fieldfresh Tasmania

walnuts Australia

Senate Select Committee Inquiry on Australia's Food Processing Sector

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Submitted by:
Leigh Titmus
Managing Director

Webster Ltd incorporating
Field Fresh Tasmania and
Walnuts Australia

PO Box 1283
Devonport Tasmania 7310

About Webster Limited

Webster Limited is Australia's fourth oldest business. It commenced operating in 1831, just 28 years after the settlement of Van Diemen's Land, as a traditional pastoral house. One hundred and eighty years on, it is now a diversified food and agribusiness with a growing reputation locally and internationally for the quality of its produce.

During 2010, Webster Limited undertook a strategic review of operations. This resulted in the Company narrowing its focus on two core products, products in which Webster has competitive advantage.

As a result of this review Webster Limited consolidated its position as the southern hemisphere's largest walnut orchard manager and producer of walnuts through the acquisition of 1,365 ha of walnut orchard in the Riverina previously owned by Gunns Limited.

Webster is now totally focussed on land based food production via its two operating divisions, Field Fresh Tasmania and Walnuts Australia. Both divisions are export focussed with brown onions and in-shell walnuts being the two major products grown and processed under stringent quality systems ensuring customers receive high quality, healthy, safe food.

Webster's head office is at Forth on the northwest coast of Tasmania, in the heart of the rich agricultural land where most of the onions are grown, and the home of the Field Fresh Tasmania operation.

State of the Australian food export industry

Australian farmers export around 60% of what they grow and produce. Australia's farm exports earned the country $32.5 billion in 2010-11, up from $32.1 billion in 2008-09[1]. In the last few years however, Australia has switched from being a net exporter to a net importer of food.

The future of Australia's export industry faces many challenges – a strong Australian dollar, increasing compliance costs, a decline in funding for the Agricultural industry, widespread skill shortages, high labour costs, rapidly increasing costs of services and inputs and taxes, all of which are out of the control of the industry.

Webster Limited welcomes the opportunity to present our concerns to the Senate Select Committee Inquiry into Australia's Food Processing Sector.

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[1] NFF Farm Facts: 2012, National Farmers Federation

Freight

The high cost of freight across Bass Strait is significantly impacting Tasmanian businesses and the viability of the Tasmanian export industry.

Producing agricultural products in Tasmania has a number of advantages. Bass Strait provides a natural barrier for many pests and diseases that those growing on the Australian mainland are subject to.

However the isolation provided by Bass Strait also puts Tasmania at a commercial disadvantage when it comes to shipping produce to domestic and export markets. In order to alleviate freight cost pressures felt by producers in Tasmania, the Tasmanian Freight Equalisation Scheme (TFES) was introduced in July 1976.

The objective of the TFES is to "...provide Tasmanian industries with equal opportunities to compete in mainland markets, recognising that, unlike their mainland counterparts, Tasmanian shippers do not have the option of transporting goods interstate by road or rail"[2].

Produce grown in Tasmania destined for an overseas market is not eligible for the TFES. In the past, Tasmanian exporters had access to direct international shipping however this service was lost in May 2011. Current costs for shipping one 20' container (TEU) from the Field Fresh Tasmania site to a Northern European shipping port (using Antwerp in this example) are:

Road freight within Tasmania	$87 per TEU
Sea Freight Devonport to Melbourne	$1,093 per TEU – includes road freight to export terminal and freight of empty container from Melbourne to Devonport
Sea Freight Melbourne to Antwerp	$2,290 per TEU

The actual cost of shipping the container from Melbourne to Antwerp is $1,240. The remaining $1,050 is made up of associated charges including Bunker Adjustment Factor (BAF), container monitoring service, Overseas Terminal handling charge, and other minor fees.

The Bass Strait portion of the entire cost is 32%.

Tasmanian exporters should pay no more to get their produce to the closest international shipping port than producers located on mainland Australia. High costs of shipping between Tasmania and mainland Australia are decreasing the viability of Tasmanian exporters who already face a daily struggle to remain competitive in the global marketplace, especially with the high Australian dollar.

[2] Department of Infrastructure and Transport - www.infrastructure.gov.au/transport/programs/maritime/tasmanian/scheme.aspx

Recommendation 1: Extend the Tasmanian Freight Equalisation Scheme to cover exports of Tasmanian produce.

Reforms proposed in the Coastal Trading Bill 2012 may lead to job losses and significant increases in freight costs.

The Coastal Trading Bill 2012 was introduced into parliament on March 22, 2012. This was the first of five bills that the Government believes will "level the playing field and provide the industry with a stable fiscal and regulatory regime to encourage investment and promote our international competitiveness"[3].

An alliance of bulk dry shipping users commissioned a report into the proposed changes to the Coastal Trading Bill. The report was completed by Deloitte Access Economics. Based on modelling, Deloitte believes that "...labour costs would increase by between 60 per cent and 100 per cent per day and, as a result of this, freight rates applicable to the commodities and voyages included in the analysis would increase by between 10 and 16 per cent, depending on the commodity and voyage in question[4]".

The report also reviewed the potential for the loss of Australian jobs as a result of the reforms, with modelling showing the "...associated loss of employment over the long term is, in net terms, relatively modest at up to 200 full time equivalent employees. However, in the immediate term, the displacement is considerably higher, with an estimated peak loss of 570 FTE employees[4]".

Webster Limited supports the Australian Government's efforts to improve the Australian shipping industry but believes consideration must be given to Australian exporters who expect to be put under greater financial pressure from these reforms.

Recommendation 2: Reject features of the proposed Coastal Trading Bill 2012 that may result in excessive price increases for Australian exporters.

The severe increase of the Port Licence Fee for containers by the Port of Melbourne Corporation will adversely affecting Tasmanian exporters.

The Port Management Amendment Bill 2011 was introduced by the Victorian State Government into Parliament on 6 December 2011. This Bill proposed that an annual port licence fee of $75 million in the first year be paid by the Port of Melbourne Corporation to the Victorian Government. As a result of this, the Port of Melbourne Corporation intends to impose a Port Licence Fee (PLF) on users of the Port.

A preliminary estimate of the impact of the introduction of the PLF was completed by the Port of Melbourne Corporation in an Information Paper issued in December 2011. In this paper, costs for a full container shipped to Melbourne from Tasmania are expected to increase by 50%, from $41.80 to $62.70 (all figures exclude GST)[5]. The final allocation of the PLF will be communicated to industry after May 28.

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[3] House of Representatives Hansard Thursday, 22 March 2012
[4] Economic Impacts of the proposed Shipping Reform Package 2012, Deloitte Access Economics
[5] Port Licence Fee – Containers Information Paper – December 2011, Port of Melbourne Corporation

This move will impact greatly on Tasmanian exporters as all products from Tasmania destined for overseas ports ***<u>must</u>*** be shipped through Melbourne.

Recommendation 3: Increase the Tasmanian Freight Equalisation Scheme to compensate for the Port Licencing Fees, or examine the Constitutional legitimacy of the Fee.

Clean Energy Legislation

<u>The introduction of the Carbon pricing mechanism from 1 July 2012 will impose additional costs on the Tasmanian export industry. Costs associated with the mechanism cannot yet be quantified due to lack of detailed information about the financial implications.</u>

Whilst the Australian Government has stated that '...the agriculture, forestry and fishery industries will not face a carbon price on the fuel they use[6]", Tasmanian exporters will feel the impact of the Carbon pricing mechanism through measures implemented by suppliers of goods and services to recoup their own cost increases. One shipping company has already informed Webster Limited of their intention to increase their costs as of 1 July 2012 due to the financial impact of this tax on their business. Also the Tasmanian Government's own shipping line, TT Line, has already announced price increases from 1 July 2012.

Increases to costs will also come from electricity price increases, which are expected to be an average of 10%, based on Treasury modelling[7].

A major concern of Australian exporters is that a number of Australia's biggest competitors for export markets will not be subject to a carbon price, or similar financial imposition, leading to reduced global competitiveness for Australian exporters.

Ideally, Webster Limited would pass the cost increases from this tax onto its customers; however Field Fresh Tasmania customers are likely to look for a lower cost product elsewhere – such as New Zealand where the Carbon Tax is much lower, wage rates, penalty rates and on-costs are much lower and they do not have the Bass Strait costs to contend with.

Webster Limited does recognise that there are potential opportunities for improvements in energy efficiencies in the production of horticultural produce, but this can only be achieved with the support of the Australian Government.

Webster Limited is concerned with the lack of clarity from the Australian Government on the financial impact the Carbon pricing mechanism will have on businesses such as theirs. It appears that there is detailed information on implications for households and for the businesses directly affected by the mechanism, however small to medium enterprises still remain confused on the exact financial implications the

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[6] Transport fuels Fact Sheet, Australian Government.

[7] Strong growth, low pollution: modelling a carbon price (SGLP), The Treasury, Australian Government

Carbon pricing mechanism will have on their business. This lack of clarity can lead quite quickly to a lack of business confidence.

Recommendation 4: Provide greater clarity on the implications for small to medium enterprises. Make available tools to assist small to medium enterprises to plan for anticipated price increases.

Fair Work Act and Modern Awards

Overtime provisions in the Modern Horticulture Award have led seasonal businesses to significantly change their hours of production to avoid major increases in labour costs.

Seasonal workers are, and will continue to be, a necessity for the horticultural industry. They offer flexibility and an economical option for businesses during key periods of the season. The introduction of the Fair Work Act and the new Modern Awards have forced seasonal businesses to review the way they operate to avoid costly penalty rates.

As with most seasonal businesses, Webster Limited is subject to changing conditions, often on a daily basis. While both products produced by Webster Limited have relatively long shelf lives, there is a limited 'window' available for exporting produce into overseas markets. In order to meet these timeframes, and meet customer requirements, Webster Limited must operate 24 hours a day, and at times, 7 days a week in the main packing season.

At present, seasonal employees of Webster Limited are paid under an Enterprise Bargaining Agreement. This Agreement precedes the introduction of the Fair Work Act, but meets all wage requirements outlined in the Horticulture Award.

If, in the future, Webster Limited were required to move away from their Enterprise Bargaining Agreement to the Horticulture Award, labour costs would increase due to the hours of work and overtime provisions in the Modern Horticulture Award. This increase would be significant enough to severely threaten the viability of the business.

Recommendation 5: Amend the Fair Work Act and Modern Awards to provide flexibility for seasonal businesses.

Australia's industrial relations legislation is complex and difficult for businesses to interpret, therefore increasing the likelihood that the business does not comply with the requirements of the legislation.

Australia's industrial relations legislation is incredibly complex, and is subject to review and change on a regular basis. Awards have also become very specific, which reduces flexibility and makes it difficult for multi-award workplaces to develop rosters and processes that comply for all their employees.

Many small to medium businesses must rely on consultants and legal representatives to provide advice on compliance with this legislation. This can be a costly and time consuming exercise. Another alternative is to rely on advice from industry organisations or Government; however this advice is normally generic and is of dubious value as business operators don't have the means to tailor the information for their business.

Small and medium enterprises are concerned that they will fall short in their attempts to comply with industrial relations legislation, which may lead to prosecution. The compliance burden is an ongoing distraction for small and medium enterprises away from their core business.

Recommendation 6: Government should consider funding the development of a 'Red Tape Buster' – a person or group dedicated to helping businesses understand and work through complex legislation such as the Fair Work Act. This group could also act as a conduit back to government to facilitate continuous improvement.
Recommendation 7: Streamline Modern Awards to make them more functional, and allow more flexibility for individual workplaces.

Funding the Agricultural industry, and Research and Development

Funding for the Australian agricultural industry continues to be eroded, while productivity must remain at a high level in order to feed the growing global population.

The agricultural industry is vital to the Australian economy. As of 2010-11, there were 307,000 people employed in agriculture. The complete agricultural supply chain, including the affiliated food and fibre industries, provide over 1.6 million jobs to the Australian economy[8].

Over the last three years, funding for the agricultural industry has been reduced. The budget allocation to the Department of Agriculture, Fisheries and Forestry (DAFF) fell from 1.36% of the General Government Sector in 2007-08 to 0.5% in 2009-10. This erosion was compounded by the demands placed on the budget of DAFF by the inclusion of additional units such as Australian Quarantine Inspection Service (now DAFF Biosecurity), the National Residue Survey, and Biosecurity Australia.

Forward estimates under the current Government see funding further reduced to just 0.42% in 2013-14[9].

According to DAFF's submission to the Productivity Commission inquiry into the Australian Government Rural Research and Development Corporations Model, Australian farmers invested $244 million in research and development in 2008/09 through the Rural Research and Development Corporations, over and above the

[8] NFF Farm Facts: 2012, National Farmers Federation
[9] House of Representatives Hansard Monday, 23 May 2011

$218 million co-contribution made through the Department of Agriculture, Fisheries and Forestry[10].

Julian Cribb, past National Awareness Director at CSIRO and author of The Coming Famine, explains that, in order to feed a rapidly growing global population, farmers will need to double the global food supply using half the water, on far less land and with increasingly depleted soils, without fossil fuels, with increasingly scarce and costly fertiliser and chemicals under the hammer of climate change[11].

A recommendation from a report delivered by the Commission on Sustainable Agriculture and Climate Change was that global investment in sustainable agriculture and food systems in the next decade must be significantly raised[12]. It is critical that innovative solutions are found in order to help producers meet the challenges of food production, while remaining competitive in a global market.

Recommendation 8: Ensure investment in agriculture is sufficient to enable the industry to continue to meet the demand for continual innovation and productivity.

Funding, grants and incentives programs offered to food processors are often hard to find, difficult to apply for and open at unsuitable times.

Whilst funding for the industry continues to decrease, there are still a large number of grants, incentives and funding made available to food processors for internal research and development and on-ground works. It is common for small to medium enterprises to be unaware of the existence such programs.

Another issue with many financial assistance programs is the complexity of the application process. Whilst it is understandable that organisations managing the funding program must obtain enough information to ensure the funding is appropriately administered, a balance must be found to ensure the application is not too long and complex for the applicant to complete.

Timing is another important issue. Seasonal businesses have a small window of opportunity to harvest, pack and ship their produce and during this time all resources are generally directed at completing these tasks. Extra resources are not available to scan for and write applications for funding or grants.

One example of this is funding offered under the Clean Energy Futures and Carbon Farming Futures programs. Over $100 million of funding closed within 10 days of each other. Certainly this timing would clash with most vegetable production.

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[10] Submission to the Productivity Commission inquiry into the Australian Government Rural Research and Development Corporations Model, Department of Agriculture, Fisheries and Forestry, June 2012
[11] The Coming Famine, Julian Cribb
[12] Achieving food security in the face of climate change, Final report from the Commission on Sustainable Agriculture and Climate Change, March 2012

Program	Date closed	Value this year
Biodiversity Fund	31 Jan 2012	$36 million
Filling the Research Gap	3 Feb 2012	$48 million
Biochar Capacity Building	3 Feb 2012	$2 million (over 3 years)
Action on the Ground	8 Feb 2012	$25 million

Recommendation 9: Develop an information hub where producers can easily access and search available funding.

Recommendation 10: Standardise and simplify the funding application process.

Free Trade negotiations

Free Trade negotiations are a slow process, potentially limiting the development of new export markets.

The Department of Agriculture, Fisheries and Forestry states that "...Australia's trade policy seeks to maximise trade benefits for all Australians by securing market gains through multilateral, regional, and bilateral approaches. FTAs with individual countries or regional groupings are an important part of this strategy[13]".

Free Trade Agreements improve export opportunities and generally "...go beyond eliminating tariffs to include commitments on services, customs cooperation, intellectual property, foreign investment, and other issues that will assist trade"[13].

Free Trade negations are a slow and costly process. There are currently 9 Free Trade Agreements under negotiation. Free Trade negotiations with China started in 2005, with the 17th round of negotiations held in November 2011. Negotiations with Korea have been ongoing since 2009 and with Malaysia since 2005.

Other countries (for example Chile, which is one of Australia's largest horticultural product competitors) appear to be able to negotiate these agreements much quicker than Australia, putting Australian exporters at a disadvantage when trying to investigate and develop new export markets.

Recommendation 11: Review Australia's Free Trade negotiation procedures, and identify opportunities for improvement.

Other issues

- The cost of compliance: Agricultural businesses face rising costs to comply with food safety and quality assurance systems. They are also faced with the issue of maintaining certification to multiple systems to meet the requirements of different customers.
- Timber fumigation: Compliance with the International Standards for Phytosanitary Measures No. 15 has led to increased costs for exporting businesses (this costs Field Fresh Tasmania approximately $80,000 pa).

[13] DAFF - http://www.daff.gov.au/market-access-trade/fta#What

- Infrastructure in regional Australia: Inadequate infrastructure in many regional Australian areas does not encourage food processors to consider development in these areas, especially if they have to pay for the supply of such missing infrastructure. For example, Walnuts Australia has spent $1.5M to extend 3 phase power to two properties it has developed in the Riverina District of NSW, and it will be paying for the power delivered along those lines.
- Development grants: Many development grants or incentives are based on increasing employment in regional areas. However, due to our high labour costs compared with competitors, a reduction in labour costs are a primary goal for many small to medium businesses.
- Payroll tax: This is a state issue, but it is a positive disincentive to employing people.