004-05 were $18.75 million and made up around 27 per cent of total Northbound assistance. With around 500 vegetable growers this equates to $37,500 per grower. Vegetable growers also benefit to some extent from other Northbound assistance, and Southbound assistance on machinery, stock, packaging materials and fodder.

- If freight assistance was removed it is expected that most of the reduction would be passed onto farmers in the form of reduced prices. For processed potatoes, peas and beans the likely reduction in farm price would be 14 to 17 percent. The impact would be higher than this for fresh vegetables. With fresh carrots, for example, it is expected that the farm price would fall by 71 per cent from $105 to $30 per tonne!

- Based on the ABARE survey results for 2004-05 the impact of the expected price reductions would be to reduce the $25,000 average farm business profit to -$15,000. Return on capital would be reduced from 2.9 per cent to 1.0 per cent. This is before the reductions in vegetable and poppy income that have already taken place. Taking these impacts into account average returns would be considerably less than -$15,000.

- While some of the more efficient growers would be able to survive lower prices, many would not and it is likely that total vegetable production would fall. Reduced throughput would impact on processing factory viability, which would in turn place further downward pressure on farm prices. Also, during an adjustment phase the price of other non-TFES vegetables would also be forced down as farmers sought alternative outlets for their production. So the total impact on farm incomes would be greater than the initial $37,500 cut in assistance.

- A substantial reduction in the output of both processed and fresh vegetables would occur.

- There are three vegetable processing factories in Tasmania with combined direct employment of around 700 people (full time equivalents). Simplot Australia operates a large potato-processing factory at Ulverstone and a mixed vegetable plant at Devonport (frozen peas, beans, broccoli and carrots etc). McCain Foods operates a potato processing plant at Smithton and also processes a range of other vegetables.

- Any significant reduction in throughput would reduce the viability of these processing plants and closures would most likely result. Most sales are made to the mainland and while McCains may be in a position to expand Victorian production somewhat, it is expected that any reduction in Tasmanian production would predominantly be made up with increased imports.

- There are five major fresh vegetable packing operations in the State, and a number of smaller enterprises, many of which are farm based or have expanded from farm growing operations. Combined direct employment is around 400 people (full time equivalents). Most sales are local or to the mainland. Any shortfall in Tasmanian output would probably be made up with an increase in mainland production. However, this would place additional pressure on already limited water supplies in the mainland vegetable growing areas, and these areas are already experiencing difficulty attracting casual employees for harvesting and packing.

- The wholesale value of packed and processed vegetables in 2003-04 was $404 million. If Tasmania's three processing factories were to close it is likely that around three-quarters of that total would be replaced by overseas imports into Australia – say $300 million.

- If TFES freight assistance were removed there would be a substantial reduction in employment in Tasmania. Many rural communities in northern Tasmania are heavily dependent on cropping, dairying and timber industries that receive freight assistance. In the vegetable industry alone the reduction in farm output and subsequent factory closures could conservatively lead to a loss of perhaps 1,500 jobs.

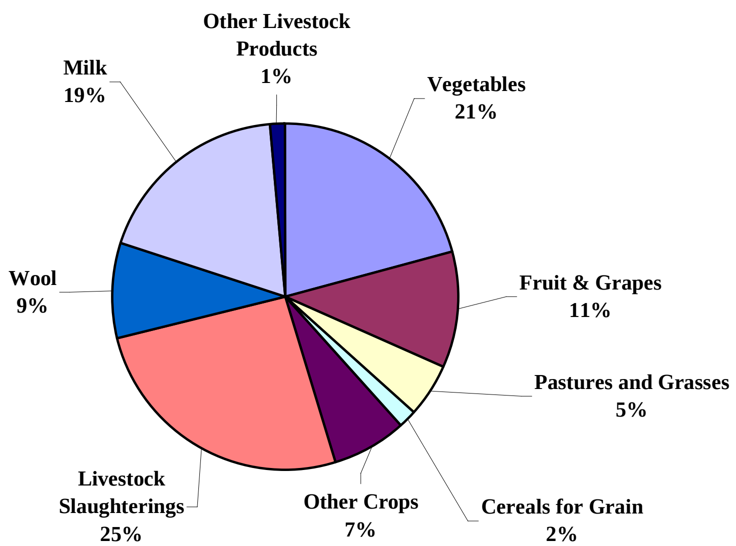
2 Tasmania's Vegetable Industry

The vegetable industry is a major part of the agricultural sector in Tasmania. It is a significant source of income and employment and underpins many of Tasmania's rural communities across the north of the state.

2.1 Background

Vegetables make up around 20 per cent of the total gross value of agriculture in the State (Figure 1). The industry is dominated by the processing sector and produces the bulk of Australia's frozen vegetables. There are two large multinational companies (Simplot Australia and McCain Foods Australia) and a number of smaller operators who supply niche markets with fresh vegetables. Simplot has processing plants at Devonport and Ulverstone and McCains has a plant in Smithton.

Figure 1: Gross Value of Agricultural Production, Tasmania, 2003-04



Source: ABS, Value of Commodities, 7503.0

The vegetable industry is more important in Tasmania than in other states. Around 13 per cent of Tasmanian establishments are vegetable growers compared to the next highest (Queensland) with 5 per cent (Table 1).

Table 1: Vegetable Growing Establishments by State, June 2004

	Vegetable Growing Establishments	Proportion of Farms Growing Vegetables
NSW	761	2%
Vic	920	3%
Qld	1,247	5%
SA	406	3%
WA	445	4%
Tas	509	13%
NT	8	<1%
ACT	0	0%

Source: ABS (2005) Agricultural Commodities 7121.0

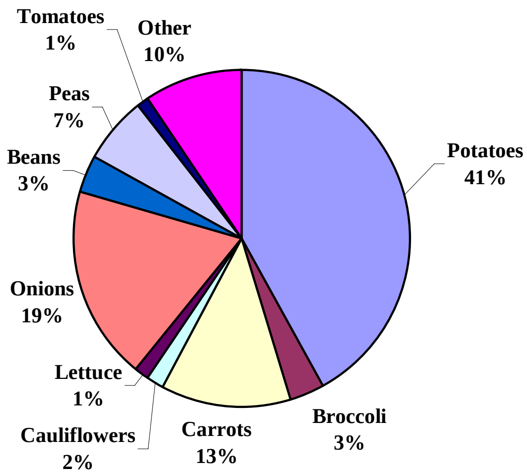
In 2003-04 the total gross value of vegetable production was around $180 million (Table 2). This is estimated to have fallen to around $160 million in 2005-06. Potatoes (mainly for processing) are the most important crop followed by onions, carrots and peas. Other than onions most of Tasmania's vegetable production is sold within Australia.

Table 2: Gross Value of Tasmanian Vegetable Production, 2003-04

Vegetable Crop	Gross Value
	($ million)
Potatoes	75.3
Onions	33.6
Carrots	22.5
Peas	11.7
Beans	6.2
Broccoli	5.9
Cauliflowers	3.2
Lettuce	2.2
Tomatoes	1.7
Other	17.1
Total Vegetables	179.5

Source: ABS, Value of Commodities, 7503.0

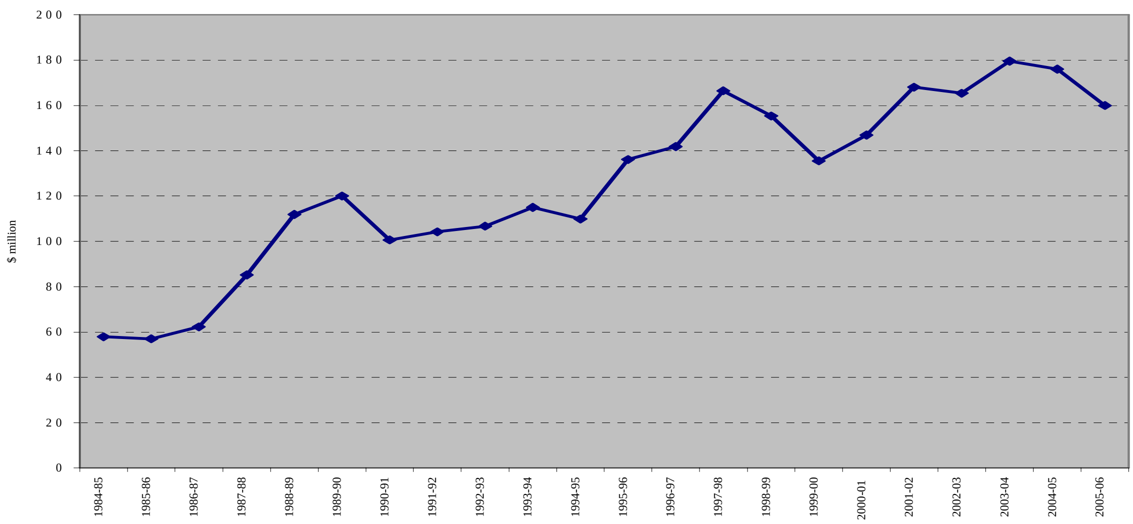
Figure 2: Gross Value of Tasmanian Vegetable Production, 2003-04



Source: ABS, Value of Commodities, 7503.0

Over the past 20 years or so the vegetable industry has grown at a compound rate of growth of around 4.8 per cent per annum (Figure 3). However, growth has flattened off since around 1997-98. A resumption of growth in the early 2,000's has been reversed since 2003-04 as the industry has come under increasing pressure from imports. Current gross value of production is estimated to be around $160 million – slightly down on the 1997-98 result.

Figure 3: Gross Value of Tasmanian Vegetable Production over Time



Source: ABS, Value of Commodities, 7503.0, plus estimates for 2004-05 and 2005-06.

2.2 Recent Industry Pressures

Increasing pressure from vegetable imports over the past year or so has resulted in reductions in contracts for growers and downward pressure on prices. Prices paid to farmers for potatoes and peas, for example, fell by around 1.5 per cent and 15 per cent respectively between 2004-05 and 2005-06.

Unfortunately the downturn in the vegetable industry has coincided with a substantial reduction in the area and value of poppy production. Poppies have been the second most important crop behind potatoes for Tasmanian "vegetable" growers. The area of poppies to be grown this coming season is around 7,000 hectares compared to 20,000 hectares harvested in 2002.

In May 2005 it was announced that McDonalds Australia would end its exclusive contract with vegetable processor Simplot Australia for the production of French fries for the Australian market. McCain Foods who have French fry processing plants on mainland Australia and in New Zealand, were awarded half of the contract. That decision has had a severe impact on the Tasmanian vegetable processing industry as the whole $20 million farm gate McDonalds contract had been met with Tasmanian grown and processed potatoes. While price details are unknown the fact that New Zealand imports have replaced Tasmanian product supports the view that New Zealand production is more competitive.

A situation paper prepared by State government agencies in May 2005[1] highlighted a number of key points:

- Imports of frozen vegetables into Australia had increased during the past 12 months and this trend was expected to increase as supermarkets and processors source even greater volumes from overseas in the immediate future.
- Total vegetable imports were valued at $73 million with peas, sweet corn and mixed vegetables comprising 70 per cent of that total.
- The value of frozen potato imports was expected to increase further as a result of McCain Food Australia being awarded half of the Australian McDonald's French fry supply contract.
- Crop reductions were expected to be valued at around $18.6 million at the farm gate in 2005-06 compared to the previous year (Table 3). This was downgraded to $16.6 million in November 2005 but does not include the substantial reduction in poppy income that also occurred in 2005-06 and the further reduction announced for 2006-07.

Table 3: Tasmanian Vegetable Crop Reductions 2004-05 to 2005-06

Crop	Farm Gate Value Reduction	
	May 2005 Estimate	Nov 2005 Update
	$million	$million
Potatoes	10.0	8.8
Peas	6.0	5.9
Beans, Broccoli, Cauliflowers	2.6	1.9
Total	18.6	16.6

Source: Tas Government[1]

- The reduction in farm gate value will have substantial flow-on effects on income and employment – particularly on the northwest coast.

[1] DPIWE & DED, Tasmania (2005), Tasmanian Vegetable Industry Situation Paper.

- Based on figures collated by Simplot Australia the gap between Australian and overseas competitors' prices to farmers for some key commodities such as peas, potatoes and corn ranges from 10 per cent to 116 per cent. (Note: Processing corn is no longer grown in Tasmania).
- Both processing companies cited the high cost and small scale of production units[2] in Tasmania as affecting the State's competitiveness.
- There is significant pressure on potatoes, peas, broccoli and cauliflowers for processing. The cost of raw material into the factory is currently at a level that makes it difficult to compete with low cost product from overseas.
- Australian producers are being faced with increasing costs as well as falling prices.
- The high Australian dollar is adversely affecting international competitiveness and is unlikely to decline relative to major competitors in the medium term

A vegetable industry taskforce reported to the Premier and the President of the Tasmanian Farmers and Graziers Association (TFGA) in November 2005. The key issues raised were:

- The estimated $16.5 million decline in farm gate value of vegetable production in 2005-06 (above)
- An increase in the amount of imported processed vegetables into Australia from $151.2 million in 2002 to $175.8 million in 2005.
- In the category of frozen vegetables, imports increased from $71.8 million in 2001 to $105.1 million in 2005[3].
- Of particular concern to the Tasmanian industry has been the growth of New Zealand, South Africa, the European Union and China in the processed food markets. The availability of products from these countries has increased the intensity of competition in the market forcing Tasmanian producers to achieve further productivity improvements and cost reductions in order to remain competitive.
- Competition with China, New Zealand and other vegetable producers is likely to further intensify as Australia is currently developing free trade arrangements with China, as well as Malaysia and the ASEAN group. Bilateral trade agreements have already been signed with Singapore, Thailand and the United States. Import tariffs on vegetables imported into Australia are already low, however.

2.3 Vegetable Growers Financial Returns

ABARE has recently reported on the international competitiveness of the Australian vegetable production sector[4]. The ABARE study came out of the Fair Dinkum Food campaign in mid-2005 which highlighted vegetable industry concerns about declining terms of trade and competition from overseas growers.

As a part of that study a survey of the Australian vegetable growers was undertaken – for the 2004-05 financial year. In broad terms the survey revealed that, for the 2004-05 year, Australian growers were generally competitive with their international competitors, and achieved returns and levels of profitability

[2] To some extent the smaller scale of Tasmanian vegetable farms is historic but change is occurring. Also, the undulating and broken nature of the better cropping land in some areas acts to limit the potential for larger sized paddocks. In recent years the two processing companies have been moving to increase paddock and contract sizes. Contract sizes have been increased by favouring larger growers and by combining some smaller producers under larger growers.

[3] This reduction was before the loss of half of the Simplot McDonalds contract worth around $10 million at the farm gate. The $20 million farm gate value represents around $27 million as a processed & packed value (based on a 2.72 multiplier – see Table 2 & Table 8)

[4] ABARE (2006), International Competitiveness of the Australian Vegetable Production Sector, eReport 06.5, April 2006.

comparable to broadacre (beef, wool and wheat) and dairy enterprises in Australia. The profitability of Tasmanian vegetable growers, assisted by TFES, was similar to that achieved by growers in other states.

In relation to average costs of production it was concluded that:
- Potatoes and carrots were competitive with New Zealand
- China has lower potato costs
- New Zealand has lower pea costs

While Australia's average costs of production were generally internationally competitive, there was considerable variability in unit production costs between growers. Also, there was strong empirical evidence to support the view that larger growers tended to have lower costs of production and higher rates of return on capital.

Although the Australian vegetable production sector was found to be generally competitive, there was evidence of increased international competition in both the domestic market – particularly in processed vegetables – and in many of Australia's export markets…. "Competition is generally price related, indicating that Australian producers need to reduce the unit price of commodity outputs, or develop markets for higher differentiated products".

Table 4 summarises the financial performance of the Tasmanian farms surveyed compared to the Australian average. Tasmanian vegetable growers had an average business return of $25,000 (after all costs including interest, owner's wages, and depreciation). The return on capital at full equity was 2.9 per cent, which was similar to the Australian average. These returns are before capital appreciation.

Table 4: Key Financial Performance Measures for Vegetable Growers, 2004-05

	Northern Tasmania	Australia
	$'000	$'000
Capital Invested		
Total farm capital	2,134	2,495
Farm Debt	369	334
Equity ratio	83%	87%
Income & Expenses		
Total cash receipts	483	673
Less total cash costs	381	549
Farm cash income	102	123
Less non cash costs and adjustments for stock	77	88
Farm business profit	25	35
Return on capital – excluding capital gain	2.9%	3.1%

Source: ABARE (2006)[4]

It should be noted that these results were for the 2004-05 year, which is before the reductions in vegetable income outlined for 2005-06 – and the substantial reduction in poppy income. Given that there are around 500 vegetable growers in Tasmania (Appendix 4.1), the anticipated reduction of around $16.6 million of vegetable income in 2005-06 (Table 3) equates to around $33,000 per farm. While growing costs will have been reduced to some extent, the $25,000 average business profit shown for 2004-05 is likely to have been completely eliminated in 2005-06.

3 Impact of TFES Removal

TFES assistance payments on vegetables shipped across Bass Strait represent a major component of total payments and their removal would impact heavily on farm income and viability. This would in turn impact on factory viability and closures would be likely to occur.

3.1 TFES Payments

Northbound freight assistance for vegetables in 2004-05 totalled $18.75 million and made up around 27 per cent of total Northbound freight assistance (Table 5)

Table 5: Northbound Assistance to Vegetables, 2004-05

Commodity Code	Commodity Name	Assistance Paid
		($ million)
59A	Vegetables – Fresh	3.73
59B	Vegetables – Frozen	14.47
59C	Vegetables – Processed	0.52
59D	Vegetables – Other	0.04
Total Vegetables		18.75
Total Northbound Assistance		69.70
Vegetables as a Per Cent of Total		27%

Source: Department of Transport and Regional Services, Tasmanian Freight Equalisation Scheme Statistics, 12 months ending 30 June 2005.

With around 500 vegetable growers in Tasmania, the $18.75 million of assistance represents an average of $37,500 per grower.

Vegetable growers generally run some livestock and therefore also benefit to some extent from freight assistance on livestock, as well as on machinery and equipment and packaging materials. For example in 2004-05 the following payments were made:

Northbound

Livestock	(codes 34A-34M)	$3.84 million
Meat	(codes 39A – 39F)	$0.59 million
Wool	(code 64)	$0.24 million

Southbound

Machinery & Equipment	(codes201-206)	$0.13 million
Livestock	(codes 254-256)	$0.25 million
Packaging Materials	(codes 39A – 39F)	$0.41 million
Fodder & Wheat	(codes 272N-272W)	$2.73 million

3.2 Impact on Farm Prices

If freight assistance was completely removed farm prices might be impacted in a number of ways:

(1) The vegetable processing and packing companies could carry the additional freight costs with no impact on grower prices. This is unlikely given processors in Tasmania are part of an international corporations for which individual business units are generally required to meet hurdle rates of return.
(2) Mainland consumers might pay extra for their fresh and processed vegetables with no impact on grower prices. This is highly unlikely as this is in direct contravention of typical market and supply/demand forces.
(3) The additional cost might be fully passed onto growers through reduced prices. This is most likely.

Given the current competition from overseas producers in the processed vegetable market, and from mainland growers of fresh produce, the third option is considered to be the most likely. Prices paid to vegetable growers in Tasmania would fall significantly.

Assuming that all of the reduction in assistance would be borne by the vegetable growers having been passed on by vegetable processors and fresh vegetable packers, Table 6 shows the anticipated reduction in farm prices. These range from a seven per cent reduction for processed broccoli to 71 per cent for fresh market carrots. For the major crop, process potatoes, there would be a $36 per tonne (15%) price reduction.

Table 6: Impact of TFES on Farm Prices for Interstate Vegetable Sales

Vegetable	Current Price	Price Reduction with Removal of TFES		Adjusted Price
	($/t)	($/t)	(%)	($/t)
Processed Crops				
Potatoes	235	36	15%	199
Onions	150	51	34%	99
Carrots	115	33	29%	82
Peas	375	51	15%	324
Beans	380	63	17%	324
Broccoli	670	50	7%	620
Cauliflowers	480	49	10%	431
Fresh Crops				
Potatoes	280	75	27%	205
Onions	150	75	50%	75
Carrots	105	75	71%	30
Broccoli	1,100	175	16%	924
Swedes	400	75	19%	325

Source: Industry sources – see Appendix 4.2 for details.

The overall average price reduction for each crop will depend on the proportion of processed and fresh product, and the proportion of each that is sold interstate and thereby attracts freight assistance. However, given that 75 to 80 per cent is sold on the mainland it is likely that the overall price reduction will be similar to those shown. More detail is included in Appendix 4.2.

Also, during an adjustment phase the price of other non-TFES vegetables would also be forced down as farmers sought alternative outlets for their production. So the total impact on farm incomes would be greater than the initial $37,500 cut in assistance. Presumably competition would see local prices fall in line with prices for mainland sales.

For fresh vegetables, longer-term output would probably fall to the point where only the local market was supplied – with a price higher than for mainland growers by the cost of freight into Tasmania. However, with reduced throughput and lower packing efficiencies, local packers might not even be able to meet this market and farm prices and production would be further reduced.

3.3 Farm Viability

Farm price reductions of the size outlined in Section 3.2 would have a substantial impact on vegetable farm viability in Tasmania, particularly in light of the current vegetable and poppy industry downturn.

Total Northbound freight assistance on vegetables in 2004-05 was $18.75 million. If TFES was removed and all of the impact was passed onto vegetable growers, the reduction in farm income would be around $37,500 per farmer.

The likely impact on crop prices was outlined above (Table 6).

As with most markets it is anticipated that there may be some growers whose efficiency would enable them to survive but many would not, with a consequent fall in total vegetable production.

While there is some potential for improvements in productivity over time, this is already being tested by the current industry downturn and in any case will take time to occur. As an example, McCain potato growers have increased average yields in recent years due to a combination of better varieties and improved cultural practices – and there has been an increase in the size of grower contracts as smaller growers have exited the industry or joined with other growers. Such changes have helped maintain industry viability to the present time. However, it is highly unlikely that future improvements in productivity would be sufficient to maintain farm viability in the light of the current industry downturn in combination with the substantial price reductions that would follow removal of TFES assistance. The overall effect would undoubtedly be a reduction in farm output.

Reduced throughput would impact on processing factory viability, which would in turn place further downward pressure on farm prices.

An indication of the initial impact of the removal of TFES on farm profitability is outlined in Table 7, based on the recent ABARE survey of Tasmanian vegetable growers. Average farm business profit for the 2004-05 survey was $25,000. After the anticipated price reductions, farm business profit is shown be reduced to -$15,000. Return on capital (at full equity) is reduced from 2.9 per cent to 1.0 per cent, which is only one third of what their mainland counterparts achieve.

Table 7: Effect of TFES Removal on Survey Farm Returns, 2004-05

	ABARE Survey	Adjusted for Reduced Crop Prices
	$'000	$'000
Total cash receipts	483	444
Less total cash costs	381	381
Farm cash income	102	63
Less non-cash costs and adjustments for stock	77	77
Farm business profit	25	-15
Return on capital – excluding capital gain	2.9%	1.0%

Source: Based on ABARE (2006) survey results – see Appendix 4.2

Price reductions of the order shown would result in several of the crops being no longer viable for farmers even if they were able to survive the overall income reduction. In particular, the calculated 71 per cent reduction in the farm price for carrots would definitely result in no crop being grown. And carrots are one of the State's main crops. The indicative 14 to 17 per cent reduction in the price of processed potatoes, peas and beans would also result in many growers cutting production.

It is important to note that vegetable growers require a range of crops for their businesses to be viable. It is not possible to grow only one or two crops because of the requirement for crop rotation. Removal of one or more crops could therefore result in other crops becoming less viable.

As discussed previously, the reduced crop prices resulting from removal of TFES would be in addition to price reductions that have already been made or are being proposed for processed vegetable crops, and would further erode crop gross margins. The overall farm impact would also be in addition to the cut back in poppy price and area that has occurred over the past few years, so the average returns for vegetable growers would in fact be much less than outlined in Table 7.

A substantial reduction in farm returns would lead to reduced farm and contractor employment. It would also lead to a reduction in land prices so as to restore a reasonable return on capital. Equity levels would fall and there would be debt-servicing problems for those with high debt levels. Unfortunately many of those with higher debt loads are younger farmers attempting to grow. At the other end of the scale many smaller farmers would probably exit the industry. While some of this land might be added to existing farms it is likely that many would become hobby farms. Unfortunately off-farm income would be more difficult to find because of reductions in the farm contracting, and vegetable processing and packing sectors.

3.4 Factory Impact

The two vegetable processing companies and the fresh vegetable packing firms would be substantially affected by any reduction in throughput resulting from reduced farm production.

Processing Sector

The potato-processing sector is the backbone of the Tasmanian vegetable industry.

Both Simplot Australia and McCain Foods have specialised potato-processing factories in Tasmania - at Ulverstone and Smithton respectively. A reduction in total State potato production as a result of reduced prices paid to farmers could result in one or both of these factories closing – particularly if there is continued pressure in the Australian market from imports.

Closures might or might not happen immediately. If marginal income was not covering marginal costs closures might happen very quickly. If marginal income was covering marginal costs but not overheads, the plants might be kept in operation for a longer period as the capital asset was run down. In any event there would be no further factory upgrades.

French fries not produced in Tasmania would be mainly replaced by overseas imports. While McCains would have some capacity to expand production at their Ballarat and Penola plants in Victoria they would presumably also increase output at their Timaru plant in New Zealand. In any event Simplot's Tasmanian processed potato production in Tasmania is four to five times that of McCain's. Loss of this production would presumably come entirely from overseas.

Simplot Australia has a vegetable processing plant at Devonport producing frozen peas, beans, carrots, broccoli etc. This plant is under pressure from imports at the present time and there have been reductions in contracts for peas, beans and broccoli. With a general reduction in throughput or with reductions for individual crops this factory would probably become non-viable. Again, it would probably be replaced by imported product.

Fresh Market Sector

The fresh vegetable sector in Tasmania is much less significant than processing vegetables but it is an important sector never-the-less accounting for around 25 per cent of total production (see Appendix 4.2).

The major fresh vegetable packing operations are located close to the intensive production areas in the northwest and northeast. There are five major operations, but also a number of smaller enterprises, many of which are farm based or have expanded from farm growing operations.

The main fresh vegetables are onions, carrots, broccoli and potatoes, which are packed for local and interstate markets. Of these, only onions are exported overseas in any quantity. The other crops are heavily dependent on mainland markets and, as outlined above, farm prices are likely to be greatly reduced by the removal of freight assistance – to the point that they would no longer be viable.

The anticipated 71 per cent reduction in farm prices for carrots would almost certainly result in the immediate elimination of all fresh market production for interstate sales. By reducing factory throughput this would probably result in higher per unit packing costs for both carrots and other crops, which could in turn lead to Tasmanian supply coming from interstate growers and packers.

The viability of packing onions, broccoli and potatoes for mainland markets would also be suspect.

The various crops are inter-dependent. For example, apart from the reduction in throughput resulting from their own farm prices being cut, the economics of packing potatoes, onions, broccoli etc. could also be impacted by the removal of carrots from the equation. As for vegetable growers themselves, most of the vegetable packers require a range of product to maintain factory throughput throughout the year and to keep per unit packing costs low.

Many of the packed vegetables are sold to the main supermarket chains for sale locally and on the mainland. With the supermarkets requiring relatively large lines of high quality product at competitive prices, a reduction in one or more of these qualities would probably lead to a loss of supply contracts.

If fresh vegetable production in Tasmania was curtailed as a result of the elimination of freight assistance it is likely that the shortfall would be made up by mainland growers. This would place additional pressure on already limited water supplies in the mainland vegetable growing areas. Those areas are also struggling to find casual employees for harvesting and packing.

3.5 Effect on Vegetable Imports

It is estimated that the removal of TFES payments on vegetables could lead to additional imports of processed vegetables into Australia of around $300 million each year.

As described previously:

(1) Most of Tasmania's vegetable production is for processed product
(2) Most of the product is sold in Australia.
(3) Vegetable farm viability would be heavily impacted by removal of TFES
(4) Total vegetable production in Tasmania would fall and some crops would no longer be grown at all
(5) This would threaten viability of both processing and fresh market factories
(6) Factory closures would be a likely consequence
(7) Some fresh vegetable production lost from Tasmania would be made up by mainland product
(8) Processed vegetables lost from Tasmania would mainly be replaced by imported product

The total gross value of Tasmania's vegetable production in 2003-04 was around $180 million (Table 2).

Work undertaken recently by the Tasmanian Department of Primary Industries and Water has shown that this translates to around $404 million once it is packed and processed (Table 8).

Table 8: Wholesale Value of Packed & Processed Tasmanian Vegetables, 2003-04

Crop	Packed & Processed Value
	($ million)
Potatoes	205
Onions	47
Carrots	59
Peas	34
Other Vegetables	59
Total	404

Source: DPIW (2006), Tasmanian Food Industry Value Card

If Tasmania's three processing factories were to close it is likely that around three-quarters of the total wholesale value of $404 million in 2003-04 would be replaced by overseas imports into Australia – say $300 million.

3.6 Impact on Employment

If TFES freight assistance were removed there would be a substantial reduction in employment in Tasmania. Many rural communities in northern Tasmania are heavily dependent on cropping, dairying and timber industries that receive freight assistance. In the vegetable industry alone the likely reduction in farm output and subsequent factory closures could lead to a loss of perhaps 1,500 jobs. This is likely to be a conservative estimate.

There are no employment statistics that show total employment in the vegetable industry. The ABARE vegetable survey suggests an average of around two people employed on 500 vegetable farms. Beyond this there are people employed by contractors who do much of the land preparation, planting, spraying and harvesting and cartage. The vegetable processors and packers are also significant employers. In total, direct vegetable industry employment in the State is likely to be in the order of 2,600 people:

Farm (owners & employees)	1,000
Farm contractors	500
Processing and packing	1,100
Total	2,600

While the estimated loss of 1,500 jobs is only a rough estimate it does give some idea of the potential impact of the removal of TFES – in addition to recent vegetable industry cut backs and the loss of supporting income from the poppy industry.

4 APPENDICES

4.1 Appendix 1: Numbers of Vegetable Growers

Total Vegetable Establishments by State

	Vegetable Growing Establishments	Proportion of Farms Growing Vegetables
NSW	761	2%
Vic	920	3%
Qld	1,247	5%
SA	406	3%
WA	445	4%
Tas	509	13%
NT	8	<1%
ACT	0	0%

Source: ABS (2005) Agricultural Commodities 7121.0

Vegetable Growers by Crop

Crops	2003-04	2004-05	2005-06
Processing			
Potatoes	450	449	413
Peas		246	175
Beans		182	178
Broccoli	65	65	65
Cauliflowers	52	52	52
Fresh			
Onions		202	
Carrots		89	
Lettuce		20	
Potatoes		70	
Broccoli		25	
Tomatoes		21	
Swedes		38	
Other		27	

Source: Tasmanian Government (2005) Tasmanian Vegetable Industry Situation Paper, Appendix 3.

4.2 Appendix 2: Impact of TFES Removal on Vegetable Farm Returns

(1) Tasmanian Vegetable Production

Crop	Production	Interstate Sales	
	(t)	(%)	(t)
Processed			
Potatoes*	387,000	90%	348,300
Onions	2,500	90%	2,250
Carrots	17,500	90%	15,750
Peas	22,300	90%	20,070
Beans	14,700	90%	13,230
Broccoli	6,300	90%	5,670
Cauliflowers	5,100	90%	4,590
Swedes	0	0%	0
	455,400		409,860
Fresh			
Potatoes	18,000	10%	1,800
Onions	80,800	20%	16,160
Carrots	41,000	60%	24,600
Peas			
Beans			
Broccoli	2,700	50%	1,350
Cauliflowers	1,000	0%	0
Swedes	2,800	85%	2,380
Other	11,770	25%	2,950
	140,070		49,240
Total Vegetables	595,470		459,100

Source: DPIWE & DED, Tasmania (2005), Tasmanian Vegetable Industry Situation Paper, Appendix 3, 37-40, plus industry sources

* Process potatoes includes an estimated 20,000 tonnes of seed crop.

(2) Impact of TFES Removal on Farm Price

Step 1: TFES per Tonne of Product

Product	TFES per Container	Tonnes per Container	TFES per Tonne of Product	Processing Recovery from Farm Product	Farm Product per Tonne of Factory Product	TFES per Tonne of Farm Product
	($)	(t)	($/t)	(%)	(t)	($/t)
Processed						
Potatoes	800	13.5	59.3	60%	1.67	35.6
Onions	800	11.0	72.7	70%	1.43	50.9
Carrots	800	15.0	53.3	62%	1.61	33.1
Peas	800	15.0	53.3	95%	1.05	50.7
Beans	800	11.0	72.7	87%	1.15	63.3
Broccoli	800	10.0	80.0	62%	1.61	49.6
Cauliflowers	800	11.0	72.7	67%	1.49	48.7
Swedes						
Fresh						
Potatoes	1,650	22.0	75.0	100%	1.00	75.0
Onions	1,650	22.0	75.0	100%	1.00	75.0
Carrots	1,650	22.0	75.0	100%	1.00	75.0
Peas						
Beans						
Broccoli	1,650	9.4	175.5	100%	1.00	175.5
Cauliflowers						
Swedes	1,650	22.0	75.0	100%	1.00	75.0

Source: Industry Sources Note: Farmer payment for fresh vegetables is on a pack-out basis.

Step 2: Impact of TFES Removal on Farm Price

Product	Current Farm Price	Price Reduction with Removal of TFES		Adjusted Farm Price
	($)	($/t)	(%)	($/t)
Processed				
Potatoes	235	-35.6	-15%	199
Onions	150	-50.9	-34%	99
Carrots	115	-33.1	-29%	82
Peas	375	-50.7	-14%	324
Beans	380	-63.3	-17%	317
Broccoli	670	-49.6	-7%	620
Cauliflowers	480	-48.7	-10%	431
Swedes				
Fresh				
Potatoes	280	-75.0	-27%	205
Onions	150	-75.0	-50%	75
Carrots	105	-75.0	-71%	30
Peas				
Beans				
Broccoli	1,100	-175.5	-16%	924
Cauliflowers				
Swedes	400	-75.0	-19%	325

Step 3: Impact on Overall Farm Prices

Weighted average price reduction based on proportion of fresh and process crop, and the amount of interstate (TFES) sales.

Product	Process		Fresh		Overall Price Reduction
	Proportion of Crop	Proportion Interstate	Proportion of Crop	Proportion Interstate	Process + Fresh
	(%)	(%)		(%)	(%)
Potatoes	96%	90%	4%	10%	-13%
Onions	3%	90%	97%	20%	-11%
Carrots	30%	90%	70%	60%	-38%
Peas	100%	90%	0%	0%	-12%
Beans	100%	90%	0%	0%	-15%
Broccoli	70%	90%	30%	50%	-7%
Cauliflowers	84%	90%	16%	0%	-8%
Swedes	0%	0%	100%	85%	-16%

(3) Impact of Price Reduction on Farm Profitability

Farm Returns	ABARE Survey 2004-05	Impact of TFES Removal	Adjusted Survey Result
Receipts			
Potatoes	167,511	-13%	145,515
Onions	27,777	-11%	24,828
Carrots	18,400	-38%	11,449
Peas	13,430	-12%	11,797
Cauliflowers	12,526	-8%	11,569
Other vegetables	30,659	-15%	26,060
Other crops	117,082	0%	117,082
Total crop income	387,385		348,300
Livestock income	59,157		59,157
Off-farm sharefarming	3,816		3,816
Off-farm contracts	14,626		14,626
Other cash receipts	17,863		17,863
Total Cash Receipts	482,847		443,762
Cash Costs			
Livestock purchases	19,104		19,104
Seed	30,105		30,105
Fodder	855		855
Agistment	2,012		2,012
Fertiliser	51,859		51,859
Sprays	28,702		28,702
Fuel & oil	21,974		21,974
Repairs & maintenance	33,566		33,566
Shearing & crutching	1,300		1,300
Administration	13,227		13,227
Freight	12,870		12,870
Handling & marketing	2,890		2,890
Materials	5,186		5,186
Rent & rates	8,332		8,332
Interest payments	27,874		27,874
Hired labour	28,349		28,349
Payments to sharefarmers	2,954		2,954
Other cash costs	89,558		89,558
Total Cash Costs	380,717		380,717
Financial Performance			
Total cash receipts	482,847		443,762
less total cash costs	380,717		380,717
Farm cash income	102,130		63,045
plus build-up in trading stocks	-1,223		-1,223
less depreciation	31,290		31,290
less operator/manager & family labour	45,050		45,050
Farm business profit	24,567		-14,518
EBIT	61,441		22,356
Rate of return*	2.9%		1.0%

* Excluding capital appreciation

Capital	
Total farm capital	2,133,671
Total debt	368,796
Equity	1,764,875
	83%

Source: ABARE (2006), International Competitiveness of the Australian Vegetable Production Sector eReport 06.5