

2 8 September 1999
Premier
Minister For State Development
Tasmania

Thank you for your letter inviting the Tasmanian Government to make a submission to your Inquiry into Increasing Value Adding to Australia's Raw Materials. I apologise for the delay in providing you with a response.

The Tasmanian Government considers this to be an important matter. One of our major policies is to maximise value adding to the State's raw materials before they leave the State.

Through our Industry Audit process we have identified those industries with the greatest potential to increase value adding. Where possible we will assist these industries to further develop. However, it would appear that for many of these industries the major barrier to development is the provision of suitable infrastructure. My Government therefore believes that significant co-operation is required between the three spheres of government, industry and the unions to increase the level of economic activity within Tasmania.

Thank you again for providing the Tasmanian Government with the opportunity to contribute to the Inquiry. We look forward to receiving your report in due course.

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**SUBMISSION BY THE
TASMANIAN GOVERNMENT
TO THE
HOUSE OF REPRESENTATIVES STANDING
COMMITTEE ON INDUSTRY, SCIENCE AND
RESOURCES' INQUIRY
INTO
INCREASING VALUE ADDING TO AUSTRALIA'S
RAW MATERIALS**

September 1999

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1 Executive Summary'

The Tasmanian Government believes that investment is the generator of sustained economic growth. We are also firmly committed to value add to our raw materials before they leave the State. To assist this approach the Government has undertaken an Industry Development Strategy which commenced with a detailed Industry Audits process.

These Audits have identified new opportunities as well as the existing industries where there is potential to expand and to increase the amount of value adding. They have also identified a number of industries where Tasmania has natural and competitive advantages in this regard. These industries are agriculture and aquaculture, forestry, mining and tourism.

Many of the opportunities identified require significant amounts of investment, particularly in the provision of infrastructure, before the value adding potential can be realised. Infrastructure inadequacies are limiting expansion of significant projects in rural and regional Tasmania. Significant co-operation will be required between the State, Commonwealth and Local Governments as well as industry and the unions to fully realise the potential increase in economic activity.

2 Introduction

Increasing value adding is an important element of the Tasmanian Government's objectives to increase employment; increase the range and level of skills; to diversify the economy, and to increase exports and replace imports.

In recognition of the need to increase economic activity and investment in the State, the Tasmanian Government has conducted a number of Industry Audits. The audit process identified a number of opportunities for the expansion of value adding in the State. It found Tasmania has a competitive edge in the agriculture and aquaculture, forestry, mining and tourism industries. Specific opportunities in these industries include:

- magnesium production;
- steel manufacture at Port Latta and the processing of mineral-rich waste materials on the West Coast;
- agriculture, food and beverage;
- laminated veneer lumber, expanded softwood milling and the manufacture of furniture components; and
- tourism based on the Tasmania's natural assets.

1 Unless otherwise stated the statistics quoted in this submission are from the Australian Bureau of Statistics. They are sourced from the Tasmanian Government's Industry Audit documents which are referenced in section 6 of this submission.

External factors which influence the attractiveness of value adding to raw materials locally include price, demand and competitive advantages in competing states and countries (including transport costs, access to inputs, wage prices and skill levels) and the level of support provided to industry by other governments (including discounted resources, explicit subsidies and incentives).

These factors are predominantly beyond the ability of Australia to influence. For example, the economic slump in a number of Asian countries has caused a decline in demand for our products. Factors impacting on value adding to raw materials that are within the capacity of Australian governments to influence are outlined below.

3 General Issues

(a) Access to raw materials

Control over the supply, quantity and quality of raw materials is critical to attract investment. There are many examples where governments have played key roles in ensuring industry access to resources. The Tasmanian Regional Forest Agreement (RFA) is an example where the Tasmanian and Commonwealth Governments cooperatively negotiated an outcome that established a basis for further investment in forestry and mining, re-investment in existing operations and new investment in the processing of wood products and minerals.

The Tasmanian Water Management Bill will allow for increased certainty and sustainability in freshwater management. Water users will be able to secure access to water resources for a range of activities including marine farming, irrigation, tourism, energy generation and industrial processes.

Marine farm management plans provide certainty for developers seeking to expand aquaculture in the State. Furthermore, the State Policy on the Protection of Agriculture Land has been developed to ensure that highly productive land remains available for productive agricultural uses.

(b) Infrastructure

Energy, transport (air, sea, road and rail) and communications are key elements of many proposals for expansion of existing activity and diversification into new areas. Most projects which value add to raw materials are highly sensitive to the availability and cost of these elements.

(i) Energy

Tasmania's hydro-electric generation network is operating at its long-term sustainable level. The existing energy infrastructure is insufficient to supply the 200 megawatts of electricity required to service a magnesium refinery of 90,000 tonnes per annum output. Development of infrastructure that can deliver competitively priced energy is critical to the magnesium project and new processing opportunities such as steel and the expansion of existing energy-intensive industries. Options being investigated to increase the availability of energy in Tasmania include natural gas, linking to the National Electricity Grid and renewable energy sources.

(ii) Transport

Shipping services operating across Bass Strait perform the function of road and rail transport interstate. The Tasmanian Freight Equalisation Scheme (TFES) aims to reduce the price inequality of shipping due to the absence of 'land-based' transport over Bass Strait. The scheme targets containerised and break bulk freight but excludes exports and a range of other goods. This places Tasmanian value added minerals, food and beverages and forest products at a significant competitive disadvantage relative to other states where TFES does not apply.

Many of the inequalities of previous versions of the TFES were outlined by the Review chaired by the Hon Peter Nixon, AO in his 1997 report entitled 'Tasmania into the 21st Century'.

Tasmania has an ageing rail network that requires investment for its long-term viability. There are gaps in the rail infrastructure that impact on specific projects and opportunities. For example an additional 30 km of track is required to transport ore from a proposed magnesite mine in North West Tasmania to a proposed magnesium refinery in Northern Tasmania via the existing rail network.

Air freight capability is also a critical factor influencing the capacity of Tasmania to compete in overseas markets for cut flowers, food products and other perishables. Issues include the availability and scheduling of services aligned to industry freight needs, and cost / mode of freight handling to eliminate double handling.

Double handling is especially troublesome for primary industries. In addition to the extra time involved in re-loading, the temperature of the produce must be maintained. Double-handling increases the likelihood of the cool chain being broken and the product inside being compromised.

A move by Ansett to scale down the size of planes used on Tasmanian services may reduce the capacity to freight the type of containers which are compatible with those used by international carriers, increasing the level of double handling and the chance of compromising the cool chain. Critical mass is needed to attract the frequency of service required by interstate and overseas markets for time sensitive products.

(iii) Communications

Effective communication technology is imperative for any industry. It is vitally important that industry be able to communicate with their markets, as well as amongst themselves. The Internet has assisted Tasmanian businesses to communicate with their clients and customers overseas more easily. However, communication is difficult in Tasmania because of poor mobile phone coverage in some rural areas.

4 Industry Sectors

This section describes the four industry sectors identified in the industry audit process as having opportunities for the expansion of value adding in Tasmania. The key activities of the sectors; their size, value and structure; performance; opportunities and issues specific to those sectors are outlined.

(a) Agriculture, Aquaculture, Fishing, Food and Beverages

(i) Key activities of the industry include animal and crop farming, livestock products, extractive oil processing; seafood harvesting and fanning; food and beverage manufacturing, including the collection and manufacture of dairy products, and the processing of meat, seafood and crops.

(ii) Size, value and structure

In 1997-98 the estimated input of Tasmanian primary production before value adding was \$931 million. Value adding in the food, beverage and chemical manufacturing sectors was estimated to be worth approximately \$ 1. 5 billion during the same period.

A significant amount of Tasmanian primary produce is processed interstate. This includes wool, fresh fruit and vegetables.

This industry sector may be considered unique, in that the consumer often prefers to receive the product in its raw unprocessed form. Such produce includes seafoods such as Atlantic salmon and oysters, as well as fresh vegetables and fruit. Further transformation of produce is often limited to products which are not of an appropriate standard to sell fresh.

The Tasmanian image is used as a form of value adding for this industry sector. The State's reputation as 'clean and green' gives local producers access to niche markets at high prices. The food processing industry, especially gourmet food, plays an important role in the development of the Tasmanian tourism image and

brand. Tourism is becoming an integral component of some enterprises and contributes directly to the promotion of products.

(iii) Performance

Year to year there are fluctuations in abundance and crop yield due to environmental factors such as drought and ocean currents. Seasonal factors also affect the quality of produce.

By employing economies of scale producers can reduce the cost burden of manufacture. Some downstream manufacturing and processing operations (including meat, poppy and vegetable processing enterprises) do this by servicing multiple primary producers.

Vertical integration also lowers the cost of production because many of the production activities are conducted in-house. The major players in the aquaculture sector are vertically integrated and conduct a range of activities from culture and marine farming to processing and marketing.

(iv) Opportunities

There are many opportunities for the value adding of primary industries in Tasmania including:

- producing oil such as canola from oilseeds;
- further processing pyrethrum and poppies to formulation stage, rather than to a concentrated product;
- processing marc (a by-product of pyrethrum production) into mosquito coils;
- boned, trimmed, vacuum-packed meat cuts which are ready to cook;
- cultured abalone products, including cocktail-sized abalone;
- manufactured dairy products;
- flavouring and packaging water for export;
- manufacture of jams, cordial, syrups and juices out of second-grade fruit;
- expansion of existing aquaculture and diversification into new areas (eg rock lobster);
- manufacture of wool tops; and,
- transformation of potatoes by chipping, dehydration, retort and home meal replacement.

(v) Issues

There are a number of issues which affect this industry sector including: access to finance electronic commerce, employment skills, dependence on process enterprises and difficulties in developing new markets.

Generally there is difficulty in accessing development finance across this industry sector. This factor constrains the ability of businesses to investigate new value adding opportunities.

Electronic business systems are usually not highly developed at the farm enterprise level. However, they are better developed at the value adding end of agriculture, especially in relation to processors, food manufacturers and exporters. Electronic commerce is creating a revolution in business through the development of on-line 'virtual' markets.

Many rural enterprises have experienced difficulties in attracting and maintaining an appropriately skilled casual and seasonal workforce, and therefore often have to train new employees each year.

Farmers are aware of their dependence on processing enterprises and are keen to grow alternative produce to reduce dependence on processors, spread income risk and add options to the current rotations.

Smaller manufacturing companies appear to have difficulty in developing new markets due in part to limited distribution networks, inadequate market information and financial constraints.

Value adding does not simply refer to the transformation of products through manufacture. It can be added by marketing, producing product for niche markets, or simply by producing high quality product. Tasmania has a reputation for its clean waterways, fertile soils and fresh winds. By marketing this image and consistently producing high quality product, Tasmania adds greater value to its commodities. Branding is a significant market development issue. There is potential for developing new and diversified export markets for all sectors of the Tasmanian primary industry based on premium branding, given Tasmania's fine food reputation and clean/green image.

(b) Forestry, Timber and Paper

(i) Key activities

Key activities include forest nurseries, forest research, forestry and tree farming, chip and log exports, sawmilling, veneer milling, panel products, engineered wood products, furniture components paper, craftwood and firewood.

(ii) Size, value and structure

This industry sector contributes 5 per cent to Gross State Product. Exports amounted to \$332.8 million in 1997-98, or 16 per cent of exports. Woodchips comprise 88 per cent of exports from this industry. Forestry and logging employ approximately 2,000 people, whilst downstream processing employs approximately 4,000.

Processing in this industry contributes 24 per cent of total manufacturing production by value, which amounts to sales greater than \$1.1 billion. Wooden designer makers, craft and boat building in Tasmania have a retail turnover of between \$10-15 million and employ approximately 400 people.

This industry sector relies heavily on markets outside Tasmania. Almost 95 per cent of sales are generated through exports. The majority of Tasmania's pulplog production is exported to the Japanese pulp and paper industry. Most sawlogs are sawn locally, then sold interstate. The wooden furniture componentry sector produces for markets outside the State.

The two major paper producers in Tasmania each supply a significant percentage of the newsprint and fine paper markets in Australia. The continuing presence of paper production in Tasmania requires parent company support.

(iii) Performance

Global market activities, price and local cost of production will influence the future viability of the Tasmanian industry. For example the price for paper, hardwood and softwood timber is driven by imports.

Paper dumping is a constant threat to domestic production of fine and coated paper. Overseas producers in Asia, Europe and South America largely influence the publications market for coated wood-free and uncoated speciality grade products. Export market prices for sawn softwood are well below prices achievable on the Australian market.

Other phenomena include:

- The wooden furniture market is cyclic and is currently experiencing low productivity as a result of idle capacity;
- The supply of high quality hardwood sawlogs from Crown forest is declining, resulting in reduced profit margins;
- Company mergers in the fine paper market are producing economies of scale and larger global operations; and
- Victorian and NSW hardwood sawmillers are moving into kiln dried, value added timber, creating an oversupply situation with downward pressure on prices.

(iv) Opportunities

There is capacity for further value adding in Tasmania. In response to concerns about the impact of uncertainty of wood resources on investment, the Tasmanian Regional Forest Agreement (RFA) has been developed. It is intended to: actively encourage investment; facilitate downstream processing, value adding and jobs growth in forest based industries; and provide for the development of tourism and recreation opportunities based on Tasmania's environmental advantages.

There are many opportunities for value adding in this sector. These opportunities include:

0 decorative veneers;

- value adding dryland species;
- kiln-drying timber;
- new products such as finger jointing and laminated boards; and
- laminated veneer lumber.

Tasmania has traditionally sold a high proportion of sawn hardwood as kiln-dried, high value added timber. The hardwood sector needs to explore different ways of processing timber and find different markets. Individual enterprise market driven strategies are the most effective way of improving enterprise growth and profitability, For example the development of new niche markets.

(v) Issues

To ensure the future of paper production in the State, paper must continue to be eligible under the Tasmanian Freight Equalisation Scheme (TFES).

Operators within the wooden furniture industry tend to conduct business in isolation from their peers. There is therefore potential for the industry to become more efficient and productive if operators networked with one another. Furniture makers add considerable value to forestry products in Tasmania, but often have difficulty transporting and marketing their products. The industry does not have the resources to drive this change, and may require government assistance.

Downstream processing places a more commercial focus on product improvement, which is recognised by those in the industry as a key to future competitiveness. Measures to address the changing characteristics of the hardwood resource (younger, smaller diameter wood) are needed to facilitate market development and investment in processing technology. Research is important to the forestry industry. A healthy downstream processing industry is required to support ongoing forest research.

(c) Mining and Mineral Processing

(i) Key activities

Activities in this sector include exploration, mining, and mineral processing of metals such as zinc, copper, iron and gold, coal and other non-metallic minerals.

(ii) Size, value and structure

In 1997-98 the gross value of mineral production was \$1,291 million, a 9.7 per cent increase from the previous year. The sector was responsible for over 40 per cent (or \$887 million) of the State's total exports. Principal exports are ores and concentrates and basic metal products such as ingots and alloys.

Activity is concentrated in the west and north of the State. There are four major mineral processors in the State processing aluminium, ferromanganese, iron ore (pellets) and zinc. A number of specialist companies and existing mining operations are involved in exploration for minerals. The importance of exploration is highlighted by the fact that, based on existing knowledge of mineral deposits, Tasmania's small number of large mines are approaching the end of their economic life.

(iii) Performance

The Australian Bureau of Statistics (ABS) reported a 17 per cent increase in Tasmanian mineral exploration expenditure from \$3 million in 1998 to \$3.5 million in 1999. Expenditure in exploration for magnesite increased by 75.3 per cent, while exploration for all other commodities decreased by 4.7 per cent. Much of the reported exploration increase has been due to expenditure on feasibility studies of magnesite resources.

Nationally the price of mineral exports has fallen 0.7 per cent (in real terms) per year since 1960. This has caused Australian mining companies to boost volumes and cut costs, but there have been insufficient mineral discoveries to maintain mining momentum. Generally lower commodity prices have contributed to lowered willingness by investors to finance exploration activity. National mineral exploration expenditure is forecast to continue to fall at an average annual rate of 0.7 per cent (in real terms) between 1997-98 and 2002-03.

The Tasmanian industry is experiencing a trough in its business cycle. Zinc prices are their lowest since the early 1960s, copper prices are the lowest on record, and gold and aluminium prices are at ten year lows.

The outlook for expansion of existing activity will depend on commodity prices. Realisation of opportunities to diversify into new areas such as development of a magnesite resource and magnesium processing facility will lift industry performance.

The Western Tasmanian Regional Minerals Program is an example of collaboration between industry, Commonwealth and State Governments to identify infrastructure requirements that will facilitate development in a region of Tasmania with significant mineralisation potential.

(iv) Opportunities

The industry is only able to influence the position of its products in the world commodity market by increasing the value added component of production. Opportunities for this sector include:

- Development of magnesite reserves and construction of a magnesium refinery;
- Downstream processing of iron ore;
- Value adding of quality silica flour for the optics export market;
- The manufacture of mineral exploration technology, mine design software and underground mining equipment; and
- A regional smelter on the West Coast of Tasmania to process basic ore, concentrates and mineral-rich waste materials.

(v) Issues

There are several mechanisms that will assist investment in mining:

- The development of basic pre-competitive geo-scientific data sets on mineralisation;
- A balanced approach to development planning and decisions; and
- The availability, cost competitiveness and reliability of energy supply.

The mining industry has generally not made effective use of the Industry Training Advisory Board to address skills deficiencies. Occasionally critical shortages of key professional personnel occur. There is potential for the industry and the University of Tasmania to attract local candidates to these disciplines.

The industry has conducted in-house training funded from its own resources. It is aware that training costs could be reduced by undertaking nationally recognised training rather than its own in-house training.

(d) Tourism

(i) Key activities

Accommodation, cafes and restaurants are the principal segments within the tourism industry. Attractions, outdoor/adventure, vehicle hire, transport and tours also make important contributions to the industry.

(ii) Size, value and structure

The tourism industry consists of 1,450 businesses, contributes between 7 and 8 per cent of Gross State Product, and employs approximately 18,000 people directly and indirectly. For the year ended 30th June 1998, visitors to Tasmania spent an estimated \$571 million. Of this figure, international visitors spent \$89.6 million.

The tourism industry in Tasmania consists of a few large operators and many small businesses. Approximately 90 per cent of businesses employ less than five people. Many operators do not rely on tourism as their only source of income.

(iii) Performance

Tourism in Tasmania has seen rapid growth within the past decade. It is now a major industry that capitalises upon the natural advantages of the State. Visitors numbers grew from 398,100 in 1992 to 501,500 in 1998 which represents a 26 per cent increase.

(iv) Opportunities

Tasmania has built up a highly effective image that has secured the State a small but important share of the national market (3 per cent). Research surveys undertaken by the Government have identified that Tasmania's natural wonders, compact size, product brands and built heritage have a clear individualism that is sought after by 20 per cent of Australians.

Tasmania has much to offer the tour market, including a variety of scenery within small distances and a temperate climate. The proposed Tasmanian Visitor Information System is expected to benefit tourism within the State.

(v) Issues

There are many tourist facilities and utilities in Tasmania which require upgrading of infrastructure to improve tourist visitations at particular sites including:

- Cradle Mountain (road access and parking facilities, sewerage system upgrade);
- Freycinet (potable water supply, sewerage system, road upgrade);
- Mt Wellington (roading, carparking, sewerage);
- Lake St Clair (sewerage);
- Strahan (port and foreshore development);
- Mt Field (site access and roads);
- Central Plateau (roads);
- Melaleuca (runway upgrade);
- North East Tasmania (sealing of roads); and
- Tasman (sewerage and roading).

Effective marketing will lift Tasmania's profile as a foremost tourist destination. Tasmania's natural wonders are currently not perceived by the majority of travellers as 'must see' icons compared with those in other states. Tasmania is perceived as being cool and dull compared with the hot, red, wet, sandy, coral, exotic attractions of Far North Queensland and the Northern Territory.

The State's current wilderness developments may actually be barriers to improving tourist yield. On-site development of small communities in remote areas limit large-scale tourism and are very costly. Easy and low cost self drive access to premium wilderness areas may under value the quality of the experience compared to other Australian icons.

To translate additional visitor demand and maximise yield, the preferred strategy is for a small number of regional centres to be created as regional hubs to service the remote tourism attractions. This is in recognition that visitors will not be able to 'overnight' at many of these locations.

5 Conclusion

There is a wide range of opportunities for the further value adding of Tasmanian resources. Tasmania recognises the need to further value add to existing products and as part of diversification into new areas.

The agriculture and aquaculture, forestry, mining and tourism industries in Tasmania have significant potential for future diversification and further product transformation. The continued active involvement and support of the Commonwealth in facilitating development of Tasmania's resource base and value adding projects is needed.

The importance of Commonwealth assistance to facilitate the provision of key infrastructure in Tasmania should not be under-estimated. The Western Tasmania Regional Minerals Program, support for bringing gas on-shore in Tasmania and assistance to enhance transport infrastructure for key developments are all examples of how the Commonwealth can contribute to the removal of impediments to development.

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