TASMANIAN FARMERS & GRAZIERS ASSOCIATION

Submission to Senate Enquiry into Food Processing in Australia

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OVERVIEW

Agriculture and food processing[1] in Australia are intertwined sectors. This is even more so in Tasmania, where agriculture and fisheries farm gate earnings were $1643m in 2009/10, almost 10% of gross state product (GSP) and a further 20% in community/small business multipliers.

The Tasmanian Government has a vision to substantially increase its food and agriculture output beyond the state's physical limit of 1% of Australia's land mass. This vision is being supported by a number of output increasing projects, the most significant of which is a $400m water storage and reticulation infrastructure investment to expand and 'drought-proof' agriculture. This program is funded by both state and federal governments, in partnership with farming sector investors.

The latest ABARES 2009/10 data shows that Tasmania's farm gate output as a percentage of total Australian production exceeded 3% in 2009/10. With new irrigation and agricultural production options coming on stream, this could be expected to exceed 5% in coming years. The food processing sector in Tasmania features several large national and multinational companies producing a range of bulk food commodities including milk powder, cheese, fresh and frozen vegetable and potato products, salmon, red meat, confectionery and beer and wine. Integral to crop rotation efficiency are two other important non-food crops, poppies and pyrethrum, which are crop diversification alternatives that help to build capacity within the sector. Last but not least, there are a number of smaller growers and processors of branded boutique and/or value-added products, some of which are heavily dependent on the tourism sector for income and growth.

Being an island state with a small local market, the challenge for Tasmania's agriculture and food processing sectors is to harness the ideal food production environment to competitively produce and deliver large volumes of superior quality foods to interstate and export markets. Because of climatic advantages, Tasmania plays an important role in shoring up Australia's food security as a key seasonal supplier. Hence, the view underpinning this submission is that, in spite of there being significant processing sector (including food) cost challenges, they are not insurmountable given competitively robust and far-sighted industry policy and programs.

The food processing sector in Tasmania is impacted by the following:

- The cost and availability of sea freight: At an extra (average) cost of some $30/m^3 to deliver product by sea to the Australian mainland (compared to land freight) coupled with the recent loss of direct export shipping from the state, the Tasmanian Freight Equalisation Scheme is considered an essential support in delivering competitively priced product to and from the mainland.

[1] Food processing means value adding agricultural processes along the food value chain and includes such activities as washing grading and packaging of food for wholesale and retail customers.

- Higher and inflexible national wage cost settings, together with energy, water and raw material input costs, place downward pressure on already relatively modest processing sector profitability. In recent years Australia's processing sector return on investment (ROI) has averaged between 7 and 10% and, in a number of instances, has been much lower.
- The high value of the Australian dollar on food processing sector capacity to attract resources and contain production costs; coupled with the increased competitiveness of cheaper imports that are readily accessible by large retailers, food service operators and, increasingly, consumers themselves.
- Although uncertainty surrounds the impact on supply chain operating costs of a price on carbon emissions, there seems little doubt that it will overlay the cost of energy intensive inputs – especially electricity at farm and in processing.
- The adverse influence on processor/wholesaler margins of food retailer concentration and market power on product prices, branded product range and new product development is well recognised. The need for greater competition in that sector of the supply chain as evident in ACCC approval of the Metcash takeover of Franklins is also recognised.
- An increased emphasis on 'user pays' in accessing government R&D and EMDG funding is making it harder for the processing sector to address productivity, innovation and the new infrastructure that comes with it. This tougher position does not appear to be supported by the return multipliers – especially in relation to R&D.
- An increasingly tough regulatory environment relating to development planning approval, food preparation standards, food labelling, product inspection, waste management, corporate governance and taxation obligations all of which add a layer of cost which competitors either do not pay or do so at much lower compliance levels. Further, some of these costs are incurred in the public interest – apparently adding little or no value.

While many of these issues are not new to the food processing sector, the impact on industry of the disadvantages they encompass can be expected to increase more over the next 2 – 3 years than at any time in the last 30 years. While this is raising the competitive stakes for the existence of the Australian food processing sector, history tells us that the competitive onslaught is cyclical and therefore not permanent. To the extent that the sector is important to the Australian economy, consideration of measures that can help to address this onslaught is justified.

In considering food processing sector issues and future direction, it is hoped the Senate Committee will focus on the following:

- While agriculture land may be where the product is grown, the food processing sector in many instances provides the gateway to the food market. As Australia is a large net exporter of some 6% of agricultural production, this gateway role is important.

From Tasmania, the percentage of product shipped to export and interstate markets is higher still. It follows therefore that when evaluating sector relevance and competitiveness, it is important that it be considered in a whole-of-supply chain context. Put another way, the competitiveness of Australian agriculture has as much to do with supply chain market access as it does with relatively low costs of production.

- With a large proportion of the Australian processing sector located in regional Australia (estimated at not less than 40% - and much higher in Tasmania), loss of processing sector viability has major adverse implications for regional employment, training and support service income multipliers through communities in retail, food service and tourism. Conversely, it is clear from recent work reviewing government initiated regional investment undertaken by the Grattan Institute that closure/relocation of processing, can cause long-term (if not permanent) human resource dislocation. This inevitably brings substantial cost to the taxpayer through increased demands on the social security system. The point here is that the food processing sector generates hidden benefits which are not easily or evenly captured in a totally free market approach to industry restructure.
- Recognised or pre-existing areas of competitive disadvantage should be addressed first. By way of example, to the extent that Australian processors already faces higher and inflexible labour related shift /weekend loadings and/or compliance costs than overseas competitors in the same industry, addressing them ought to be a priority - and implemented in a manner consistent with the work characteristics of the sector. Consumer retail and food service is a 24/7 business – in the same way as weekend shopping is today but certainly wasn't as recently as 20 years ago. As such, workers doing a 38hour week from say Wednesday to Tuesday should be paid on a weekly rate without weekend loadings. This is in line with the cultural shift in operational and customer service and, the food processing sector needs to reflect similar flexibility. Similarly, where government instrumentalities press for service cost increases that aggravate processing competitiveness, these costs are ideally addressed head-on as the output per unit of input productivity gains that flow from enhanced flexibility can be relatively large.
- The interdependence of agriculture and food processing means that raw material inputs to processing have a significant role to play in competitiveness. As a rule-of-thumb, raw material inputs account for at least two-thirds of the process cost of goods sold (COGS) for most agriculture based processors. Therefore, finding ways to reduce the cost of key grower inputs such as fertiliser, fuel and energy is necessary to make primary product prices competitive. Where prices for such primary product inputs are higher than local or overseas competitors supplying into the same market for extended periods of time, the marketing or financial risk for a food processor is significantly increased.
- The question of whether lower food prices to consumers always outweigh the cost to the public in industry restructuring needs to be examined more critically. Economic theoretricians says you export what you can produce cheaper and you import what you can't; but it is not that simple. In spite of the macro uncertainty, Australian government policy suggests the mining sector demand cycle will deliver wealth benefits to the

Australian community that are large enough to offset the costs of restructuring the food processing sector of the kind evident in the motor vehicle and TCF industries over the past 15 years. However, unlike those industries of the past, the food processing sector already operates under relatively low levels of protection. Secondly, in the face of food security concerns and rising Asian incomes, demand for Australian processed food can reasonably be expected to continue long after the mining cycle is over. Further, as the expected wealth is essentially dependant on the growth fortunes of two countries - China and India - which in turn are reliant on the market fortunes indebted US and EC economies, there is little reason for absolute confidence.

- Rising Asian and Middle East country incomes will ensure demand for competitively priced food protein has a future and the recent spate of foreign investment in the Australian processing sector suggests this view is held internationally. It calls for a long term belief that helping the food processing sector to adjust to increased competition without tariff or quota walls has the potential to generate substantial wealth into markets which have the income but not the resources to produce food. This is absolutely consistent with the Australian government long term commitment to seeing the Doha Round and anticipated market access gains through to completion.

The Way Forward

Taking a long term view, it is considered that the aim ought to be to implement measures that build resilience into or help capacity build the food processing sector. Steps that might be considered revolve around making the food processing environment more competitive and stretching resources. Accepting that the high $A and mining sector resource "crowding out" will mean tough going in the short to medium term, the steps that might be considered in an Australian and (where specific) Tasmanian context, are as follows:

- Acknowledge that the economics of agriculture and food processing are joined at the hip and support a much more openly stated policy that fosters collaboration between the sectors – for their long term good and competitiveness. The current perception is that Australia can be competitive in food production, but that the processing sector is dispensable.
- Although balancing the Australian budget by 2012-13 is a key government objective, those areas of the Henry taxation review that could support processing sector investment need to be debated. This might start with addressing the role of the goods and services (GST) and the distortions created from the various exclusions (unprocessed food, education and areas of finance), when the GST was introduced 11 years ago. At the time the 10% GST tax rate was set, it approximated 0.5% of GDP. The tax collection today is in the order of 0.35% of GDP, which is at the lowest end of the OECD spectrum. As a "user pays" tax, it was made clear that the GST would replace inefficient state taxes that hit medium sized labour intensive business disproportionally - payroll and stamp duty specifically.

Resetting the GST at 15% and eliminating the exclusions would help ease the declining tax allocation back to states, support business by eliminating more inefficient state taxes, allow further reduction in the company tax rate and possibly help balance the Federal budget – all recommendations of Henry.

- Remove the rigidities from the labour market that particularly impinge on labour productivity in the food processing sector. A useful starting point would be to review award and over-award provisions in the NZ food processing sector – a key competitor. On the assumption that the mining sector has the financial capacity to attract the labour it wants, at least in the short term, there seems less reason to maintain the inflexible features of processing awards. In a broader sense, it may also encourage greater labour mobility. The focus would ideally be on shift allowances, weekend loadings and unrealistic hourly demarcations but not minimum awards or skills based loadings.
- Publicly funded agriculture research and development (R&D) has been reduced by 40% over the last five while access to export market development (EMDG) has also been dramatically curtailed. This is despite broad evidence that shows the expenditure provides a sound return to taxpayers.
- Further, it seems evident the decline farming productivity from the early 2000s from the average of around 2.5% in the 1990s (an average of 1.4%) tracks the cuts in agricultural research.
- Extension of the Tasmanian Freight Equalisation scheme (TFES): In the role of a freight equaliser rather than freight subsidiser, now that direct shipping from Tasmania to export markets has ceased, it is considered that the TFES should be extended to exports. The assistance does nothing more than equalise the freight to the nearest mainland export port – at which other Australian exporters compete on the same freight terms. As an interstate support rather than export subsidy, there is no reason to suggest that this approach would not be WTO compliant.

About the TFGA

The Tasmanian Farmers and Graziers Association (TFGA) is the peak body representing farmers and, more broadly, agriculture across Tasmania. While primarily representing the interests of farmers, the TFGA recognises the interdependence of agriculture and food processing in Tasmania. This interdependence underpins the vitality of rural communities and services provided regionally in the state. Nowhere is this more evident historically than in vegetable/ potato processing and marketing companies which have been complementary to production of a wide range of high quality vegetables - enabling farmers to take full advantage of the exceptional climate for food production in Tasmania. The TFGA is therefore a strong advocate for the competitiveness of both sectors.

The organisation was formed by the merger of the Tasmanian Farmers, Stockowners and Orchardists Association and the Tasmanian Farmers Federation in 1980.

TFGA has earned a formidable reputation as a leader in the identification, development and achievement of policy outcomes - championing issues affecting farmers and dedicated to the advancement of agriculture.

To provide services and networks for the 3000 strong farming community, TFGA has offices in both Launceston and Hobart. We are also a member of a number of relevant state and national industry organisations – including TAPG and see these relationships important to promoting our members' interests and to work on issues of common interest.
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

In 2009/10, the farm gate value of agriculture, forestry and fishing was $1.933 billion – comprising agriculture - $1.079 billion, fishing - $563 million and forestry $290 million and generates close to 10pc the gross state product.

More than 20,000 people were directly employed in farm related activities – which represented around one in every 12 jobs. Taking into account basic multiplier factors, this means the farm-dependent economy contributes at least $5.6 billion to gross state economy and employs one in every 10 Tasmanians.

The vast bulk of our agricultural product is sold interstate and overseas. Farm exports in 2009/10 were valued at close to half a billion dollars ($482.6m). In addition, a further $1.611 billion of product was sent to the mainland. While milk production was down compared to the previous year – potatoes, carrots and vegetables generated increased revenues.

Not only that, the sector is one of very few in the state that have continued to deliver improved performance over the long term. Over the past 25 years, the average annual rate of increase in farm gate GVP has been 4% and from 2003/2004 to 2009/2010, the actual increase was 20% - from $1.35 billion to $1.61 billion.

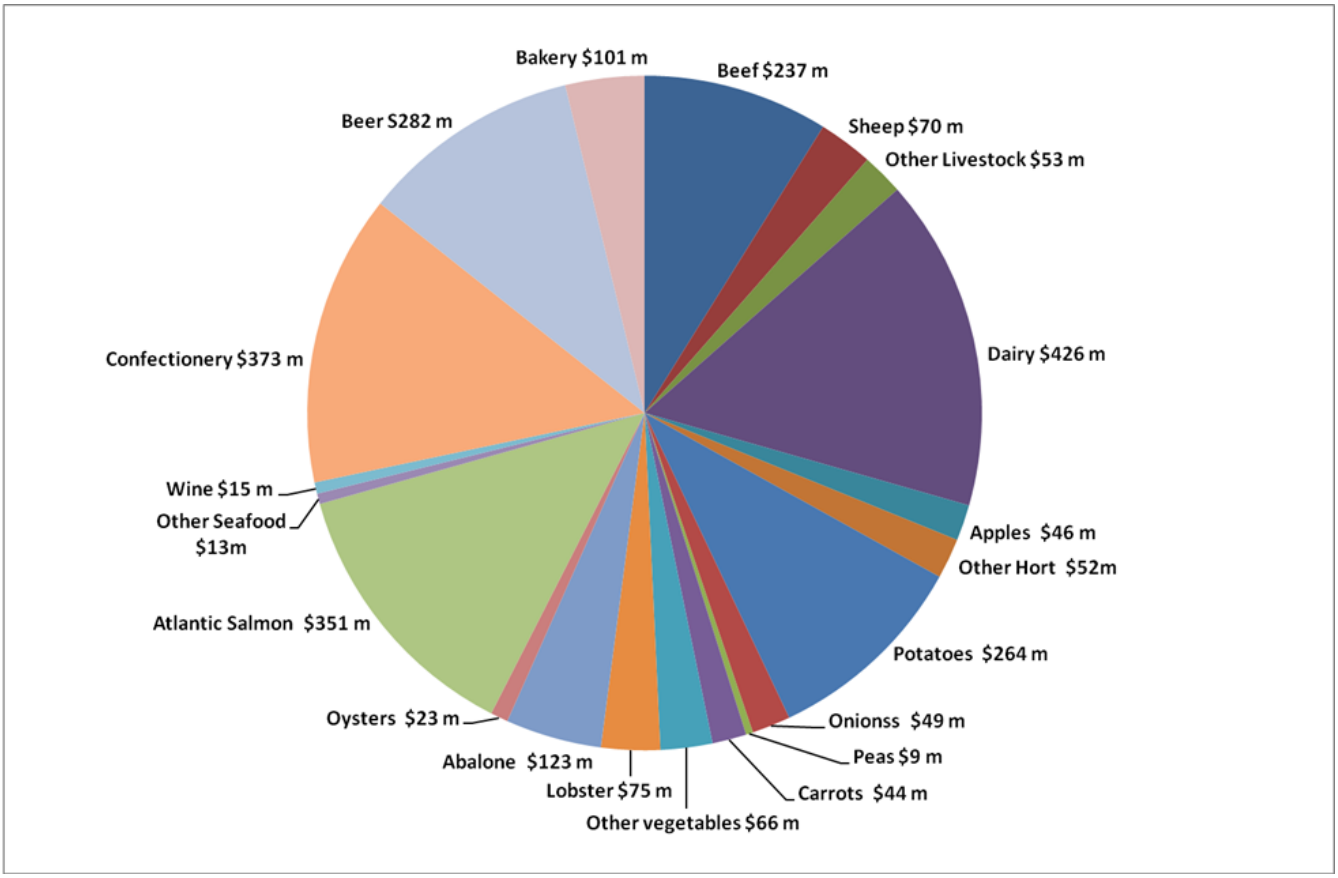
These figures clearly confirm the importance of the sector as an economic driver for the state's economy – and also demonstrate that agriculture is a more significant contributor to the Tasmanian economy than in any other state. With this in mind, it is clear that Tasmania needs to ensure that the agricultural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

With reference to Tasmanian Scorecard data for 2009-10 (prepared by DPIPWE), the wholesale value of Food and Beverage is estimated at $2.7 billion. This demonstrates the important role that the processing sector plays in adding value to farm gate returns and that the fortunes of the farm sector are interwoven with it.

Food and Agriculture in Tasmania

The chart below indicates that the Tasmanian food processing sector adds more than $1.0 billion (or doubling) of value at wholesale to farm gate returns of agriculture and fishing production.

Food – Tasmanian Wholesale Value of Food & Beverage Production = $2 673 million



Source: DPIPWE: 2008-09 Food & Beverage Industry ScoreCard

In spite of significant change in food processing ownership leading to fewer larger operations with national and multinational company ownership in recent years, the sector has proved to be remarkably resilient. This is testament to the diverse and reliable food production climate in Tasmania.

While most processors are controlled from the Australian mainland or internationally, the high level of production quality, freedom from diseases, consistent water supply and strategic location in relation to mainland and Asian markets strongly supports continuing operations provided cost competitiveness can be maintained.

Apart from large food processors, key growers and wholesalers of fresh product (lettuce, carrots and brassicas) are playing an increasing and complementary role to processors in vegetable product aggregation, first stage processing and marketing with most having strong linkages into the mainland market. These operators also have packaging and/or distribution footholds in the mainland market enabling continued supply into retail and food service customers when seasonal supply from Tasmania ceases.

While production for fresh and niche markets is increasing, the key processors are the stabilising supply chain players in production and marketing. It is estimated processed food accounts for at least two-thirds of Tasmanian production. The chart above indicates the relative contribution of each food and beverage category in terms of wholesale value.
As Tasmania is a net exporter of food based agricultural products, it relies heavily on sea and air freight to all markets including the northern hemisphere which provides an early season window late in the Tasmanian supply season.

Searching for policy direction

Australian food processors, including those in Tasmania, face significant production cost disadvantages which are exacerbated at present as a result of the resource "crowding out" by the mining sector. A simplistic policy approach would favour allowing the market to sort the resource allocation problems out. However, this runs counter to being able to meet food product demand as Asian incomes rise as well as the impact of rising Asian production costs on their own future food security. This concern is increasingly being raised in trade arrangements, partly in response to the recent ill-considered decision to stop the live cattle export trade from Australia into Indonesia.

Currently, the agriculture and food processing focus is on meeting the Asian demand for high protein foods as incomes rise. This possibly overlooks, for example, the likelihood that demand will inevitably be extended to vegetables and fruit – two areas in which Australian growers are feeling the competitive heat. Such longer term and broader thinking is considered necessary in food processing sector policy.

As those Australian processors who are taking advantage of the high $A and value-adding product in China know, the factory labour cost and availability of seasonal rural labour from western provinces has declined dramatically. Over the past two years, labour costs in China have risen by as much as 20%. It is reasonable to suggest that their capacity to supply most food commodities will become limiting – resulting in them becoming net importers, as is now the case with Singapore.

It is therefore suggested that, rather than let the free market sort out food processing competitiveness in today's economic environment, government should focus on providing further processing sector adjustment incentives specifically targeted at cost competitiveness.

This approach is also consistent with meeting the increased demand for food products as the world's population grows from the current level of seven billion to the projected level of nine billion by 2070.[2]

[2] Bernard Salt, From Family Farm to Corporate Operation? How Demographic and Generational Change is Shaping the Outlook for Australian Farming, presentation to TFGA Policy Forum, 2 June 2011

ADDRESSING THE TERMS OF REFERENCE

1. The competitiveness and future viability of Australia's food processing sector in global markets

The Australian food processing sector is under pressure due to declining cost competitiveness, cheaper imports flowing from the high $A and "crowding out" demand for capital and labour by the mining sector. This has already led to either closure or relocation of some processors to lower cost food producing countries such as New Zealand and Chile.

While loss of Australian food processors such as Heinz (NSW) and McCain (Tasmania) can be viewed as the free market at work, the question for government going forward is whether failing to do more in the face of the current cyclical pressure on the food processing sector is overlooking its strategic importance in relation to future food security and the adverse consequences of processing sector interdependence with agriculture and the rural community.

The viability of the food processing needs to be considered from farming and processing perspectives. This is because the cost of primary product into most factories accounts for at least two-thirds of processor production costs. This can be a very important competitive factor in situations where contract prices to customers are set in spite of an uncertain commodity supply demand situation.

Overlay this with an unexpected $A increase that reduces the cost of imports or weather related supply shortages which puts upward pressure on factory fixed costs (perhaps both occurring in the same year), it becomes clear that the price of primary product into the factory can have a huge impact on viability.

At the farm level, the major factors impacting on farm gate prices are:

- Production input costs such as fertiliser, pesticides and freight
- Compliance costs relating to customer food quality auditing
- Regulatory costs relating to chemicals use and occupational health and safety
- Farm size impact on fixed cost
- Relatively high machinery ownership costs
- Unforeseen weather events on production yield and product quality

While these costs are adding to the prices growers expect to receive for produce, there are a range of cost – reducing factors which are demonstrating expanded commodity gross margins and capacity to maintain profitability in the face of rising costs.

These are:

- Irrigation to expand crop options, yield and reduce crop failure risk

- Varietal development to lower use of key inputs – such as fertiliser
- Input costs containment through collective buying arrangements
- Farm operational improvements such CTF and electricity aggregation which can help to contain fuel usage and other energy costs
- Farm leasing and contracting arrangements to reduce machinery ownership costs and increase production scale
- Cost comparison benchmarking
- Increased product value-adding on farm
- Alternative energy solutions such as on-farm hydro and wind power
- Pest and disease freedom

While subject to the rate of adoption, currently known productivity increasing initiatives are estimated to enable production costs to be lowered by as much as 25% – and possibly more on ideal farming land.

In relation to processor viability, the key areas of concern are:

- Currency related downward pressure on prices due to cheaper imports from competitors such as NZ and China
- Food labelling obligations compared to competitors
- Customer food quality audit and compliance costs
- Energy and waste management government service charges
- Labour – penalty rates relative to competitors
- Under-investment in labour substitution and quality control systems
- Perceived under- valuing of importance of market access
- Low (although increasing) grower – processor collaboration
- Collectively negotiated primary product prices

On the positive side, there are significant benefits:

- Strategic location in relation to Australian and developing Asian markets
- Overall production reliability of relatively high quality and safe food product
- Customer appreciation of disease freedom/market access
- Relatively low product wastage/loss
- Freight equalisation to the mainland market (in some cases)
- Relatively supportive Tasmanian government

While many of the above impact grower and processor costs to a greater or lesser extent, the key areas that can significantly influence viability now and in the future are:

- The adoption rate of cost saving technology – in turn increasing the capacity to withstand downward pressure on commodity prices.
- Wage flexibility policy - relative to main competitors
- Potential for improved competitive outcomes from open-book communication between processor and grower/suppliers

- Addressing barriers to new capital investment
- Containment of government service costs and duplicated compliance charges
- Greater clarity in communication of strategic direction to government and locally based management of Tasmanian processors

From a government perspective, all of the above require a medium to long term policy and managed approach to implementation supported by collaboration that avoids surprises and does not under-estimate the importance of food processors to most regional communities.

2. The regulatory environment for Australia's food processing and manufacturing companies

Over the last decade, the regulatory environment for food production has been ratcheted up in areas critically influencing operating costs at farm and in factory. This has often taken place without particular reference to logistical or cost implications for the business or competitive issues. In contrast to the not too distant past, there is a regulation on almost everything to do with agricultural production and processing of food.

Key areas of regulation that growers or processors face relate to vegetation clearing, biodiversity and water management, chemical use, application and residue limits, food standards, product package labelling, quarantine and inspection service procedures and compliance, biosecurity export protocols compliance, occupational health and safety and a whole raft of business compliance (corporate governance) reporting obligations.

This regulatory environment achieves high levels of food safety and quality but at significant cost and generally without reference to competitor obligations. The latter is particularly relevant if for example a local grower or processor is selling to a local retailer or overseas customer that can readily access product cheaper from countries that don't have the same requirements for compliance.

Further, implementing the requirements generally requires a level of fluency greater than most have without specialist training or access to outsourcing personnel.

Regulatory compliance activity occurs at local, state and federal government levels - all going about their tasks diligently but mostly without any reference to each other. So, the there is a clear opportunity to seriously evaluate what is necessary and what can be accessed through efficient delivery systems that enhance competitiveness.

It is also fair to say that the regulatory demands are now such that new food businesses that are intending to export - are faced with the serious question of whether the regulatory path is so formidable that seeking to expand domestic market opportunities is favoured. Further, if an intending exporter seeks to obtain help in developing the market through Austrade or with EMDG assistance, he/she will be told that there is a large element of "user pays".

This means that market research information that could assist in initial assessment decision-making is only available on very restricted terms. In fact, it is not too out of place to suggest that visiting a potential market and canvassing opportunities personally can often be a better approach. While this may eventually be necessary to meet possible customers, early stage evaluation is generally when the most help is needed. Similarly with the hurdles that have to met and charges paid to satisfy export inspection requirements – an intending exporter needs to be very sure that they want to make the jump from domestic to export.
For these reasons, the Tasmanian Government initiative to review regulatory requirements is welcome.

Aside from the potential to streamline regulatory compliance across governments, there are a number of areas which are considered to more directly affect competitiveness. These are as follows.

(i) Food labelling including Country of Origin (COoL)

Food labelling regulations to satisfy the needs of more health conscious consumers has been undergoing significant review and change. It is no longer enough to see the Health Tick on a label and be confident that that product contents are healthy – in part because there has been added pressures to convey additional product information that for example points to high in calcium (suggesting osteo arthritic benefits) or high in mono-unsaturated fats (suggesting cardio-vascular benefits).

As well, labels are expected to accurately reflect local and overseas content – definitions or symbols for which can only be understood by referring to a more detailed explanatory document.

Last, although not least, are labelling requirements that identify CoOL rules for Australian retailers that do not have to be met by for example by NZ exporters that are meant to be working under the same regulatory body – Food Science Australia and New Zealand (FSANZ). By way of example, Australian retailers that have a mix of local and imported product – are required to label the product “made from local and imported ingredients”. N Z labelling for product that may be have a mix of local and imported ingredients, can be described as “product of NZ”.

Such areas of seeming inconsistency have serious competitive implications because although an Australian consumer may be happy to eat food grown and packed in NZ, this may not be the case if it was known that the food may have been imported and only packed in NZ. Otherwise, the consumer may prefer to buy Australian – for health and safety reasons.

Another competitive aspect to product labelling relates to the matter of “equivalence” of imported product inspection standards compared to those applied locally.

This is partly due to the relatively high incidence of imported product contamination and leading to the perception that production and inspection regimes are not as rigorous or done on the cheap. Growers and processors want to know their competition is fair while consumers want to know the product is safe. These are good reasons for more transparency in this area and taken to its logical conclusion should enable total trace back

ii) Taxation

As mentioned earlier in this submission, taxation can play a critical role in reducing and increasing industry competitiveness. The Henry Review of the taxation system – currently being discussed in Canberra – made strong recommendations about the removal of inefficient state taxes: notably payroll tax (which is a tax on labour) and stamp duty which (among other things) is a disincentive to farm consolidation or orderly succession planning.

In relation to company tax, Henry recommended a reduction to 25% from the current level of 30pc (over some years) for the reason that it reduced the amount of post tax income available for re-investment, encouraged company domicile in lower tax countries, distorted the flow of capital investment and encouraged alternative tax minimisation solutions.

Since the introduction of GST tax 11 years ago, this "user pays" tax (which was meant to replace all the inefficient state taxes) has declined in terms of contribution to state income in most states – although not Tasmania. However, the continuation of state company taxes is limiting the capacity for the processing sector in the state to be more competitive than it now is. While no-one wants to see an increase in the GST for taxation sake, it is considered that an increase in the rate to 15pc and the elimination of the previous politically motivated GST exemptions would help state governments and business do what they now can't.

The current tax situation in Tasmania was reviewed in 2010 and the consensus was that an increase in the GST facilitating reduction or elimination of other state business taxes and company taxes would encourage re-investment and support employment. Although it has been observed that Tasmania is a relatively low taxed state, this does not change the fact that the distorting taxes (payroll and stamp duty) on company business still continue.

Another major tax off the table at the Tax Forum is the Carbon Tax. On current estimates, this tax is likely to add at least 5% to farm costs through its impact on electricity prices coupled with reductions in the fuel rebate while intensive users of energy such as the processing sector could expect increases of some 30% in energy costs at the current price of $23/t of CO2. Further increases will flow from the application of the tax to the transport sector from July 2014.

Agriculture sector emissions are nominally excluded from the carbon tax; and the carbon farming initiative (CFI) will facilitate the introduction of on-farm carbon abatement and mitigation strategies – from which carbon credits can be generated in time.

However, the lack of a carbon trading market suggests the above-mentioned energy increases as a result of the carbon tax, are unavoidable.

At this stage, it is not clear how the impact of the carbon tax might apply to imports, while the high percentage of hydro generated power will not qualify for carbon credits as a result of the "additionality" rules.

iii) Research and Development (R&D)

Publicly funded R&D has been at the heart of technical innovation through such institutions as the CSIRO for the better part of 50 years through the Commonweath Scientific Investigation and Research Organisation (CSIRO) and more recently through Cooperative Research Centres for the major commodities. In addition state based research institutions such as Tasmanian Institute for Agricultural Research (TIAR) and the Tasmanian Aquaculture and Fisheries Institute (TAFI) have and continue to undertake a formidable role in scientific knowledge enhancement.

Food processing research on the other hand is largely funded by the processing companies themselves although there has been the scope for undertaking private - matched funds research through the CSIRO "flagships" program.

The GVP cap on matched funded commodity sector research was under serious threat as a result of a Productivity Commission R&D review in 2011 recommending that the research matching dollar cap of 0.5% on commodity GVP be reduced to 0.25% over 10 years. Fortunately, this recommendation was not adopted by the Australian government. Nonetheless, overall federal public investment in rural research has fallen by approximately 40% over the past 5 years.

The decision not to adopt the Productivity Commission recommendation was in response to a large body of evidence pointing to an investment multiplier of in the order of 5 and the fact that there was no evidence that this research would be replaced by private research on "user pays" principles.

Further, there is clear evidence to show that productivity gains in the rural sector have been increasing at a declining rate since 2003. While this has in part been attributed to the drought years, productivity increase is considered to be the primary defence against declining terms of trade for the agricultural sector as a whole.

iv) Labour costs, penalties and availability

The farm and food processing sectors reflect relatively high labour employment such that the cost of labour is a key competitive factor in operating costs.

Australian farmers and workers receive better wages and conditions than other producing nations and this can be justified on higher A$ currency purchasing power – some 30% higher than in NZ. However, New Zealand growers receive lower returns and margins than do Tasmanian producers. On average, Tasmania is seen as a higher cost and lower yielding producer than New Zealand and other importing countries.[3]

With respect to processing labour, shift allowances, weekend loadings and the added cost of superannuation provisions in Australia increases labour cost significantly compared to NZ. It is argued that while minimum award and skill provisions should continue to be reflected in Australian processing sector awards based on living cost - that penalties in Australian awards are not in keeping with the process and service sector working environment – and this ultimately becomes a tax on employment.

Nevertheless, attracting staff is a problem for the processing sector as a result of which there is increasing industry reliance on students and backpackers to meet labour demands – being of a more seasonal nature on farm.

With respect to processing, technically skilled labour – such as fitters and engineers, there are emerging gaps as a result of higher-paying mining industry jobs requiring similar engineering and electrical trade skills.

TFGA supports the suggestion of the Tasmanian Agricultural Productivity Group (TAPG), which would like to see benchmarking done to demonstrate where Australia sits in training and skill development in the food production and processing sectors when compared with competing countries.

(v) Bio-security

Bio-security is of major concern to the agricultural and processing sectors. The relative disease freedom in Tasmania conveys important competitive advantages in both domestic and export markets.

However, biosecurity-related opposition to imports from other countries that have diseases which Australia does not have (such as fire blight in apples), is often interpreted as the application of a non-trade barrier. While it is true that other countries do manage to live with a disease (as with fire blight in the USA and NZ), it nevertheless comes at a treatment cost and lower customer perception of product quality - all other things equal. The issue of equivalence again needs to be considered here, too. In the previous example, there is no chemical registered in Australia for the treatment of fireblight – and the antibiotic used overseas would never gain approval here. So there is no level playing field.

[3] Davey and Maynard, Process Vegetable Cost of Production Comparison: Tasmania and New Zealand, A report prepared for the Department of Economic Development, Tourism and the Arts, February 2011

It is considered unhelpful that market access and free trade arguments are not kept separate from legitimate biosecurity concerns.

In a broader sense, compliance with SPS area freedom and export protocols comes at a significant cost, and industry continues to advocate for review and greater operational efficiency of the Australian Quarantine and Inspection Service (AQIS).

3. The impact of Australia's competition regime and the food retail sector, on the food processing sector, including the effectiveness of the Competition and Consumer Act 2010

The Australian food retail sector is considered the most concentrated of any country in the world, with two key retailers accounting for more than 70% of retail trade. In spite a number of enquiries into various aspects of the sector (including predatory pricing, abuse of market power and lack of price transparency) there has been a reticence on the part of the Australian Competition and Consumer Commission (ACCC) to intervene.

Even the recent takeover offer by Metcash for Franklins has proven to be a tortuous affair – with the ultimate takeover only likely to be approved on appeal through the courts.

Food retailers including those supplying into the food service and "takeaway" consumer market are able to exert enormous market power up and down the supply chain and it is considered a realistic claim that there has been an effective transfer of market power and margin from upstream stakeholder – farmers, processors and wholesalers - to retailers.

As these retailers are large and well connected to overseas suppliers, they are readily able to import product when currency and market condition suit – and often place processor/ suppliers in a difficult (and uncompetitive) situation as a result of pressure on them to accept lower retail margins which limits capacity to fund new product and brand development – in favour of supermarket private label brands.

This is considered to placing undue pressure on processing sector returns, a review of which from publicly available data indicates returns of below 10% return on capital which for many businesses is unlikely to be sustainable over the long term given significant replacement capital spending on old plant as well as new productivity based capital demands.

In the face of these pressures on profit and, in some case, viability and the current (and rather unique) macro pressures, it is extremely important that retailer activity and use of market power remain under close scrutiny and that every initiative that increase the level of completion and price transparency be supported.

With the food processing sector dominating the value-adding landscape in Tasmania, the need to ensure competition is maintained is vital to the well-being of the food producing - vegetable and potato industries.

4. Other related matters – GMO technology

Taking a long term view of the importance of food sector access to superior productivity increasing plant and varietal germplasm on similar terms to competitors, it is extremely doubtful that the current Tasmanian government moratorium on release of genetically modified organisms (GMOs) into the Tasmanian environment is sustainable.

The government position would appear to have been adopted because it was concluded that the use of gene technology could impact negatively upon Tasmania's ability to market Tasmanian produce locally, nationally and internationally, under a clean, green banner.

There may be unique high value niche crops that have a target market that places value on GM free. However, in general the Tasmanian food production sector which is competing in a global environment and needs to have access to the best available productivity increasing varieties – especially where they are able to produce higher crop yields with lower nutrient inputs.

On balance, as far as the food production sector in Tasmania is concerned, the uniqueness is not considered to relate to GM free but rather to the excellent climatic production environment, brought out in food and eating characteristics – shelf-life, taste and flavour. After all, GM enhanced breeding material (where the technology is restricted to genes within the same species), is only and accelerated methodology for doing what it has taken 100 years to do by traditional plant breeding and selection techniques in the grains industry.