TASMANIAN FARMERS & GRAZIERS ASSOCIATION

Submission to:

Productivity Commission Inquiry
Draft report into
Tasmania's Shipping Costs
And the Competitiveness of the
Tasmanian Freight Industry

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ABOUT THE TFGA

The TFGA is the peak body representing farmers and, more broadly, agriculture across Tasmania. It is one of the state's foremost and respected lobbying and advocacy organisations. TFGA members are responsible for generating approximately 80% of the value created by the Tasmanian agricultural sector. The TFGA also takes a keen interest in the well-being of the rural communities within which members live and work, as well as member enterprises themselves.

Operationally, the TFGA is divided into separate councils that deal with each of the major commodity areas. As well, we have a number of standing committees that deal with cross-commodity issues such as climate change, biosecurity, forestry, water and weeds. This structure ensures that we are constantly in contact with farmers and other related service providers across the state. As a result, we are well aware of the outlook, expectations and practical needs of our industry.

TFGA is dedicated to proactively generating greater understanding and better-informed awareness of farming's modern role, contribution and value to the entire community. The keys to our success have been our commitment to presenting innovative and forward-looking solutions to the issues affecting agriculture, striving to meet current and emerging challenges, and advancing Tasmania's vital agricultural production base.

AGRICULTURE IN TASMANIA

The total Tasmania gross state product (GSP) was $23.9 billion for the 2012 year. The GVP of agriculture, forestry and fishing collectively amounted to almost 9% of this total, which is well above that for the nation as a whole.

In 2010/11, the farm gate value of production (GVP) of agriculture, forestry and fishing was $1.98 billion. This comprised:

- agriculture - $1.150 billion;
- forestry - $235million; and
- fishing - $597 million.

This is before considering input supply services and value-adding. Taking into account basic multiplier factors, this means the farm-dependent economy contributes more than $5.0 billion to the gross state economy - in spite of adverse pressures on the forestry industry.

Over the past 25 years, the average annual rate of increase in farm gate GVP has been close to 4%. Average growth in the farm GVP over the recent past has been slightly slower than in past years. This reflects reduced export returns due to the high value of the $A and increasing cost pressures along the value chain.

Milk and milk products followed by livestock and livestock products were the main sector contributors to farm production value.

However, this was partly offset by reduced vegetables output associated with severe wet weather at harvest in the first quarter of 2011.

The preliminary Tasmanian government Scorecard data for 2010-11 (prepared by DPIPWE) indicates the wholesale value of food and beverage production has remained steady, roughly in line with the previous year at $2.7billion This demonstrates the important role that the processing sector plays in adding value to farm gate returns and the fortunes of those who live and work in the farm dependent sector.

Furthermore, the inclusion of forestry as a long cycle crop enterprise in farming businesses in the state means that the overall economic contribution must include these figures too. Our best estimate is that in 2009/10 this added a further $400 million to farm gate income. Clearly, as a result of the uncertainty currently evident in this sector, that figure has fallen significantly since then. Nonetheless, on a long term outlook, forestry remains an integral part of a diversified farm business. Compared to the previous year, growth in agriculture GVP has broadly offset the fall in forestry GVP.

The vast bulk of our agricultural product is sold interstate and overseas. Farm exports in 2010/11 easily exceeded $550m (farm gate equivalent value) when account is taken of pharmaceutical products. The share of exports to Asian destination exceeded 50%. In addition, it is estimated that a further $1.8 billion of raw and value-added product was shipped to the mainland.

In 2011/2012, total exports from Tasmania were valued at $3.196 billion. Agricultural products represented some 30% of that total – approximately $1 billion. Almost 25% of total exports ($502 million) were destined for ASEAN countries. Agricultural products valued at approximately $121 million represented 25% of that total. ASEAN countries have become increasingly important destinations too, with overall exports increasing marginally over the past three years; and food exports alone increasing significantly from $71 million to $96 million over the period 2009/2010 through 2011/2012. Major products exported to ASEAN countries included dairy ($42 million); seafood ($32 million) and wood products ($20 million estimated from private forestry sector). Key destinations included Japan (35%), China (21%), and Hong Kong (21%).

Some 10,500 people were employed directly in agriculture forestry and fishing. A further 8,500 people were employed in services to agriculture and food and fibre value-adding. This is close to 9% of the working population in Tasmania.

Farmers are also significant land managers in the state, with almost a third of Tasmania's land area of 68,300 sq. km committed to agriculture.

These figures clearly confirm the importance of the sector as an economic driver for the state's economy – and also demonstrate that agriculture is a more significant contributor to the Tasmanian economy than in any other state. With this in mind, it is clear that Tasmania needs to ensure that the agricultural base of the state remains competitive and profitable.

COMMENTS

This submission is made as an adjunct to our previous submission to the Productivity Commission in December 2013 and in response to the Draft report published by the PC in January 2014.

As previously stated, these schemes exist to address specific freight and people movement disadvantages across Bass Strait on terms that seek to 'equalise', offset or compensate to a level that equates with the cost of conducting the same activity over a similar distance by road or rail on the Australian mainland. The justification for doing so is underpinned by Australian federation of the states. This is interpreted to mean that all Australians should have access to transport on equal terms – in other words, the cost of transporting goods or people across the 420 kilometres of Bass Strait should be no different to that of moving similar volumes 420 kilometres from, say, Melbourne.

The Australian Government spends in excess of $3.0 billion a year on construction, upgrade and maintenance of highway road and rail infrastructure on the mainland. In the context of Tasmania, where there is no inter-capital-city road or rail link, the annual upgrade and maintenance costs that apply to mainland road and rail infrastructure are avoided over the 420km of Bass Strait. The TFES and BSPVES are thus seen as the equivalent annual recurring Australian government expenditure on the mainland, in the absence of feasible infrastructure alternatives.

The fact remains that, when the then Australian Government introduced the TFES in 1976, it was on the basis of recommendations from the Nimmo Commission of Inquiry and was aimed at eliminating the freight disadvantage incurred by Tasmanians as a result of Bass Strait.

The proposition is relatively simple, Tasmanian producers cannot access their markets by road; they have to use shipping. The objective of the TFES has always been to equalise their costs with those of mainland producers who do have the option of using the national road system. The cost of moving goods across 420km of Bass strait should be the same as moving goods over 420km of road on the mainland. This equalisation concept also applies to the southbound scheme.

Unfortunately, the argument has lost its simplicity as details have mounted, a multitude of exemptions have been permitted and anomalies have infiltrated the scheme. The continued debate over public verses private ownership of infrastructure coupled with the monopolistic behaviour of the Melbourne Ports Authority and changed Australian labour conditions have also contributed to the complexity.

Concurrently, Tasmania has contributed to the intricacy with an unwieldy infrastructure system with too many ports and inadequate railway maintenance, at the same time global market conditions have forced a withdrawal of direct international shipping.

The Tasmanian Farmers and Graziers Association believes that the Freight Equalisation Scheme needs to work effectively in today's environment while holding onto the original premise of ensuring a level playing field for Tasmanian producers.