



Regional Development Australia - Tasmania

Understanding Agricultural Competitiveness in Regional Tasmania

Support Information

Authors:	Craig Perkins and Mike Brindley
Level of Which Submission Has Been Authorised:	Chief Executive Officer
Contact:	Craig Perkins
Position:	Chief Executive Officer
Return Address:	Level 1, 12-16 St John Street, Launceston TAS 7250
Phone Number:	03 6334 9822
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Explanatory

Whilst preparing this submission, RDA Tasmania sourced additional support information from different sources in order to provide a thorough understanding of the agricultural sector of Tasmania. RDA Tasmania gratefully acknowledges the following contributions made to prepare this report.

RDA Tasmania Activities in Agriculture

RDA Tasmania continues to work closely with the agriculture sectors of Tasmania and recognises the key contributions Agriculture makes to Regional and community development through economic outcomes, employment opportunities and skill development. The findings from RDA Tasmania's involvement and consultation with the Agriculture sectors form part of the annual RDA Tasmania regional plan.

Dairy Industry

In this submission Dairy Tasmania has provided a copy of their growth plan "Into Dairy – Sustainable growth plan for the Dairy Industry", which is an overview of the strategy which has been implemented to encourage support for investment in the Dairy sector.

To date Dairy Australia, the downstream processors and government have all provided financial and in kind support for this growth strategy which will see production and employment grow exponentially through increased herd numbers, new farm units and strategic investment in supporting infrastructure.

Agriculture Sector Specific Summaries for North West, Northern and Southern Regions

In 2011, the Tasmania State Department of Economic Development initiated an Economic Development Plan process to identify the current industry sectors of Tasmania with a view of supporting development of these sectors for growth opportunities as well as supporting new industry sectors.

This process has been recognised by the Federal Government through an Intergovernmental Agreement and is underpinned by three regional economic development plans recognising the North West, Northern and Southern regions as specific economic development areas which each have their own unique characteristics and development opportunities.

The ensuing sector research is included in this document as Annexures B, C and D.

UTAS - Accounting for Agriculture in Place-based Frameworks for Regional Development

The University of Tasmania recently undertook a structured review of the Agriculture sector in North West Tasmania and the full report has been provided separately for consideration. This report provides detailed analysis of the North West region and identifies strengths, weaknesses, opportunities and threats for the major agricultural sectors along with potential strategies to address these findings.

RDA Tasmania Activities in Agriculture

RDA Tasmania continues to work with a number of agriculture based industries and sectors to help drive positive outcomes for regional areas. These include:

Dairy Industry

RDA Tasmania continues to work closely with Dairy Tas on its strategic plan including the development of its “Into Dairy Sustainable Dairy Development” which received State and Federal Government assistance.

Aquaculture Industry

Petuna, Tassal and Huon Aquaculture were recently successful in obtaining Federal Government funding (RDAF 4) for its aquaculture development in the Macquarie Harbour processing precinct in Strahan.

This multi-million dollar investment will deliver significant employment opportunities and long term economic outcomes for the West Coast and greater Tasmanian economy as the industry continues to expand.

RDA Tasmania provided assistance and support for this project and continues to provide guidance with project development.

Thoroughbred Racing

RDA Tasmania continues to provide assistance to the Meander Valley Council on their proposal to develop specific land traits to support Thoroughbred breeding. This development can provide significant stimulus to the region and improve the reputation of the Tasmanian racing industry.

Specific RDA Tasmania Agricultural Activities

- Co funding the Centre for Food Innovation Business Case
- Co funding the Dorset Agricultural Study
- Co funding the Dulverton Waste Management Bio Mass Energy Audit
- Support for projects including - Smithton Gas Extension, Dial Blyth and Dorset Irrigation
- Participation on SENSE-T committee and University of Tasmania – Agricultural Competitiveness Paper sub committee

Annexure A – Dairy Tasmania Growth Strategy Plan

(Provided by - Dairy Tas)

Tasmanian Dairy Industry Growth Strategy – “Into Dairy Sustainable Dairy Development”

Context for Growth

Tasmania has recorded growth in milk production in excess of 3 per cent per annum over the last ten years with annual dairy output approximately 800 million litres. Tasmania’s natural attributes provide a suitable environment for dairy production.

Dairy processors have collectively invested around \$300 million in the establishment, expansion, improvement and consolidation of processing capacity in the two years which has resulted in the annual Tasmanian based processing capacity increasing to 1 150 million litres.

A further 350 million litres per annum, or around a 40 per cent increase, is needed to take up that processing capacity.

The joint investment by Commonwealth and State governments and the private sector in new irrigation schemes has created the potential to unlock additional land and resources for dairy development.

The restructuring of the Forest Industries, tightening margins in the vegetable processing industry and other pressures in regional communities is driving interest in new economic development and business opportunities.

Dairy farms operate in regional and remote communities and through both the capital investment and operational stages deliver significant regional employment benefits.

Despite consistent historical growth in the Tasmanian dairy industry, to achieve an extra 350 million litres the dairy industry will need to expand quickly through a range of mechanisms including:

- Increasing the number and/or size of farms - new and existing
- Increasing herd sizes
- Attracting more skilled people
- Increasing productivity and sustainability on farm

The industry is entering an exciting era and can substantially increase its contribution to the Tasmanian economy, however market forces alone will not see the industry achieve its full potential in the short term.

Vision

To increase Tasmania’s annual dairy production by 350 million litres to 1 150 million litre by 2017.

Growth strategies

A strategic approach targeting additional activities and resources provides the greatest opportunity for Tasmania to achieve the growth objectives.

1. Attract new investment to the sector

Dairy farming can deliver attractive returns on investment and good incomes to professional operators with sufficient capital and the right blend of technical, financial, business and people management skills.

Industry growth will come from a number of areas: increased output by existing dairy farms, decisions by existing land owners to convert pasture and cropping land to dairy operations through new dairy conversions, and the attraction of external investment to Tasmania to acquire and convert existing farm enterprise to dairy. The estimated new investment to achieve the growth forecast is approximately \$600 million.

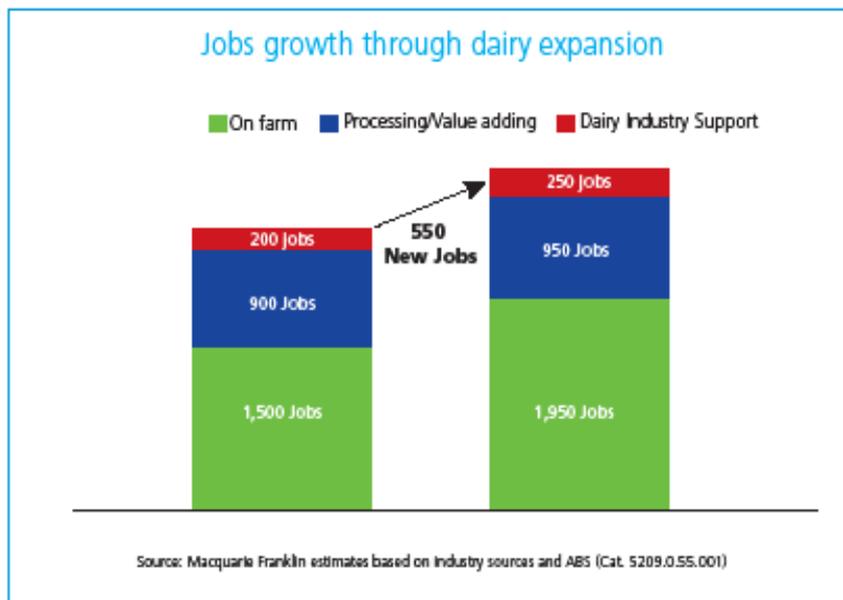
It is imperative that any new investment in the sector is soundly based, and is environmentally and economically sustainable. Lessons learnt from previous local experience and other jurisdictions will see a clear emphasis on providing quality and current industry information, and encouraging sound research and strong business planning.

Specific activities to encourage investment will include:

- Working with existing and new partners to promote the Tasmanian Dairy Industry as a strong investment opportunity
- In market representation to encourage investors from South Africa, New Zealand, Europe and mainland Australia (in conjunction with skilled migration activities)
- Awareness and information services for potential investors
- Implementing funding programs to assist dairy businesses to plan for expansion and non-dairy Tasmanian land owners with the development of business plans for conversion
- Working with significant investors to support business plans for multiple property purchase and/or conversion

2. Attract additional managers and skilled employees to the sector

There are strong programs in place with Dairy Australia (People in Dairy) and local training providers to support skills development and the project manager will work with these stakeholders to maximise the value and outcomes from these programs. However experienced farm managers are in short supply and external recruitment is necessary to augment emerging home grown talent and to accelerate industry growth.



The table above gives estimates of current and forecast employment. It is worth noting that the employment impact will be predominantly felt in rural communities with relatively high rates of unemployment, and be concentrated on-farm but also contribute to increased employment in the processing and services sectors.

Specific new activities will focus on the recruitment and retention of skilled people to the industry and will include:

- A series of international and national recruitment programs targeted at attracting skilled dairy managers to the Tasmanian industry
- Establishing a supportive framework for new investor/managers through mentoring and coaching programs
- Locally promoting dairying as a challenging and rewarding career
- Working with skilled managers to keep them in the industry

3. Assist industry to manage herd expansion

Business opportunities arise from the forecast demand for around 67 500 additional dairy cows. Stock could be a limiting factor even with investment capital and skills in place due to the two years involved to bring a dairy heifer into production. Off-farm agistment and rearing of an increasing number of dairy heifers will require industry support if the growth target is to be met.

Specific new activities will include:

- Developing and demonstrating business models for heifer rearing and agistment
- Field days and workshops in regard to these business models
- Developing models for the importation of dairy heifers

- Developing and delivering training in heifer rearing

Project Outcomes

The successful achievement of the industry growth of 350 million litre per annum will achieve a number of outcomes:

- Support the ongoing sustainability of Tasmania's expanding dairy processing sector
- Generate further farm gate income of \$130 million and increase Tasmania's dairy exports
- \$600 million of new on-farm investment
- Create an additional 550 direct jobs in the industry
- Strengthen and give confidence to the processing sector, assisting processors to achieve their own throughput targets and maximising efficiency
- Increased government revenue and reduced regional unemployment
- Assist the sustainability of regional communities through direct and flow-on impacts

Project Status

Into Dairy Sustainable Dairy Development is designed to focus directly on economic growth through increasing investment and employment in the industry. Other programs have supported resources, farm management and new developments but none have provided a framework for industry development utilising all of the available resources. Where possible this new project will build on existing resources to contribute to the growth of the Tasmanian industry.

A budget summary is attached and costs the implementation of the above strategies and related activities at \$1.556 million.

The project has current support with a \$400 000 committed by milk processors and industry comprising Tasmanian Dairy Products, Fonterra, Kraft Foods (Cadbury), Lion, Dairy Australia and Dairy Tas, and service industry sponsorships. With specific support from the Tasmanian Government through \$400 000 for a dairy conversion plan program and secondment of a Project Manager for an initial period of two years, the project commenced in April 2013.

With the Project Manager now in place Dairy Tas is seeking a further \$400 000 to see the project fully funded and provide the confidence to expedite the commencement of all identified initiatives. Many activities need to commence immediately if the project outcomes are to be achieved over the life of the project. For example, in market skills and investment attraction requires a commitment over time to be fully effective as does the support to existing dairy farmers to achieve their growth aspirations. Planning is at a critical stage with difficult decisions soon to be made to prioritise

competing initiatives and potentially defer or down scale some areas which would reduce the impact of the project and potentially delay industry outcomes.

Current Industry Support

The industry is well organised with established collaborative arrangements in place. Dairy Australia is the national services body for dairy farmers and the industry, delivering a broad range of services and supporting local regional development programs, in Tasmania this is Dairy Tas. At a national level the Commonwealth government matches Dairy Service Levy funding for annual research priorities.

In Tasmania the industry has had good support from both State and Commonwealth governments in the recent past. This support has been important across a range of areas including industry development and extension, industry planning and infrastructure investments. It has included participation in national projects and programs as well as individual projects supported under regional development and other initiatives.

Some more recent examples of this support are listed below:

Commonwealth Government

- Smarter Energy usage
- Climate Change Adaptation
- AgriTas Training Centre and Harcus River Road Power infrastructure through the Tasmanian Forestry Inter-government Agreement package
- Business Continuity
- Dairy500
- DEEWR funding support for employment and training initiatives
- Development of natural gas infrastructure
- Waste management infrastructure for the milk processing industry

State Government

- Dairy Industry Strategic Planning
- Financial Management for dairy farmers
- Climate Connect Energy Efficiency
- Tasmanian Institute of Agriculture RD&E services
- Dairy Industry Skills Action Plan and associated actions around training with Skills Tasmania
- Funding for the Into Dairy Sustainable Dairy Development dairy conversion plans (\$400 000) from the Tasmanian Jobs package
- Secondment of a Project Manager to the Into Dairy Sustainable Dairy Development project for two years

Annexure B – Industry Sector Profiles

(Provided by - The Department of Economic Development)

North West Tasmania

Dairy Sub Sector – North West

Snapshot

The dairy industry involves the farming of dairy cattle for milk processing, and the production of dairy products. Income for dairy farmers is also often derived from a range of other farming pursuits including the production of dairy heifers for export.

The dairy industry supports a much wider supply chain including agronomists, irrigation companies, fertiliser and grain/stock feed companies and consumables companies.

The dairy industry is set to undergo considerable change over the next few years due to a range of factors including the significant expansion of processing capacity within the north west region, which has implications for production across the state.

Tasmanian milk production reached a record of 722 megalitres (ML) in 2010 and is forecast to reach 792ML in 2011-12.¹

Confidence in the Tasmanian dairy industry is high, with Dairy Australia reporting that “Tasmania remains the industry’s most positive region, with 91 per cent of farmers positive about the industry’s future compared to 75 per cent in 2011. Of the 91 per cent with a positive outlook, 23 per cent of these farmers describe themselves as very positive about the future.”²

The dairy industry is cohesive and organised and receives assistance through a range of sources including Dairy Australia, DairyTas, the Tasmanian Farmers and Graziers Association (TFGA), the Tasmanian Institute of Agriculture (TIA), Tasmanian and Australian Government agencies. The dairy industry is also supported through the dairy levy, which through Dairy Australia, enables considerable extension work and support to be undertaken across the supply chain.

A large proportion of Tasmania’s dairy industry is located in the north west region including major processors such as Fonterra at Spreyton and Wynyard, Murray Goulburn at Edith Creek, Tasmanian Dairy Products (TDP) at Smithton and the cheese factories operated by Lion at Burnie and King Island. Additionally, Kraft (previously known as Cadbury’s) has a factory located at Burnie.

Major regional developments confirmed in July 2011 include:

- Lion’s investment of \$140-\$150 million to expand and modernise its Burnie and King Island specialty cheese plants over the next two years

¹ Dairy Australia, Situation Outlook report <http://www.dairyaustralia.com.au/Statistics-and-markets/Dairy-Situation-and-Outlook/Milk-production-outlook.aspx>

² *ibid.* pg 53

- Tasmanian Dairy Products' \$70 million milk powder plant at Smithton opened in late 2012.

Complementing this investment in processing are major expansion plans in the dairy sector. Dairy Australia indicated that 53 per cent of Tasmanian farmers plan to increase milk output over the next three years and 51 per cent of farmers plan investment in the coming years.³

In August 2011, New Zealand-owned Tasman Farms Limited announced a proposed \$180 million investment to treble production at Australia's largest dairy farm, Woolnorth, in the far north west of Tasmania. This will increase annual milk production from five to 15 million kilograms of milk solids through converting beef pasture to dairy, installing pasture irrigation, buying surrounding farms and converting native vegetation on the properties to pasture. This expansion is subject to a range of regulatory approvals and capital/equity raising processes.

There are also examples of the emergence of smaller niche dairy businesses which are leveraging the industry supply chain and experience that exists in the region.

Expansion of the dairy industry will bring both opportunities and challenges. It has been estimated that, with the increase of processing capacity, the industry annually will require an extra 250-350 ML by 2015. This is a considerable increase from previous estimates⁴ and will likely require significant further investment in farms, livestock and the workforce. It will also require conversion of existing agricultural enterprises to dairying or to supporting it.

Both the region and the dairy industry generally are likely to see an increase in the uptake of new technologies and systems including robotic milking which will also require development of a supply chain to support these innovative technologies.

The Tasmanian Government will continue to work with processors and producers along with key stakeholders on a wide range of specific projects and initiatives in the north west region associated with the dairy industry including:

- provision of infrastructure to existing tracts of land suitable for conversion to dairy, in particular the delivery of power infrastructure to Marcus River Road⁵
- delivery of innovative solutions to meet skills and training needs within the dairy industry including the Circular Head Agritas Trade College⁶
- establishment of financial management training for farmers and developing dairy conversion costs/returns information for investors
- assistance with overcoming constraints to further investment
- investigation and development of a business case by Tasmanian Irrigation for an irrigation scheme at Arthur River and other identified locations in the north west.

³ *ibid.*, pg 5-7

⁴ 860 MLs in 2015 See Tasmanian Dairy Industry Strategic Plan 2011 – 2015, <http://www.dairytas.com.au/plan/>

⁵ Funded by the Australian Government through the Tasmanian Forests Intergovernmental Agreement (TFA)

⁶ *ibid.*

Constraints

- There is limited ability to increase milk production quickly enough in a sustainable manner (more livestock, new farms, agistment) to meet potential processor demands in the short term.
- Availability of land, either existing agricultural or forested, is likely to be a potential impediment to significant industry expansion. Clearing and conversion of native forest on private land will be phased out by 2015 and any dairy investment will need to compete for available agricultural land against other potential uses.
- Encouraging new owner/operators into the farm sector is challenging with high entry costs, difficulty accessing finance and potential lack of appropriate management skills.
- Having confidence to invest, given the high cost of farm ownership is a barrier. High debt levels exist with many in the farm sector and this, coupled with limited business and financial management skills of some producers, impacts on the producers' capacity to manage volatility and respond to opportunities.
- Any farm expansion would benefit from irrigation, which has associated costs that may discourage investment.
- It is difficult to access affordable, skilled (technical and business), lower-skilled labour and to attract and retain labour (on farm and in factory).
- Experienced farm managers able to develop and/or manage modern large scale farms, including staff, on behalf of investors are crucial to the growth of the industry but are currently scarce.
- Managing generational change and lack of succession planning is an issue for existing operations as is a potential cultural shift towards farm managers rather than traditional ownership models.
- The volatility of international dairy commodity markets and the flow-on cost price squeeze on farm gate milk prices, coupled with the rising costs of key inputs including freight, water, fertiliser, electricity, natural gas and labour, affects the competitiveness of producers and processors.
- There are continuing concerns raised about high sea freight costs to interstate markets and the lack of regular overseas shipping services from Tasmanian ports. These issues impact on both existing dairy processors and potential new processors.
- A constraint in the Circular Head area is pasture degradation caused by wet winters. Similarly nutrient runoff and associated waterway contamination is also an issue.

Opportunities

- There is anticipated growth in developing economies over the medium term with demand for dairy products projected to exceed supply.⁷
- There needs to be improved understanding and management of key pasture species to assist with boosting productivity.
- There is opportunity to develop higher value and/or branded products and supply of fresh and premium products into niche markets. The expansion of Lion's Burnie cheese processing plant may create opportunity for increased production of goat milk in Tasmania.
- The impact of climate change and climate variability in other geographical areas may provide opportunities for north west Tasmania as a viable alternative for development and investment. The sector could further capitalise on climate change impacts driving Australian milk production to cooler, wetter parts of the country. Climate change models indicate that Tasmania could have an increased comparative advantage, especially with improved pasture management practices.
- To maximise opportunities, there needs to be a well organised, cohesive production sector, with clear demonstrated capabilities. North west Tasmania has a comparative water advantage supplemented by planned irrigation investments, an absence of major animal diseases, and ideal conditions for pasture based production.
- There is significant scope for increased, low cost (by international standards) milk production which could see Tasmania's milk output more than double to 1.5 billion litres per year in the next ten years and attract additional processing investment. This would result in further investment opportunities in both dairy farming and processing. In order for this to occur, stakeholders need to work collaboratively on herd management, attracting and retaining the right people in the industry, and attracting and leveraging investment.
- Exploring the use of renewable energy to offset rising power input costs and/or to supplement income could benefit processors and producers.

⁷ Michael Harvey, Senior Analyst, Rabobank, Tasmanian Dairy Conference, March 2012

Floriculture Sub Sector – North West

Snapshot

The floriculture sub-sector involves the production and harvest of flowers and flower bulbs. The industry is covered by ANZSIC classes 0114 - floriculture production (under cover) and 0115 - floriculture production (outdoor).

Tasmania shares 0.01 per cent of the national industry establishments but accounts for 4.5 per cent of cut flower production.⁸ Industry sources believe this figure under-represents the actual number of establishments and hence the potential market value. Further work needs to be undertaken to fully understand the size and scope of the Tasmanian industry.

Whilst comparatively small, the floriculture sub-sector is well situated to take advantage of regional climatic and seasonal conditions. The industry is present state-wide but has a considerable presence in the north west with a number of the state's largest producers located there. A wide range of flowers and bulbs including lilies, irises, freesias, tulips and peonies are grown for the domestic and international markets.

There is significant investment occurring within the region with a number of enterprises planning increases in production levels over the next five years to meet expected market demand in cut flowers and bulb production. A significant part of that investment is protected cropping facilities to increase scale, ensure product quality and extend the growing season to year round for some crops.

Floriculture, as with other agricultural sub sectors in the region, benefits from many comparative advantages including excellent lifestyle values including high standards of living, affordable housing, short commuting times and ready access to excellent recreational assets which helps attract and retain staff. The industry has a number of skilled and experienced producers, suppliers and supporting industries.

Environmental advantages include a suitable cool climate, quality soil, access to water and a less severe projected medium term impact from climate change when compared with other parts of Australia. The cool climate advantage results in excellent quality, and reliable and consistent production for selected varieties through summer and autumn. The north west coastal area is also considered one of the best locations in Australia for protected cropping, an increasingly important production technique for floriculture enterprises.⁹

In Tasmania, the combination of cool winters, warm summers, good soils, adequate rainfall and long summer daylight hours, enables high quality cut flowers to be produced. This important competitive advantage has enabled the industry to experience substantial growth over the past decade, a situation which is expected to continue into the future.

⁸ AO112-Cut Flower Growing in Australia IBIS World November 2011, pg 22

⁹ Protected Cropping and Agribusiness Park Opportunities in Tasmania *Macquarie Franklin* June 2011

Tasmania's counter seasonality to traditional flower growing nations including European and Asian provides the potential to increase bulb exports to these markets. Industry feedback suggests that both bulb and flower production in the region appears likely to increase as the industry enjoys many of the advantages available to agricultural producers generally. However, its expansion will be dependent on both the domestic flower market and the international bulbs market.

The distance of the Australian market from other producer nations, together with the perishability of the flowers, provides limited protection for the industry from some competition. However, this advantage does not apply to bulbs.

The region is also relatively free of diseases and pests, assisting access to overseas markets. Maintenance of biosecurity is a high priority for the industry.

Within the region the sub-sector has strong skill levels with some enterprises enjoying multi-generational experience and stakeholders within the market having strong ties to national and global markets.

The floriculture industry is undergoing increasing rationalisation and consolidation. Growth is dependent on a range of factors including varieties and seasonality, although movement towards protected cropping is likely to lead to increased year round production providing significant opportunity for enterprises that have successfully traded on a seasonal basis being now able to offer both continuity of supply and consistent quality. Industry feedback indicates that current expansion is at least in part due to consolidation in other parts of Australia as existing players leave the industry due to factors such as urban encroachment and retirement of key operators.

There are a number of initiatives currently being undertaken including increasing the level of collaboration between stakeholders, working with individuals on issues and potential developments, assistance to access off-island markets, and assistance to encourage innovation and investment.

Constraints

- Due to the perishable nature of cut flowers, timely delivery to market is an important factor in the industry, with freight an important element of the supply chain. Freight is a particularly high input cost for the Tasmanian industry and affects competitiveness.
- Floriculture is a labour intensive industry with labour accounting for a large proportion of production costs. Payroll tax is considered an impediment to growth. Rising input costs including labour, freight, power, fertiliser, chemicals and quarantine services, are affecting producer profitability.
- In turn, there is an apparent lack of capital available to expand the industry particularly in relation to protected cropping. Financial institutions are being quite restrictive when considering protected cropping assets for security purposes. Protected cropping operations generally utilise smaller areas of land than traditional rural pursuits which also impacts security values.

- It is difficult to compete in export markets, particularly Asia, due to the low costs for producers in developing countries such as Thailand and Malaysia.
- There is little reliable data available to inform decision making by industry, potential investors and government. This could in part be due to the small size and fragmented nature of the industry.
- There is no industry association or central market in Tasmania. Efforts are underway in the north west for flower producers to collaborate more regularly and over time formalise an industry group.
- There appears to be a lack of generational change management and associated lack of succession planning.
- There are other issues concerning increasing red tape and regulation including quarantine requirements, a lack of available harvesting labour, and paucity of ongoing research and development.

Opportunities

- Industry feedback suggests there is potential to expand and develop the flower bulb sector of the industry through import replacement and export which is assisted through the counter seasonality of Tasmania and northern hemisphere markets.
- There is potential to expand protected cropping in Tasmania. Some existing horticulturalists are currently expanding. Further expansion in this area is constrained partly because of the high costs of advanced protected cropping infrastructure.
- Increasing the level of industry collaboration may assist the growth prospects of the industry with potential outcomes including greater economies of scale, joint market research, market access and promotion.
- There is potential for industry to undertake research and development into new flower varieties, concentrating on import replacement and potential export. This also applies to bulbs to try and increase the volume of exports of Tasmanian bulbs.
- An industry review could be conducted to collect reliable data and assist with identifying future opportunities and promoting further investment.

Fruit and Vegetable Sub Sector – North West

Snapshot

The fruit and vegetable sub-sector involves the growing and processing of fruit and vegetables. It includes sections of the ANZSIC groups of 011 Horticulture and Fruit Growing, 0113 Vegetable Growing and 2130 Fruit and Vegetable Processing.

The fruit and vegetable sector is a significant contributor to the region's economy. The region is a key vegetable producer. It produces fruit and vegetables to supply the fresh, packed and processed sectors for intrastate, interstate and international markets. There is a range of fruit and vegetables grown in the region including apples, berries, broccoli, capsicum, carrots, cauliflower, cherries, onions, peas, potatoes, pumpkins and tomatoes. There are also reasonable quantities of other vegetables such as brussels sprout, cabbage, celery, green beans, headed lettuce, shallots and swede turnips being produced in the region.

In addition to the region's natural advantages such as quality soil, availability of reliable irrigation and cool climate growing advantages, it is also supported by good road infrastructure and is serviced with two ports that provide daily sea freight services to Melbourne (although the cost and availability of suitable freight services in an increasing issue).

The region has a counter seasonal opportunity to grow some crops for the northern hemisphere. There is also a seasonal advantage within the Australian market in the production of some crops, such as in summer months when other areas of Australia struggle with quality and shelf life due to hot weather conditions.

Despite these competitive advantages the sector is facing ongoing challenges impacting the industry's growth and sustainability. The high Australian dollar, unseasonable adverse climatic conditions compounded by good growing conditions elsewhere resulting in oversupply of some products, and the pricing policies of the major retailers have all contributed to a challenging year for some of the major fresh food packers/processors in the region.

These challenges have been cited by two of the region's major fresh vegetable packers/processors as contributing to one of the most challenging years they have faced. These companies are a significant part of the region's vegetable industry value chain.

Two large multinational frozen vegetable processing companies are located in the region. Simplot Australia Pty Ltd has a vegetable processing facility at Devonport and a dedicated potato processing plant at Ulverstone. McCain Foods (Aust) Pty Ltd (McCain) has a potato processing facility at Smithton.

In 2010, it was estimated that more than 80 per cent of the potatoes grown in the north west region were supplied to these processors.¹⁰

¹⁰ McCain Taskforce Study: An assessment of the relative cost competitiveness of processed vegetable production in Tasmania and New Zealand November 2010 by Department of Economic Development Tourism and the Arts

This was prior to the closure in 2010 of McCain's Smithton vegetable processing facility. The company's justification for the closure was that Tasmanian contracted on-farm production was more expensive than similar production in New Zealand. Compounding this issue was the high Australian dollar which caused increased competition from imported frozen vegetable products and is threatening the viability of the vegetable processing sector in Tasmania.

There are a number of medium to large fresh fruit and vegetable processors and packers in the region who use a mix of product grown by them and contract-grown product. There are also smaller fruit and vegetable growers who grow, pack and market product independently, many with niche product offerings.

Some fresh vegetables produced for the Australian market are protected to a degree from the impact of the high Australian dollar, due to the perishability of product. However, ongoing downward price pressure by retailers, increased production costs, difficult seasonal conditions and growing competition from imported products is placing significant pressure on the vegetable industry in particular.

The relative pest and disease free status of Tasmanian food and fibre is supported by tough biosecurity restrictions on fresh fruit and vegetable imports into the state. On the other hand, this disease free status enhances export market access – especially of pome and stone fruits. It is a priority for the industry to maintain the biosecurity status of the state and the region and industry has expressed concern about recent federal government decisions on allowing importation of goods from places affected by a range of pests and diseases.

Tasmania's moratorium on genetically modified organisms is scheduled to be reviewed and will inform government how to best manage this matter for the future.

North west Tasmania has also been assessed as an ideal location for protected cropping production although there has been only limited investment in such facilities to date. This could be due to factors such as the significant capital costs required for a state-of-the-art large scale protected cropping facility as well as high gas and freight prices.

Although not included in this sub sector it is important to note that poppies and pyrethrum are important rotation crops for this sub-sector and they have expansion opportunities in the short term.

Constraints

- Transport capacity, cost and supply chain logistics are major constraints for this sub-sector. Minimising the time taken to move fresh vegetables, soft fruits and processed fresh food that has a limited shelf life, is crucial.
- Some regional road infrastructure is considered problematic with issues including trailer weight restrictions in certain areas, a bottleneck through the Burnie/Somerset section and Cam River bridge restrictions. The potential for increased production in the north east enabled by the irrigation schemes could result in a need for Frankford Highway upgrades to supply product to processing plants in the north west.

- The high Australian dollar is a continuing issue for exporters and domestic producers having to compete with increased imports. There is some concern about the potential impact of the carbon tax. Rising input costs including labour, power, fertiliser, chemicals and waste management services) and increased regulation are also negatively impacting on the profitability of producers, farmers and processors.
- There are significant regulatory requirements relating to development planning approvals, food preparation standards, food labelling, product inspection, waste management, corporate governance and taxation obligations. Many internationally based competitors either do not pay or pay a lesser amount for regulatory compliance.¹¹
- Two major retailers control approximately 80 per cent of supermarket sales, exerting considerable influence over prices and market access. This affects both growers and processors. Expansion of retailer's own brands limits scope for supplier brands and restricts a key mechanism to communicate new product features. Major retailers have also narrowed their fresh food product specifications and created pressure for growers to find outlets for crops outside these narrowing specifications. Imports of processed and frozen vegetable products from overseas low-cost, high volume producer areas¹² are providing further challenges. The focus of major retailers on cheaper prices for consumers is having impacts at the farm gate and on fresh and frozen processors and packers. Farmers, processors and packers have limited scope to pass on increased costs with many producers advising they are being offered prices below the cost of production.
- Business management skills including technical skills, marketing, managing logistics and highly developed negotiation skills are required to negotiate with major supermarkets and suppliers. There is also a need in some cases to address the management of generational change and succession planning.
- Access to technical and business labour as well as lower skilled labour, coupled with a lack of suitable accommodation for labour to harvest some seasonal crops, provides further challenges. The complexity of industrial relations including Fair Work Australia reduces the flexibility available to employers and creates difficulties in engaging casual labour for seasonal harvesting and processing activities such as the constraints around hours that can be worked.
- There are many potential points of entry and many skills required in today's agricultural industry. But for many primary production and related activities are not viewed as a career.
- Access to finance is not generally considered a constraint although in specific circumstances it can be an issue. This is particularly relevant in protected cropping and new perennial crop ventures. Both require large upfront capital injections and/or favourable long term finance arrangements. Additionally, financiers typically place a low security valuation on these operations because they have a relatively small land footprint and are considered to have limited alternative future uses. Difficulty in accessing finance for new perennial crop ventures is further exacerbated by a substantial time gap between planting and the first commercial harvest.
- Crops are susceptible to damage by browsing animals, nuisance birds and invasive animals which is especially the case adjacent to remnant vegetation and plantations. The fact that multi-peril crop insurance is not available is a distinct disadvantage.

¹¹ http://www.tfga.com.au/index.php/download_file/view/153/219/Senate_inquiry-food_processing_submission.pdf?file=Senate_inquiry-food_processing_submission.pdf

¹² <http://ausveg.com.au/media-release/ausveg-warns-that-chinese-vegetable-imports-have-tripled-over-the-past-10-years>

Opportunities

- Improved industry collaboration could assist with competitiveness in the areas of freight consolidation, development of input buyer groups and improved utilisation of on-farm machinery and processing equipment. As well, there is potential for collaboration with other sectors such as retail and manufacturing to potentially identify new opportunities, products or solutions to constraints.
- Rapidly changing consumer trends require flexible and adaptive products and market development, branding and trade promotion. Better utilisation of currently available market intelligence could identify new opportunities.
- A number of processors have indicated that collaboration between growers and processors, although starting from a low base, is increasing for mutual benefits. Many in the industry have expressed the opinion that it is becoming better understood and accepted that growers and processors must continue to work together to ensure sustainability.
- There is a likely increase in the global demand for clean, safe food given that the CSIRO have indicated that 'based on assumptions about population growth, changing diets and agricultural systems...that food production needs to increase by 70 per cent by 2050'.¹³ More specific to this region are markets such as Asia where 'over one billion people in Asia transition out of poverty and into the middle income bracket'.¹⁴
- Place-based labelling support and promotion are to be encouraged, as increasing the recognition of north west Tasmania as a source of quality food.
- Where a price premium can be achieved, shifting to higher value production of value-added product ranges in response to proven market demand is to be encouraged, along with improvements in the supply chain, and greater adoption of value chain analysis to guide business decisions.
- There may well be potential advantages to be gained through the use of new innovative technologies utilising the National Broadband Network such as controlled traffic farming, and market applications including social media.
- The Government's irrigation infrastructure initiative is providing higher surety of water availability in parts of the north west production region. This will improve the reliability of supply and create opportunities for expansion of irrigated fruit and vegetable production.
- Promotion of the agriculture industry as a career of choice and strengthening of the link between education outcomes and industry requirements is needed, to build industry skill levels and labour supply.
- There is potential for government to review its model of engagement to improve the quality of interaction with business and industry, with greater consideration given to commercial opportunities, better promotion of entrepreneurship and innovation in the sector.
- The continued expansion of berry production is a significant opportunity.

¹³ Our future world Hajkowicz et al. CSIRO 2012 revision

¹⁴ *ibid.*

Poppies Sub Sector – North West

Snapshot

Tasmania's cool temperate climate, quality soils, reliable irrigation water and presence of existing production and processing capability provide the state with a competitive advantage in the production of high quality poppy crops. Crops are grown in the north, north west, north east extending to the midlands, the central highlands and the Derwent Valley with potential to develop areas in the southern midlands. Tasmania is the only state in Australia producing poppies for processing, although Victoria is pursuing the option.

The Tasmanian poppy industry was established on a commercial level in the 1960s. It has grown rapidly from cultivating 4 000 hectares of poppies in 1987 to 26 000 hectares in 2010. More than 30 000 hectares have been approved for cultivation in the coming season. At the same time productivity has increased dramatically. The average commercial yield active ingredients from poppy grown in Tasmania between 2007 and 2011 has been well above the yields achieved by other production areas such as Turkey, France and Spain. This is due to the large investments made into research and development for poppy varieties and production practices. Tasmania's high productivity is a competitive advantage for the state.

Tasmania is the world's largest producer of thebaine poppies. In 2010 Australia produced 181 tonnes of thebaine equivalent, accounting for 78 per cent of global production¹⁵. In the same year, Tasmania produced 25 per cent of the world's production of morphine contained in concentrate of poppy straw and is the only producer of oripavine alkaloid contained in concentrate of poppy straw.¹⁶

The three processors present in Tasmania - Tasmanian Alkaloids (Westbury), GlaxoSmithKline (Latrobe) and TPI Enterprises (Cressy) - expect Tasmania to produce around 300 tonnes of concentrate alkaloid this season. Production is expected to double in the medium term. Over the next two to three years the three processors are positioned to make capital investments that could total up to \$100 million. The Tasmanian government is working with industry stakeholders to secure this investment in Tasmania.

Tasmania has led the way in poppy variety research and development. This research, development and extension has given the state a distinct production advantage over other producer areas. For example the Tasman poppy has recently been released which manufactures codeine in-field. At present, codeine poppies constitute a small percentage of the total crop, although its importance is expected to grow quickly.

¹⁵ Technical Report 2011: Comment on the Reported Statistics on Narcotic Drugs, International Narcotic Control Board (United Nations), pg 77

¹⁶ Technical Report 2011: Comment on the Reported Statistics on Narcotic Drugs, International Narcotic Control Board (United Nations)

Industry representatives report that in 2012 payments made to Tasmanian poppy growers is forecast to exceed \$100 million for the first time and that production growth over the next seven years is expected to be similar to the last 10 years¹⁷.

Given that Tasmania has relatively high production costs it is imperative that productivity remains high and that industry continues to invest in achieving improved outcomes. Processor representatives argue that continued growth in the sector into the future is reliant on the ability to meet customer demand at all times. To ensure that this is possible processors need some flexibility in their operation. Producer representative groups believe that Tasmania can meet demand into the future and that local solutions are available to any surety of supply issues that arise.

Constraints

- A significant concern of processors is that their customers see high levels of risk in relying on one location for the production of poppy raw material. The security of supply risk is more significant for thebaine products than morphine and other alkaloids due to Tasmania's dominance of the market. Increased flexibility in operation will help to secure Tasmania's position as the leading poppy producer in the world.
- All processors have agreed that there are opportunities to expand production and productivity in the state but are looking for certainty that they can access alternative supplies to meet their customer demands if required.
- The quality of land and experience of farmers in new, more marginal production areas can increase the risk of production as the industry expands.
- The other element of land availability is the number of hectares poppy processors are able to access through growing contracts. Growers choose to accept growing contracts or not for a number of reasons. The range of factors that influence how much land growers make available for poppy production include:
 - price for crops
 - availability of land
 - availability of rotation crops that fit with poppy production
 - production support from processors and quality of plant material
 - relationship with processors and reliability of contracts.
- Poppy Growers Tasmania and the Tasmanian Department of Primary Industries, Parks, Water and Environment (DPIPWE) are funding a research project to better understand the reasons that farmers choose to grow or not grow poppies in Tasmania. This will assist industry and government to address any areas of concern and improve land availability and management.
- The quality of management of the land used to grow poppies has a direct impact on the quality, productivity and sustainability of poppy crops in Tasmania as well as the state's international reputation as a quality supplier of raw product.

¹⁷ Poppy industry stakeholder consultation meetings 2012

- All sales contracts for poppy material are negotiated in US dollars. The increase in the value of the Australian dollar to above or near parity with the US dollar has affected the competitiveness and profitability of the Australian poppy industry.
- The high Australian dollar has also increased the competitive environment for other crops produced as part of farm rotations in Tasmania, reducing farm profitability and in some cases limiting the number of rotation crops available.
- The regulatory environment that poppy growers and processors operate in within Tasmania is driven by the United Nations Single Convention on Narcotic Drugs 1961 and operates across all Australian jurisdictions. The system is considered complex and restrictive by some. Opportunities to review the operation of the regulatory and administrative environment should be pursued. Facilitation of government and industry interaction and a single point of contact would benefit the operation of the industry.
- Freight is an essential element of Tasmanian economic activity. Tasmania's island status causes it to rely heavily on sea freight and the port system. Freight costs have been impacted in recent times by a variety of factors including the high Australian dollar, new interstate port fees and changes in international shipping, including a move to larger vessels and high-volume 'hub and spoke' international shipping arrangements. These factors have caused unavoidable cost rises for Tasmania. The Tasmanian Government has prioritised the transport and logistics system as an area of ongoing focus and has argued successfully for the retention of the Tasmanian Freight Equalisation Scheme (TFES) and other freight support programs that assist Tasmanian businesses to combat freight costs wherever possible.

Opportunities

- Tasmania is regarded by the UN to be at the vanguard of poppy growing security and manufacturing operations. Tasmania's secure location gives major customers comfort as to the quality and legality of the product being purchased.
- Expanding production and processing capacity to meet a growing global demand for raw alkaloid product.
- The relative pest and disease-free status of Tasmania fosters access to markets. Maintenance of biosecurity is a high priority for industry to ensure that this status can be maintained.
- Opportunities exist to improve production techniques to achieve better productivity and efficiency and to increase scale of farming operations.
- Skilled and efficient farmers offer an opportunity. However industry groups note that existing farmers are skilled, but some may need further training as irrigation schemes come on stream¹⁸.

¹⁸ *Ibid.*

- There is an opportunity to achieve optimum yields and productivity on farm by adopting new technologies.
- Research and development into processing techniques will also improve the productivity of the companies sourcing raw product from Tasmania. These research and development activities are likely to be conducted on an individual business level.
- Provision of on-demand irrigation via a number of large irrigation infrastructure projects will enable the transformation of land throughout Tasmania to allow the expansion of value-added crops¹⁹ such as poppy and vegetables.
- Recent research by TIA and DPIPW has indicated that there is suitable land available for poppy growing in Tasmania. The report estimates that approximately 60 000 hectares of land is available on a sustainable basis. However the quality of the land available, and the expertise of the people growing poppies on that land, varies. Recent construction of irrigation infrastructure will assist in improving the reliability of production areas and potentially open up new areas for production.
- Opportunities exist for processors and growers to work cooperatively with each other and with government research and extensions service providers to improve land management practices across the state.
- Many industry representatives acknowledge that productivity varies significantly across farms and good opportunities exist to increase performance within the existing hectares planted. Opportunities to increase productivity through:
 - improved production practices
 - land management planning
 - information sharing between processors and other stakeholders on land use
 - research and development into poppy plant material and production techniques.

¹⁹ <http://www.tasmanianirrigation.com.au>, accessed 10/07/12

Red and White Meat Sub Sector – North West

Snapshot

Red Meat

The red meat sector in Tasmania is the third largest farm based income generator behind vegetable and dairy. Cattle and prime lambs are an important part of many diversified cropping operations in the north west region. In Tasmania it is estimated that there are around 3000 farms carrying a total of 446 000 beef cattle, and 1800 farms carrying a total of around 1.99 million sheep.

Processors are operating in a highly competitive and price sensitive international market where there are high levels of substitution between the various animal proteins (beef, sheep, pork and chicken).

Sixty-five per cent of Tasmanian beef is exported overseas to markets that include Japan and the United States, with 20 per cent exported live to interstate destinations for finishing and processing. A significant share of the beef export from Tasmania is high quality pasture fed and branded product, and of special interest to Japanese buyers.

The loss of direct export shipping is a significant competitive issue. Despite the red meat sector being hit hard by the high value of the Australian dollar, particularly against the US dollar, the demand for protein in Asian markets generally is helping to sustain prices at relatively sound levels.

It is understood that Tasmanian meat processors do not breach the 25kt CO₂ buffer but are suffering the impact of higher energy costs relative to overseas competitors.

The region's image is clean and green, with high rainfall providing ideal conditions for low cost pasture based feed systems. Strong standards of animal welfare exist for processors and farmers. Tasmania has a ban on hormone growth promotants and a moratorium on genetically modified organisms. There is relative disease freedom. The maintenance of biosecurity through risk-based assessment and effective response plans and capability is fundamental to the viability of the industry.

With increased demand for sustainably produced goods, both globally and domestically, there is an apparent shifting consumer demand for food sustainably produced from free range animals in a pasture-based environment.

The pork industry in the north west region is small and boutique, and not covered in this sectoral profile.

White Meat

One of Tasmania's two major poultry producers is located in the north west at Sassafras, producing chicken and turkey. The stable climate is well suited to poultry breeding with ready availability of good quality feed crops.

There is strong brand recognition including quality, natural, clean and green values. Renewable energy, delivered by a wind turbine, meets 60 per cent of the producers' energy requirements. There is good road infrastructure available to a centrally located port at Devonport.

The main product is fresh meat including whole chickens, and value added product with a range of ready-to-cook products. Overall, the Tasmanian chicken production sector is small and predominantly services the local Tasmanian market.

A small quantity of fresh and frozen turkey is also produced, representing approximately 10 per cent of the region's poultry production.

Tasmania's island status provides restricted entry points, and strict quarantine protocols, thereby potentially restricting the entry of exotic pests and diseases.

Constraints

Red Meat

- The region has two major red meat processor companies, located at Smithton and Devonport. Meat processing operations are energy intensive. Whilst north west processor carbon emissions are below the carbon tax thresholds, the carbon tax will increase their operating costs with anticipated significant price rises for key inputs including energy, transport and packaging. This will reduce already low operating margins to a point where site viability will be closely reviewed in an economy that is already under considerable pressure from trade-exposed markets. The processors are ineligible for any significant financial support that many other industries will receive.
- Both processors utilise cattle from King Island, with one transporting cattle to Smithton for processing, and the other formerly processing the cattle on King Island. With the recent closure of the JBS owned processing plant, both processors will now need to ship cattle from the Island to mainland Tasmania, within a short time frame to ensure Meat Standards Australia (MSA) grading is attained. MSA provides an endorsement of quality for graded cuts of red meat indicating that product has met quality standards for tenderness, juiciness and flavour.²⁰
- Grassy Port is fundamental to King Island's beef industry survival. Immediate attention is required to secure the future of the port and shipping services. At peak periods it is estimated that up to 1500 live cattle per week will need to leave the Island by ship, which is not possible with the current service. There is uncertainty regarding the future of the current service, with an understanding that a larger ship or more frequent service will be required to support the Island's overall freight requirements. However, the current port is not able to handle larger ships. Attention needs to be focused on either upgrading the port infrastructure to meet the changing requirements of the current service provider, or identifying an alternative service provider that can utilise the current infrastructure. A review is also required to determine the capacity of the Grassy Port to handle up to 1500 live cattle per week.
- Red meat production is decentralised. The Tasmanian red meat industry ranges in scale from many small hobby farms to dedicated cattle enterprises operating on a large scale, rearing animals in an intensive pasture management system. As well, there are farmers who integrate

²⁰ www.mla.com.au

cattle and sheep into their cropping systems including vegetables, poppies, cereals and pyrethrum.

- In recent years, with improved pastures and farmers conserving native forest and incorporating plantations into their businesses, native animal populations have increased dramatically. Native animals, notably wallabies, have caused significant crop and pasture losses on north west farming enterprises, with native animals actively browsing pastures, competing for feed needed for cattle. North west cattle producers are entirely pasture-based and, in order to be economically sustainable, need to maximise pasture utilisation. On King Island alone, it has been estimated that there are half a million wallabies, causing economic losses of around \$28 million per annum²¹.
- Potentially, higher returns from competing uses of land including dairy, poppies and vegetables can make sustainable grazing a less profitable option. Recent investments in dairy processing will increase incentives to convert beef land to dairy, particularly where power, water and other key inputs are present.
- Limited competition within the processing industry and retail supermarkets impacts negatively on farmers' bargaining positions.
- Other issues for the regional red meat industry present as barriers to development include difficulty in accessing a reliable, skilled and a stable workforce for both processors and farmers, and escalating issues with increasing regulation and red tape.

White Meat

- Whilst there are opportunities for expansion within the white meat industry, cost competitiveness with higher production costs is reducing operating margins. Payroll tax is cited as a barrier to growth, thereby reducing the likelihood of market expansion in the near future.
- Current rising global grain prices, due to drought in the USA and parts of Europe, are projected to exceed record prices from three to four years ago. This is of concern particularly to the white meat sector. In the short to medium term this is likely to increase the cost of white meat production and potentially decrease consumer demand.
- Issues exist with access to affordable skilled and lower skilled labour.
- There are perceived community concerns over bird welfare and environmental management practice which has the potential to impact on future consumer demand.

Opportunities

Red Meat

- The development of a Tasmanian meat industry strategy, along the lines of the existing dairy plan, could assist with the current lack of direction in the red meat industry, which has no

²¹ TFGA 2012/13 State Budget Consultation Submission, page 26

overarching industry development plan, no future production targets, and issues around meat branding and access to slaughter facilities.

- There is potential for greater recognition in higher value markets and a price premium with strategic marketing such as paddock to plate product tracking development, and supplying fresh product into local, interstate and overseas niche markets.
- Through branding investment and quality assurance systems such as MSA grading and traceability, there may be some potential to support price premiums, providing a buffer against commodity volatility.
- Potential improvements for farming practices aimed at raising productivity include increased utilisation of genetics, better adapted pasture species, more efficient use of pasture, irrigation efficiency and water use strategies, new cropping opportunities, increased use of wallaby exclusion fencing, aligning farm systems to processor and market requirements and improved collaboration along the meat supply chain.
- The provision of a gas pipeline to Circular Head and Devonport could assist processing plants to significantly reduce the cost of energy inputs.

White Meat

- Globally, data shows that chicken consumption is increasing, providing future potential opportunity for increased production to service local, interstate and overseas markets.²²
- The regional poultry processing plant is free of infectious bursal disease, providing significant opportunities to export poultry product to New Zealand, both by direct sale and through companies involved in value added products, including McCain and Mrs Mac Pies. It is understood that this poultry processor is the only one in Australia currently with this status.
- Improved targeted marketing to develop domestic and export markets, and leveraging environmental differentiation may assist with a shift to higher value production and value added product ranges, supplying fresh and premium products into local and interstate niche markets.
- A recently identified opportunity exists to establish a Tasmanian turkey breeding facility, which would have the potential to supply Tasmanian processors. With no current breeding facilities existing in Tasmania, baby turkeys are required to be air freighted into Hobart. Airlines will not accept live turkey into Wynyard, Devonport or Launceston. Therefore, there are significant additional transport logistic charges which could be redressed by the establishment of a Tasmanian breeding facility.
- Maximisation, maintenance and possibly expansion of the Tasmanian Freight Equalisation Scheme would help ensure that Tasmanian producers are not at a competitive disadvantage because of the high Bass Strait freight costs and would assist with arresting declining profit margins and competitive disadvantages.

²² Rabobank – Crossroads for Growth Report, The International Poultry Sector Towards 2020 Page 1

Salmonid Sub Sector – North West

Snapshot

The salmonid sub-sector involves the growing and processing of salmonid, primarily Atlantic Salmon and Ocean Trout. It includes sections of the ANZSIC groups of 020 Aquaculture and 1120 Seafood Processing.

Aquaculture is the practice of farming aquatic organisms such as salmon in fresh, brackish or salt water. Aquaculture is considered an agricultural activity, despite the many differences between aquaculture and land based agriculture. The industry has evolved to a high level of sophistication as a result of extensive research and development. Most aquaculture crops are developed to augment natural populations of fish and to be a primary source of food destined for human consumption.

The marine farming of salmonids commenced in Tasmania in the mid 1980s and in the north west region shortly after, expanding to be a major industry in Tasmania. The marine cycle begins eight to fifteen months after hatching, when the fish reach the smolt stage. Eventually becoming too big for the hatchery tanks, they are transferred to grow-out facilities such as those at Macquarie Harbour in the north west region. Once transferred, the fish are held for up to fifteen months. They continue to grow rapidly in the cages in the sea water until they are ready to be harvested. The typical harvest size is between 3 kg and 4 kg. Once harvested, most fish farms rest the site prior to using it again.

Tasmanian salmon has become synonymous with fine seafood around the world. The region's salmon growers employ world's best practice in their farming techniques and are dedicated to quality. This, combined with an environment that is free from major salmon diseases and water temperatures that are conducive to growing quality salmon, enables the production of a world class premium product.

The industry continues to experience strong sales momentum despite the current challenging economic environment. Sales are proving resilient with wholesale sales approaching \$400 million. The salmon and trout farming industry currently creates more than 1 200 direct jobs statewide and contributes \$150 million to the Gross State Product.

The salmon farming industry in Tasmania has a long history of supporting and investing in both fundamental and applied research with the objectives of improving production efficiency and ensuring high standards of environmental performance and fish health and welfare. A key restriction to farming southern leases is access to fresh water to manage amoebic gill disease (AGD) through bathing the fish. Huon and Tassal are the only two companies currently farming salmon in south east Tasmania and are collaborating on developing an improved AGD mitigation measure. Huon and Tassal received funding through the Tasmanian Forests Intergovernmental Agreement (TFA)²³ for fresh water bathing schemes in the Huon/Channel area, in the southern region, as part of industry expansion plans.

²³ The Tasmanian Forests Intergovernmental Agreement (TFA) is funded by the Australian Government

Tasmania's salmon growers' unique location and harvesting techniques enable their salmon to be ocean harvested and landed fresh to major fish markets around Australia overnight, typically one day faster than anyone else. Salmon growers' further value added processing converts fillets into a range of fresh fish products including skin-on or skin-off fillets, plain or flavored hot smoked and sliced cold smoked portions.

There are three main salmon producers operating in the north west of the state: Tassal Group Ltd (Tassal), Huon Aquaculture Company Pty Ltd (Huon) and Petuna Aquaculture Pty Ltd (Petuna). They all have vertically integrated production and processing systems, with a range of value-added products for the domestic, national and international markets. The Tasmanian salmonid industry's competitive advantage derives from production efficiencies and proximity to its key market.

Tassal is a salmon-only grower and is the largest operator in that market, predominantly in Tasmania's southern region. Tassal also operates two farming sites in Macquarie Harbour on the west coast and is fully integrated with its own hatchery, marine farming, processing (in the south) and marketing capability. In addition to its own activities, Tassal currently acts as a contract grower for Petuna and sub-contracts its Macquarie Harbour processing requirements to Petuna but marketed as Tassal product.

Huon is a privately owned company that commenced farming in 1988 in southern Tasmania, growing mainly salmon and some trout. Today, Huon operates farming facilities in both the southern region and in the north west at Macquarie Harbour. The west coast site enables the company to grow fish specifically for harvest during the March to May period each year. This period is when the company changes from one year class to the next in its southern sites. The west coast fish help smooth this step-down in size because they are an intermediate size (around 4.5 kg on average) enabling Huon to provide a more uniform size range to its customers during this period. Huon has a processing facility at Parramatta Creek in the north west and two hatchery operations elsewhere in the state. The Parramatta Creek processing facility utilises state-of-the-art fish processing equipment to fillet and pack for shipment to markets all around Australia and the world.

Petuna, established in 1990, is privately owned and is the largest operator in trout and the third largest in salmon. The business is vertically integrated with its own hatchery at Cressy, marine grow-out areas in Macquarie Harbour and processing operations at Devonport. Additionally, Petuna contracts Tassal and Van Diemen Aquaculture to grow and supply salmon, and acts as a contract processor for Tassal's Macquarie Harbour farms. The majority of Petuna's marine farm infrastructure assets have been renewed since 2008-9. Petuna's Devonport factory is a state-of-the-art processing facility, where fish are processed and packaged for local and interstate markets and export destinations including the United States, Japan and South-East Asia. Value adding takes place here, including hot and cold smoking and the preparation of fillets and other portions.

In 2010, Petuna, Tassal and Huon began working together to apply for an expansion of marine farming lease areas in Macquarie Harbour consistent with the industry's Strategic Plan 2010-2030. The plan seeks to double salmon production in Tasmania by 2030 and to strategically enable ongoing growth in the industry. Macquarie Harbour is a body of water that is seven times the surface area of Sydney Harbour, with a natural mix of clean, cold fresh water flowing from the Franklin and Gordon

Rivers into the salt waters of the Southern Ocean providing a perfectly natural environment for growing premium quality ocean trout and Atlantic salmon.

The companies presented the required documentation for the proposed expansion to the Marine Farming Planning Review Panel. The amendment to the Marine Farming Plan has been approved by the Australian Government under the provisions of the *Environment Protection and Biodiversity Conservation Act 1999*.

If the development proceeds, the modeling suggests the land and sea based investment will be approximately \$60 million over a five year period and create the equivalent of around 100 jobs in the construction phase, some 45 further jobs in the farming of fish, and another 120 in processing.

Constraints

- In order to balance industry expansion with environmental sustainability and community acceptance, further scientific and environmental studies will need to be undertaken to understand and monitor the sustainable industry development. Limited access to water in existing marine farming development areas is seen by the industry as a key constraint.
- As global aquaculture production increases, industry needs access to sustainable sources of fish protein and fish oil for feed.
- Increasing the size of existing markets and developing new markets will be required as production increases. This needs to be supported by a corresponding increase in available, affordable skilled technical and business labour, supplemented by low skilled labour.
- Whilst the Tasmanian Government has limited opportunity to influence the cost of freight across Bass Strait, it will continue to focus on ensuring that all eligible claimants secure the benefits of the Tasmanian Freight Equalisation Scheme. The scheme was devised to compensate Tasmanian industry for the disadvantage caused by having to move cargo across Bass Strait by sea, compared with road transport.
- Infrastructure needs to be maintained or improved including transport capacity, cost and supply chain logistics. Tasmanian water temperatures are predicted to rise as much as 1-2°C by 2030 and 2-3°C by 2070. Further research is needed to understand how to adapt to the impacts of rising temperatures on productivity and how those impacts might be mitigated.

Opportunities

- Globally, the demand for aquaculture products is increasing. Tasmania has a strong and thriving aquaculture sector that is highly regarded as a quality producer. Its relative pest and disease free status, compared with other salmonid aquaculture regions, reduces production costs and enables trade in markets that are closed to other producers.
- The industry is planning a significant expansion program over the next 20 years. In the medium term, it plans to increase production levels from 34 000 HOG (head-on gutted) tonnes to 48 000 HOG tonnes. As a result, lack of sustainable sources of fish feed has generated interest in alternative feed sources and research and development in fish protein and fish oil content.

- The industry is collaborating on a number of issues that include freight consolidation, improving competitiveness and developing buyer groups for inputs. It is also collaborating with other sectors including retail and manufacturing to potentially identify new opportunities, products or constraint solutions. There are market development, branding and trade promotion opportunities. There is an opportunity to develop higher value and/or branded products and supply of fresh and premium products into niche markets.
- Continued maintenance of the Tasmanian Freight Equalisation Scheme would help ensure that Tasmanian producers are not at a competitive disadvantage because of the high Bass Strait freight costs and would assist with arresting declining profit margins and competitive disadvantages.
- The industry could further examine the potential for renewable energy to offset rising power cost inputs, or alternatively to supplement income.

Annexure B – Industry Sector Profiles

Northern Tasmania

Dairy Sub Sector – Northern Region

Snapshot

Dairying is Tasmania's largest agricultural industry, with a production value of approximately \$460 million in processed products.²⁴ It is estimated that the dairy and associated processing industry contribute approximately \$250 million towards Gross State Product.

Tasmania's temperate climate, fertile soils and reliable rainfall support low cost, pasture-based milk production. Tasmania's milk production costs are consistently lower than most other Australian dairy regions, resulting in higher returns on capital invested and helping to drive the industry growth that has occurred over the past two decades. The state produces a range of dairy products for domestic and international markets including cheese, UHT milk, skim and whole milk powder, butter, whey, yoghurt, milk, confectionery and cream.

Tasmania's processing sector is mainly situated in the north west and is dominated by Fonterra, Lion, Cadbury and Murray Goulburn. Main processors in the northern region, although smaller by volume than those in the north west, include:

- Ashgrove Cheese - Elizabeth Town
- Meander Valley Dairy - Hillwood
- Elgaar Farm - Elizabeth Town
- Pyengana Dairy - Pyengana
- Tamar Valley Dairy - Launceston
- Yonderover Farm House Cheese - Lebrina
- Westhaven Dairy – Legana.

Investment by processors in the north west will likely be a driver for dairy expansion in the northern region. Projects include Fonterra's \$12 million upgrade of its Wynyard cheese plant, Lion's

\$150 million expenditure at its Burnie and King Island specialty cheese plants, and Tasmanian Dairy Products \$70 million milk powder plant at Circular Head.

Given these investments in processing, there is potential impact on current and future milk production in the northern region. In the next three to five years it is estimated that milk demand by the main Tasmanian processors will increase by 40 per cent. This represents in the order of 350 megalitres (ML) of milk to allow total annual milk production to reach 1 150 ML. While this presents a considerable opportunity, the challenge is to increase the numbers of

²⁴ This figure is derived from preliminary data provided by the Department of Primary Industries, Parks, Water and Environment, from the unpublished draft of *Food and Agriculture Industry Scorecard 2009-10*. ^aBased on actual industry product output (volumes of milk, cheese, powders & butter actually produced in Tasmania in 2009-10) and current product prices the projected packed & processed value = \$460 million.

people, cows and farms dedicated to milk production in a sustainable manner and enable all processors to have access to sufficient milk supply as requirements increase.²⁵

Constraints

- Limited processing capacity has previously been seen as a barrier to industry growth, although a number of planned expansions will address this.²⁶
- High debt levels within the farm sector and limited business skills of some producers can impact on the capacity to manage volatility and respond to opportunities.
- There are difficulties in attracting and retaining labour, both on farm and in factory, as well as encouraging new owner-operators into the farm sector.
- The volatility of international dairy commodity markets and the flow-on cost-price squeeze to producers are continuing to be seen as a significant constraint.
- Rising costs of key inputs such as water, electricity, natural gas and labour affect producers' and/or processors' competitiveness.
- Any reduction in port access and/or sea freight services interstate would be a significant constraint to competitiveness in Tasmania. Whilst the Tasmanian Government has limited opportunity to influence the cost of freight across Bass Strait, it will continue to focus on ensuring that all eligible claimants secure the benefits of the Tasmanian Freight Equalisation Scheme. The scheme was devised to compensate Tasmanian industry for the disadvantage caused by having to move cargo across Bass Strait by sea, compared to road transport.

Opportunities

- There is significant scope for increased, low cost - by international standards - milk production which could see Tasmania's milk output more than double to 1.5 billion litres per year in the next 10 years and attract additional processing investment. This would result in further investment opportunities in both dairy farming and processing. In order for this to occur, stakeholders need to work collaboratively on herd management, attracting and retaining the right people in the industry, and attracting and leveraging investment. DairyTas, in consultation with stakeholders, has developed a growth plan to help industry pursue these opportunities.
- There is anticipated growth in developing economies over the medium term with demand for dairy products projected to exceed supply. Tasmanian producers can assist in supplying this market, although it is important to keep market diversity between new and traditional trade destinations.
- Tasmania has a comparative water advantage that will be supplemented by planned irrigation investments. These will continue to be served by the rollout of irrigation schemes.

²⁵ Making more milk, Filling the Factories, <http://www.dairytas.com.au/> accessed 21/08/12

²⁶ Industry Survey to support the Northern Regional Economic Development Plan (Dairy Industry), 2012

- Tasmania has a relative absence of major animal diseases and ideal conditions for pasture - based production.
- Capitalising on climate change impacts driving Australian milk production to cooler, wetter parts of the country will be a potential opportunity. Wine makers are leading the way in investing in Tasmania as a form of land 'insurance' and dairy producers can follow suit.
- By improving understanding and management of key pasture species, productivity can be boosted. This can be combined with a well organised, cohesive production sector with clear, demonstrated capabilities and a plan to account for skills shortfalls. With regards to future skilling needs, industry has identified in order of importance attracting staff, retaining staff and up-skilling.
- With an increase in milk demand from existing and new milk processors in the north west, and the increased opportunity for conversion to dairy from the implementation of irrigation schemes, the case for farms investing in, and converting to, dairy may be increased. This may extend further to farmland in the midlands where dairy farms have traditionally been in the minority compared with red meat, wool and cropping. This will depend heavily on the will of individual landowners to convert to dairy farming. With sufficient increase in milk production, the case may be made to increase milk processing in the region. However, land suitability will be a crucial factor.

Fruit Sub Sector – Northern Region

Snapshot

The Tasmanian fruit industry comprises three key sub sectors:

- Pome fruit (pip fruit) - primarily apples, with some pears produced
- Stone fruit - primarily cherries and apricots, with some nectarines and plums produced
- Berries - strawberries, raspberries, blackcurrants and blueberries.

Tasmania's temperate climate provides the essential winter chill followed by a long mild growing season to support fruit development and enhanced flavour. Tasmanian stone fruit and berries have a clear, late season production advantage both within Australia and overseas. This provides a defined market advantage since there are few competing production regions in the southern hemisphere. The timing of Tasmanian production also provides counter seasonal supply opportunities to the northern hemisphere.

The state's island status with risk-based quarantine controls means Tasmania also has an advantage due to its relative disease and pest free status. This provides access to a number of international markets, including Asia, where stringent import regulations are in place. The peak body representing the industry is Fruit Growers of Tasmania, an organisation which has played a crucial role in the development of the industry and its export culture.

The Tasmanian fruit processing sector is small, with the majority of players being micro or small operations (predominantly making preserves and jams) servicing niche markets. There is one dominant processor of apples, blackcurrants and raspberries for fruit juice and value added products.

Apples

A strong domestic market, high freight costs and the rising Australian dollar have seen apple exports decline, with the industry experiencing a period of rationalisation and diversification of varieties planted. The pome fruit sub sector is still an important contributor to the Tasmanian economy with a 2008-09 farm-gate value of \$37 million.²⁷ In 2009-10 apples had a gross value of \$26.4 M down \$8.8M from previous year.²⁸ Opportunities exist in export markets in South East Asia. . China has been identified by industry as a developing market to target.

The Tamar Valley produces about seven per cent of the state's apple production. Major northern producers of pome fruit are:

- Top Qual Pty Ltd - Tamar Valley - apples, pears, cherries
- Montague Fresh, Legana - apples, pears
- CG Miller Hillwood - apples, pears
- Windara Orchard, Sidmouth - apples, pears

²⁷ This figure is taken from preliminary, unpublished data provided by the Department of Primary Industries, Parks, Water and Environment, from the draft *Tasmanian Food and Beverage Industry Scorecard 2008-09*.

²⁸ Figure from *Food and Beverage Industry Scorecard- 2009-10 Snapshot* provided by the Department of Primary Industries, Parks, Water and Environment.

- Lees Orchard, Dilston - apples, pears
- Eureka Farm, Scamander

Stone fruit

The cherry sub sector is a relatively young but rapidly expanding sector. The industry has estimated that production could increase to 7 000 tonnes by 2015, making Tasmania the largest cherry producing state in Australia.²⁹ Tasmania's niche for cherries is at the top end of premium overseas markets, where Tasmanian product is differentiated on the basis of quality and larger fruit size. In 2008-09 the cherry sub sector's farm-gate value was \$24 million.³⁰

Tasmania has a relatively small stone fruit production area. However significant growth, particularly in apricots, has occurred in recent years. The focus has been predominantly on supplying the domestic market but as volumes increase, overseas exports may increase. In 2008-09 the farm-gate value of apricots was \$5.6 million and other stone fruit (excluding cherries) \$1.2 million.³¹

Major northern producers of stone fruit are:

- Mountain View Cherries, Beaconsfield
- Eversley Cherries, Legana
- Woodmere Cherries, Swan Bay
- Fermer Cherries, Westbury
- Somercotes Cherries, Ross
- Underwood Cherry Farm, Underwood
- Aviemore Cherries, Gravelly Beach
- Cherry Top, Lilydale
- Pan Tas, Rowella
- TE & AG Taylor, Beauty Point

Berries

The potential for berry production in Tasmania has yet to be fully explored by industry. The berry sub sector currently contributes a little more than two per cent of Australia's total berry production. Blackcurrants are the principal berry fruit grown for processing. Blueberries and other berries are smaller contributors, although the potential for blueberry production is yet to be realised, with some plantings not yet reaching full production. A number of producers in the berry sub sector have successfully incorporated tourism and visitor experiences into their business model to niche value-add through cafes, retail outlets and 'pick your own' experiences. Raspberries and strawberries comprise 60 per cent of state production. The farm-gate value of the berry sector is estimated at \$13.8 million.³²

Major northern producers of berries include:

²⁹ Information provided by Fruit Growers Tasmania in consultations with the Department of Economic Development Tourism and the Arts on 10 August 2010.

³⁰ This figure is taken from preliminary, unpublished data provided by the Department of Primary Industries, Parks, Water and Environment, from the draft *Tasmanian Food and Beverage Industry Scorecard 2008-09*.

³¹ *ibid.*

³² *ibid.*

- Berry Exchange - Dunorlan, raspberries /blackberries
- Christmas Hills - Elizabeth Town, raspberries
- Naturally Blue - Lebrina, blueberries
- Hillwood Berry Farm - strawberries
- Aviemore - Gravelly Beach, blueberries
- Cherry Top - Lilydale, blueberries
- Crestview - Lilydale, blueberries
- Driscoll's/Costa JV at Elizabeth Town – the berry patch. Also in partnership with Burlington Berries for strawberries.

Constraints

- Potential changes to quarantine restrictions which could allow apples to be imported from New Zealand to Australia might increase the risk of fire blight and other diseases becoming established in Tasmania, including the northern region.
- Tasmania's key competitors have a high profile in global markets. Market development and maintenance needs to be improved in order to maintain and grow market share in new and existing premium overseas markets.
- Tasmanian fruit producers generally face higher production costs in terms of key inputs such as water, energy and labour, relative to global competitors. This is particularly a concern for pome fruit as there is increasing global competition from low cost production countries.
- The issue of greatest concern is currently the cost of technical and business labour. Labour costs (including the taxation rate and superannuation for itinerant workers) are having a major impact on the sector's profitability and global competitiveness. Availability of skilled and highly specialised staff is an on-going issue³³.
- Reduced investment by industry and government in research and development is impacting on research and development capacity. The ability to investigate and develop new technologies, production systems and new fruit varieties must be enhanced to remain competitive globally.
- Access to water and surety of supply for irrigated fruit orchards is a lesser constraint with the development of irrigation systems, but it is vital to ensure that reliable supply is maintained and aligns with industry requirements.
- The loss of a direct international shipping service from Tasmania and the increased port charges at Port of Melbourne placed a further burden on Tasmanian exporters, including the fruit industry. Whilst the Tasmanian Government has limited opportunity to influence the cost of freight across Bass Strait, it will continue to focus on ensuring that all eligible claimants secure the benefits of the Tasmanian Freight Equalisation Scheme. The Scheme was devised to compensate Tasmanian industry for the disadvantage caused by having to move cargo across Bass Strait by sea, compared to road transport.

³³ Industry Survey to support the Northern Regional Economic Development Plan (Fruit Industry) 2012

- Utilising second and third grade fruit is crucial in developing profitability in this sector. Currently there is minimal processing so industry is heavily reliant on high pack-out results with limited outlets for value adding to second grade fruit.
- Regulation not required for environmental, public benefit or transparency reasons presents a barrier to development but is a constraint to business. This may include regulation, tax arrangements and administrative processes and other issues such as variable planning schemes.
- Managing generational change and a lack of succession planning is a significant constraint for some operations.

Opportunities

- Tasmania's island status offers relative disease freedom giving production benefits and market access advantages, particularly in high value niche markets.
- Increased market access into China and other parts of Asia, combined with rising affluence, freight economies and improved cold chain presents good export opportunities, particularly for apples and cherries.
- Water surety and potential for increased access to water is improving through new irrigation schemes. However, the industry will need supporting infrastructure to pursue these opportunities.
- There is scope to develop premium niche markets through Tasmanian brand recognition in international markets. This will be important for the fruit sector as volumes of export quality fruit increase.
- Recent significant investment and expansion by corporate entities in the state will see an increase in production of cherries, stone fruit and berries. Recent investment in the northern region by international berry companies Driscoll's and the Costa Group - including joint ventures³⁴ - indicates the commercial potential of the northern region. Opportunities in other niche products e.g. goji berries, figs, pomegranates need further investigation.
- Innovation such as utilisation of technology including *SenseT*³⁵ and modern production systems to increase product quality, productivity, product development, value adding and processing will further increase productivity in the sector.
- Climate change may see new market opportunities, with climatic conditions seeing the production of stone fruit moving further south.
- Better utilisation of tourism infrastructure, including the combination of niche value adding with tourism will allow co-leverage to benefit two key northern region industry sectors.

³⁴ Driscoll's Costa Exchange Media Release, 25/09/09

³⁵ Part funded by the Australian Government through the Tasmanian Forests Intergovernmental Agreement (TFA)

Poppy Sub Sector – Northern Region

Snapshot

Tasmania's cool temperate climate, quality soils, reliable irrigation water and presence of existing production and processing capability provide the state with a competitive advantage in the production of high quality poppy crops. Crops are grown in the north, north west, north east extending to the midlands, the central highlands and the Derwent Valley with potential to develop areas in the southern midlands. Tasmania is the only state in Australia producing poppies for processing, although Victoria is pursuing the option.

The Tasmanian poppy industry was established on a commercial level in the 1960s. It has grown rapidly from cultivating 4 000 hectares of poppies in 1987 to 26 000 hectares in 2010. More than 30 000 hectares have been approved for cultivation in the coming season. At the same time productivity has increased dramatically. The average commercial yield active ingredients from poppy grown in Tasmania between 2007 and 2011 has been well above the yields achieved by other production areas such as Turkey, France and Spain. This is due to the large investments made into research and development for poppy varieties and production practices. Tasmania's high productivity is a competitive advantage for the state.

Tasmania is the world's largest producer of thebaine poppies. In 2010 Australia produced 181 tonnes of the baine equivalent, accounting for 78 per cent of global production³⁶. In the same year, Tasmania produced 25 per cent of the world's production of morphine contained in concentrate of poppy straw and is the only producer of oripavine alkaloid contained in concentrate of poppy straw.³⁷

The three processors present in Tasmania - Tasmanian Alkaloids (Westbury), GlaxoSmithKline (Latrobe) and TPI Enterprises (Cressy) - expect Tasmania to produce around 300 tonnes of concentrate alkaloid this season. Production is expected to double in the medium term. Over the next two to three years the three processors are positioned to make capital investments that could total up to \$100 million. The Tasmanian government is working with industry stakeholders to secure this investment in Tasmania.

Tasmania has led the way in poppy variety research and development. This research, development and extension has given the state a distinct production advantage over other producer areas. For example the Tasman poppy has recently been released which manufactures codeine in-field. At present, codeine poppies constitute a small percentage of the total crop, although its importance is expected to grow quickly.

Industry representatives report that in 2012 payments made to Tasmanian poppy growers is forecast to exceed \$100 million for the first time and that production growth over the next seven years is expected to be similar to the last 10 years³⁸.

³⁶ Technical Report 2011: Comment on the Reported Statistics on Narcotic Drugs, International Narcotic Control Board (United Nations), pg 77

³⁷ Technical Report 2011: Comment on the Reported Statistics on Narcotic Drugs, International Narcotic Control Board (United Nations)

³⁸ Poppy industry stakeholder consultation meetings 2012

Given that Tasmania has relatively high production costs it is imperative that productivity remains high and that industry continues to invest in achieving improved outcomes. Processor representatives argue that continued growth in the sector into the future is reliant on the ability to meet customer demand at all times. To ensure that this is possible processors need some flexibility in their operation. Producer representative groups believe that Tasmania can meet demand into the future and that local solutions are available to any surety of supply issues that arise.

Constraints

- A significant concern of processors is that their customers see high levels of risk in relying on one location for the production of poppy raw material. The security of supply risk is more significant for thebaine products than morphine and other alkaloids due to Tasmania's dominance of the market. Increased flexibility in operation will help to secure Tasmania's position as the leading poppy producer in the world.
- All processors have agreed that there are opportunities to expand production and productivity in the state but are looking for certainty that they can access alternative supplies to meet their customer demands if required.
- The quality of land and experience of farmers in new, more marginal production areas can increase the risk of production as the industry expands.
- The other element of land availability is the number of hectares poppy processors are able to access through growing contracts. Growers choose to accept growing contracts or not for a number of reasons. The range of factors that influence how much land growers make available for poppy production include:
 - price for crops
 - availability of land
 - availability of rotation crops that fit with poppy production
 - production support from processors and quality of plant material
 - relationship with processors and reliability of contracts.
- Poppy Growers Tasmania and the Tasmanian Department of Primary Industries, Parks, Water and Environment (DPIPWE) are funding a research project to better understand the reasons that farmers choose to grow or not grow poppies in Tasmania. This will assist industry and government to address any areas of concern and improve land availability and management.
- The quality of management of the land used to grow poppies has a direct impact on the quality, productivity and sustainability of poppy crops in Tasmania as well as the state's international reputation as a quality supplier of raw product.
- All sales contracts for poppy material are negotiated in US dollars. The increase in the value of the Australian dollar to above or near parity with the US dollar has affected the competitiveness and profitability of the Australian poppy industry.
- The high Australian dollar has also increased the competitive environment for other crops produced as part of farm rotations in Tasmania, reducing farm profitability and in some cases limiting the number of rotation crops available.

- The regulatory environment that poppy growers and processors operate in within Tasmania is driven by the United Nations Single Convention on Narcotic Drugs 1961 and operates across all Australian jurisdictions. The system is considered complex and restrictive by some. Opportunities to review the operation of the regulatory and administrative environment should be pursued. Facilitation of government and industry interaction and a single point of contact would benefit the operation of the industry.
- Freight is an essential element of Tasmanian economic activity. Tasmania's island status causes it to rely heavily on sea freight and the port system. Freight costs have been impacted in recent times by a variety of factors including the high Australian dollar, new interstate port fees and changes in international shipping, including a move to larger vessels and high-volume 'hub and spoke' international shipping arrangements. These factors have caused unavoidable cost rises for Tasmania. The Tasmanian Government has prioritised the transport and logistics system as an area of on-going focus and has argued successfully for the retention of the Tasmanian Freight Equalisation Scheme (TFES) and other freight support programs that assist Tasmanian businesses to combat freight costs wherever possible.

Opportunities

- Tasmania is regarded by the UN to be at the vanguard of poppy growing security and manufacturing operations. Tasmania's secure location gives major customers comfort as to the quality and legality of the product being purchased.
- Expanding production and processing capacity to meet a growing global demand for raw alkaloid product.
- The relative pest and disease-free status of Tasmania fosters access to markets. Maintenance of biosecurity is a high priority for industry to ensure that this status can be maintained.
- Opportunities exist to improve production techniques to achieve better productivity and efficiency and to increase scale of farming operations.
- Skilled and efficient farmers offer an opportunity. However industry groups note that existing farmers are skilled, but some may need further training as irrigation schemes come on stream³⁹.
- There is an opportunity to achieve optimum yields and productivity on farm by adopting new technologies.
- Research and development into processing techniques will also improve the productivity of the companies sourcing raw product from Tasmania. These research and development activities are likely to be conducted on an individual business level.
- Provision of on-demand irrigation via a number of large irrigation infrastructure projects will enable the transformation of land throughout Tasmania to allow the expansion of value-added crops⁴⁰ such as poppy and vegetables.
- Recent research by TIA and DPIPWE has indicated that there is suitable land available for poppy growing in Tasmania. The report estimates that approximately 60 000 hectares of land is

³⁹ *Ibid.*

⁴⁰ <http://www.tasmanianirrigation.com.au>, accessed 10/07/12

available on a sustainable basis. However the quality of the land available, and the expertise of the people growing poppies on that land, varies. Recent construction of irrigation infrastructure will assist in improving the reliability of production areas and potentially open up new areas for production.

- Opportunities exist for processors and growers to work cooperatively with each other and with government research and extensions service providers to improve land management practices across the state.
- Many industry representatives acknowledge that productivity varies significantly across farms and good opportunities exist to increase performance within the existing hectares planted. Opportunities to increase productivity through:
 - improved production practices
 - land management planning
 - information sharing between processors and other stakeholders on land use
 - research and development into poppy plant material and production techniques.

Red Meat Sub Sector – Northern Region

Snapshot

The red meat industry - beef and sheep meat – is a major contributor to the Tasmanian agricultural economy, with approximately 3 000 farms carrying a total of about 446 000 beef cattle, and around 1 800 farms carrying a total of about 1.9 million sheep (2010).⁴¹ The processing sector, by contrast, is dominated by two large export accredited businesses - JBS Australia and Greenham Tasmania - account for approximately 90 per cent of red meat processed within the state. Tasmanian Quality Meats focuses on sheep processing and is currently upgrading its Cressy plant, to build on current production of export lambs.

In 2008-09, the value of the red meat produced from Tasmanian herds was approximately \$207 million at the farm gate, representing approximately 23 per cent of the total value of agricultural (excluding non-food products) production for the year.⁴² Beef production dominates the red meat industry, accounting for approximately 75 per cent of total production, while lamb and mutton production contributes the remaining 25 per cent.⁴³ In total, it is estimated that the industry contributes approximately \$147 million towards Gross State Product; in 2011 beef exports totalled \$112 million. In 2010-11 the northern region's contribution was \$39 million⁴⁴.

Like many of the state's food production industries, the red meat sector is small by Australian standards and while insignificant by international standards, exports are a significant component of the industry. Tasmania's point of difference relative to other jurisdictions is linked to its environmental factors, including:

- a ban on hormone growth promotants (HGP) and a moratorium on genetically modified organisms (GMOs)
- relative freedom from disease
- a sustainable, predominately grass-fed, production system
- the development of differentiated brands and products based on a quality proposition (including MSA graded product, production environment attributes and identifying with place (e.g. Cape Grim Beef), within domestic and international markets
- strong animal welfare standards.

Approximately 75 per cent of processed Tasmanian beef is exported overseas. Japan is Tasmania's most important beef market, followed by the United States. Approximately 20 per cent of Tasmanian beef cattle are exported live to interstate destinations each year, for finishing and processing. About 35 per cent of sheep meat processed in Tasmania is exported overseas, mainly to the United States and the Middle East; the majority of the product is consumed domestically⁴⁵.

⁴¹ ABS, *Agricultural Commodities, Australia, 2009-10*, Cat No 7121.0, 2011.

⁴² This figure is taken from preliminary, unpublished May 2011 data provided by the Department of Primary Industries, Parks, Water and Environment, from the draft *Tasmanian Food and Beverage Industry Scorecard 2008-09*.

⁴³ *ibid.*

⁴⁴ REMPLAN

⁴⁵ Department of Primary Industries, Parks, Water and Environment, *Tasmanian Red Meat Industry Profile*, May 2009 available at <http://www.dpiw.tas.gov.au/inter.nsf/Attachments/CART-7RA8DP?open>.

Tasmanian Freight Equalisation Scheme statistics show that in 2008-09 approximately 329 000 sheep and lambs were sent to interstate buyers, mostly for finishing and processing.⁴⁶

The Tasmanian Farmers and Graziers Association and the Australian Beef Association are the industry peak bodies for this sector.

Constraints

- The processing sector is constrained by its relatively small size and the age of waste management infrastructure at its processing plants, although planned/proposed upgrades to waste infrastructure at Longford will address this issue. The industry's lack of scale, particularly in the processing sector, is exacerbated by seasonality of supply and the fact that significant numbers of livestock are transported interstate for processing. To offset this situation, meat wholesalers and retailers in Tasmania import a significant quantity of red meat from mainland processors to supply the Tasmanian market. Moreover, large processing facilities on the mainland operated by major retail supermarket chains process red meat from nearby regions and sell this product to Tasmania for sale⁴⁷.
- Any reduction in port access and/or sea freight services to the mainland is a significant constraint to competitiveness in Tasmania. Whilst the Tasmanian Government has limited opportunity to influence the cost of freight across Bass Strait, it will continue to focus on ensuring that all eligible claimants secure the benefits of the Tasmanian Freight Equalisation Scheme. The Scheme was devised to compensate Tasmanian industry for the disadvantage caused by having to move cargo across Bass Strait by sea, compared to road transport
- In terms of human resources, managing generational change and lack of succession planning for some enterprises is problematic, while for others access to a reliable and stable workforce is an issue both for abattoirs and producers. There are also potentially higher returns from competing uses of land - such as dairy, poppies and vegetables - which can make sustainable grazing a less profitable option.
- In Tasmania there are negative consumer perceptions and stricter regulations around animal husbandry practices such as sheep mulesing, vertebrate pest management such as grazing native animal, and the environmental impact of red meat production, particularly water use and greenhouse gas (GHG) emissions. These have the potential to impact on enterprise profitability. Industry estimates that production levels could be doubled with appropriate native animal control⁴⁸.
- There is a ban in Tasmania on the use of GMOs and HGPS. The latter, in particular, has provided interstate producers who use these products an increase in productivity and output in measures such as feed conversion and carcass leanness. Conversely, this stance does offer Tasmanian producers a point of differentiation in the market place.

⁴⁶ Australian Government, *Tasmanian Freight Equalisation Scheme - 2008 Statistics - from 1 July 2008 to 30 June 2009*, available at http://www.centrelink.gov.au/internet/internet.nsf/publications/tf_s.htm

⁴⁷ Industry Survey to support the Northern Regional Economic Development Plan (Red Meat Industry), 2012

⁴⁸ Industry Survey to support the Northern Regional Economic Development Plan (Red Meat), 2012

- Regulation and ‘red tape’, which present a barrier to development but are not required for environmental, public benefit or transparency reasons, is a constraint to business. This may include regulation, tax arrangements and administrative processes and other issues such as variable planning schemes. The impact of the carbon tax is not yet widely appreciated and most in the industry are adopting a ‘wait and see’ approach⁴⁹.

Opportunities

- Tasmania’s meat brand is underpinned by a relative pest and disease free status, a sustainable pasture based production system, a GMO moratorium and HGP ban. The potential exists for industry and government to capitalise on this differentiation by promoting the Tasmanian brand to achieve a price premium in niche markets where these characteristics are valued, particularly as paddock to plate product tracing/tracking systems develop. Quality assurance systems such as Meat Standards Australia (MSA) grading, current development of a national grass fed standard and a module to verify best practice environmental stewardship, will positively support these branding initiatives.
- Developing improved farming practices and raising productivity will enable potential improvements including better adapted pasture species, more efficient use of pasture and aligning farm systems to processor/market requirements. This can enable better integration of meat production and irrigated cropping. For example, incorporating more legumes in crop rotations can increase the availability of soil nitrogen and reduce dependency on fertilisers.⁵⁰
- An increasing demand for food produced sustainably, both globally and domestically, and shifting consumer preferences for food produced locally, supports a positive outlook for the red meat industry in the northern region. Both sheep and beef prices reached record highs in March 2011⁵¹ and strong market conditions have continued into 2012.
- The Australian domestic market consumes 33 per cent of total Tasmanian production but accounts for 58 per cent of total value received, providing a buffer against export market and currency volatility⁵². Further, predicted demographic changes throughout Australia and the Asian region in the next 20 years predict an increased demand and affordability for red meat products⁵³.

⁴⁹ *ibid.*

⁵⁰ *ibid.*

⁵¹ Meat and Livestock Australia, *Meat and Livestock Weekly*, Thursday 21 April 2011, available at: <http://www.mla.com.au/Prices-and-markets/Latest-prices-and-indicators/Meat-and-Livestock-Weekly>

⁵² This statistic was supplied by the Red Meat Council of the Tasmanian Farmers and Graziers Association

⁵³ Hall, M. (2011), *The Supply and Demand Dichotomy in Australian Seafood*, SEGRA, Geelong. N.B. Dr Hall made comment that demand for red meat in Asia will trend in line with seafood (which was the key focus of the presentation)

Vegetable Sub Sector – Northern Region

Snapshot

Tasmania's cool temperate climate, quality soils and reliable irrigation water provide the state with a number of competitive advantages in the production of high quality vegetables. Production is centred in the north and north west of Tasmania, with some activity also in the midlands and the Coal River Valley.

It is estimated that the vegetable industry contributes approximately \$191 million towards Gross State Product. The vegetable farming sector is defined by a large number of small growers. Of the small number of large farms, some are expanding their production through acquisitions and other avenues such as land leasing.

Key vegetables produced in Tasmania are potatoes, onions, carrots and peas. Potatoes are by far the most valuable crop and the most significant by volume.

The vegetable industry is made up of fresh, packed and processed sectors. The fresh vegetable sector is growing and it is beginning to rival the size of the processed (frozen vegetable) industry in Tasmania. While across Australia most vegetable production is for the wholesale fresh market, in Tasmania approximately 56 per cent of vegetables grown are for processing.⁵⁴ Two large processing companies are located in Tasmania. Simplot Australia Pty Ltd has a vegetable processing facility in Devonport and one dedicated to potato processing at Ulverstone. McCain Foods has a potato processing facility at Smithton. Vegetables processed at these facilities are sourced from a variety of Tasmanian regions.

The only vegetable packing and value-add facility of any size in the northern region is Moore's Farm Fresh Vegetables Pty Ltd at Scottsdale in the north east. There are a number of growers who grow and pack their own vegetables, mainly onions, on an ad hoc basis. Some of the fresh vegetable supplies to the north west based packing companies based in and around Forth are produced in the northern region between Cressy and Hagley.

In assessing the state of the vegetable sector it is important to note each vegetable crop is one part of a whole of farm rotation and that the viability, potential and development of agricultural businesses must be viewed holistically. This is particularly true of Tasmanian farms which are highly diversified. The viability of the vegetable sector is closely linked to other crops such as poppy and pyrethrum as well as the red meat industry.

The Tasmanian vegetable industry is facing a period of structural adjustment. The frozen vegetable industry is being subjected to increasing competition from imported products. The high value of the Australian dollar is having a dramatic effect on competitiveness of Australian products and this is expected to continue into the short to medium term. Production costs in Tasmania are relatively high when compared with all other countries that produce frozen vegetables due mainly to freight, exchange rate and labour cost factors.

The growing fresh vegetable industry is dominated by a few large vertically integrated companies with well-developed supply chains. Markets experiencing particularly strong growth are leafy green vegetables and pre-packed fresh and ready to use vegetable products.

⁵⁴ IBIS World, *Fruit and Vegetable Processing in Australia*, C2130, Products and Markets April 2010, p.20.

Most fresh vegetable sales are protected from the impact of the high Australian dollar to some degree due to their perishability and the quality of imported fresh vegetables (as a result of biosecurity arrangements and the consequential impact on transport times). Products such as onions are an obvious exception.

Industry sources report that the vegetable farming sector is likely to shift business structures over the next few years, resulting in fewer and larger businesses and/or cooperative or leasing arrangements with smaller growers.

The Tasmanian Farmers and Graziers Association is the peak industry body for growers in this sector. The Tasmanian Agricultural Productivity Group represents businesses at the packing, value adding and service provision end of the sector. Industry representatives have mixed views about the future opportunities for the vegetable sector. Industry recognises the cost of production for growing and processing vegetables remains high when compared to other producer nations with labour, key inputs and the exchange rate adversely affecting production costs. However Tasmanian growers and processors are efficient and deliver a good quality product.

While the processing sector is likely to experience pressure in the short and medium term and further shrinkage or diversification is possible, there are some encouraging opportunities available in the fresh sector for businesses able and willing to operate in the very competitive and challenging fresh market environment. Opportunities also exist with product development of fresh cut meal solutions and the development of other innovative niche products such as onion jams, freeze dried produce and other innovative vegetable based value added products.

Constraints

- Small scale and relatively high cost production systems make it difficult to compete with large scale, low-cost producers, particularly when selling into a commodity market.
- Rising input costs such as labour, power and water are affecting producer and processor profitability. The age and configuration of vegetable processing facilities can also affect efficiency and costs.
- Reliance on the commodity, price-driven frozen process vegetable industry has placed pressure on grower profitability due to increasing competition from low-cost countries.
- Limited local market results in reliance on interstate and export markets for growth and sustainability.
- Growers for processors may have not developed the necessary skills to operate effectively in the fresh market. Skills required include marketing, business management, logistics and accessing and using preparation and packaging infrastructure.
- The high value of the Australian dollar makes competing in international markets difficult and opens up Australia to increased imports, especially frozen and canned processed vegetables.
- Physical isolation from large markets increases costs and affects competitiveness, particularly in the area of international exports. The loss of a direct international shipping service from Tasmania, and an increase in port charges at Port Melbourne, has compounded these constraints.

- The market power of major retailers is considered a significant constraint. Those businesses selling to large retailers (particularly processed product) are facing increased price pressures from private label products and the strategy of limiting the number of branded products stocked by supermarkets, and the shelf space available to them. Two major retailers together control just under 80 per cent of supermarket sales and exercise considerable influence over prices and market access. This affects both growers and processors. However, larger producers, packers and processors are reliant on supermarkets to provide the market size they require to grow to a sustainable scale of operation.
- Land use planning, zoning and variability in regulations across councils all have a negative effect on businesses' ability to operate effectively and efficiently and are disincentives for investment.
- Access to affordable, suitably skilled workers in some areas of vegetable production, processing and throughout the supply chain is an ongoing problem, especially with the high average age in these industry-enabling sub-sectors.
- Availability of sufficient volumes of affordable, reliable irrigation water in some key growing areas although, with recent investment by the Tasmanian government in irrigation schemes, this is seen as less of a constraint now by industry^{55,56}.
- Regulatory burdens affect competitiveness, particularly when selling into markets accessed by countries with a lesser regulatory burden. Requirements around food safety, chemical use, food handling and management etc. are justifiably strict, however many imports into Australia are not subject to the same range of requirements and the costs associated with them. This places Australian producers at a disadvantage.
- Managing generational change and a lack of succession planning for some operations is becoming problematic. This is exacerbated by other skills supply issues (see below).
- Constraints relating to skills availability in the northern region's vegetable industry varied between industry groups, but there was agreement that access to seasonal, casual and skilled labour and the cost of labour were constraints. People not wanting to work in the industry and the loss of skilled workers to other industry (such as mining) were compounded by what is perceived within industry as a lack of access to suitable training and services (such as accommodation) for itinerant workers in the northern region^{57,58}.
- Any reduction in port access and/or sea freight services to the mainland is a significant constraint to competitiveness in Tasmania. Whilst the Tasmanian Government has limited opportunity to influence the cost of freight across Bass Strait, it will continue to focus on ensuring that all eligible claimants secure the benefits of the Tasmanian Freight Equalisation Scheme. The Scheme was devised to compensate Tasmanian industry for the disadvantage caused by having to move cargo across Bass Strait by sea, compared to road transport.

Opportunities

⁵⁵ Industry Survey to support the Northern Regional Economic Development Plan (Vegetable Industry A), 2012

⁵⁶ Industry Survey to support the Northern Regional Economic Development Plan (Vegetable Industry B), 2012

⁵⁷ Industry Survey to support the Northern Regional Economic Development Plan (Vegetable Industry A), 2012

⁵⁸ Industry Survey to support the Northern Regional Economic Development Plan (Vegetable Industry B), 2012

- Excellent growing conditions, together with longer ripening periods, deliver good quality vegetables. While other areas in Australia can struggle with vegetable quality and shelf life in summer months, Tasmania continues to produce high quality products. Opportunities exist to increase supply of fresh vegetables into domestic markets during warmer months.
- Relative pest and disease-free status allows good access to markets. Maintenance of biosecurity is a high priority for industry to ensure that this status can be maintained.
- There is capacity to expand the processing of frozen potatoes and other vegetables, particularly in the northeast of the northern region.
- Growth in the fresh vegetable sector especially niche markets including leafy green vegetables, seeds and ready-to-eat products.
- Replacement of fresh product supplied into Tasmania from interstate by local production.
- Growing demand for high quality vegetable products in Asian markets.
- Opportunities exist to improve production techniques to achieve better productivity and efficiency and to increase scale of farming operations.
- Skilled and efficient farmers is seen as an opportunity, however industry groups note that existing farmers are skilled, but will need further training as irrigation schemes come on-stream⁵⁹.
- Product development such as chilled ready-to-use products.
- Profitable cash crops such as poppies and pyrethrum are available to Tasmanian growers. These crops are not available to farmers in many other regions and supply valuable cash injections into Tasmanian farms. Alternative crops such as hemp may offer additional opportunities.
- There is a rising demand for organic produce/vegetables for the fresh and processing (baby food) market which could be an opportunity for producers in the northern region.
- Provision of on-demand irrigation via a number of large irrigation infrastructure projects will enable the transformation of land in the northern region to allow the expansion of value-added crops⁶⁰. An increase in agricultural production also may provide the basis for increased, valued-added vegetable processing in the northern region.

⁵⁹ *ibid.*

⁶⁰ <http://www.tasmanianirrigation.com.au>, accessed 10/07/12

Wine Sub Sector – Northern Region

Snapshot

The Tasmanian wine industry is a relatively small, but high value, high profile industry. There are two key grape growing areas in the north - the North East (Pipers River) and the Tamar Valley - covering a combined 785 hectares and producing a yield of 4 571 tonnes in 2012⁶¹. The *Tamar Valley Wine Route* encompasses these two wine producing districts and includes more than 20 cellar doors with the route stretching from Relbia, south of Launceston, to the northern Tamar Valley and east to the Pipers River region.⁶²

The industry has close linkages to the tourism sector and makes a significant contribution to the Tasmanian brand. The Tasmanian industry is made up of a number of small wineries, vineyards and contract wine makers that produce cool climate wines of generally high quality and value oriented toward the premium and super premium end of the market.

Wine Tasmania is the peak body for Tasmanian grape growers and wine producers. Its members represent 98 per cent of total wine production in the state.

Tasmania has been relatively insulated from broader sectoral challenges and has continued to record increases in vine plantings. Though a very small producer, the state has emerged as one of the strongest wine producing regions in the country.

The main grape varieties grown in Tasmania are Pinot Noir and Chardonnay. The state also grows Riesling, Cabernet Sauvignon, Sauvignon Blanc and Pinot Gris varieties.

Over the five years to 2012, average annual production in Tasmania has been just under 8 000 tonnes of grapes and there are now 1 594 hectares under vines.⁶³ Tasmania has approximately one per cent of the nation's vineyard area and produces less than 0.5 per cent of Australia's wine. Despite its size, Tasmanian wine represents some 6 - 7 per cent of sales in the premium and super premium wine categories. It has the opportunity to lead the Australian wine industry in matching supply with demand and growing its premium and super premium markets. Additionally, the average price paid per tonne for Tasmanian grapes significantly exceeds that paid for grapes from other regions of Australian, across all varieties.

It is estimated that the industry contributes approximately \$75 million towards Gross State Product and employment is estimated at approximately 1 000 people. Export values are based on 40 per cent of production going interstate and eight per cent overseas.

There is potential to grow the industry, although it is considered that any significant or accelerated expansion will require investment from outside the state.

⁶¹ Wine Tasmania, 2012 Tasmanian Vintage Report, http://www.winetasmania.com.au/files/Wine_Tasmania_Vintage_Report_2012.pdf, accessed 28/09/12

⁶² Tamar Valley Wine Route <http://www.winetasmania.com.au/wine-route/tamar-valley-wine-route> accessed 20/06/12

⁶³ Wine Tasmania, 2012 Tasmanian Vintage Report, http://www.winetasmania.com.au/files/Wine_Tasmania_Vintage_Report_2012.pdf

Opportunities do exist, however, as some large wine companies are looking to diversify their brands into the premium and super premium cool climate varieties in which Tasmania has a comparative advantage.

Constraints

- At present, winemakers globally are dealing with the challenge of oversupply. However, Tasmania is insulated to some degree by virtue of the varieties and the premium focus of the wines produced.
- Tasmania's cool climate results in a longer period required for grapes to ripen and therefore a longer growing season (September to May; in contrast, vintage on most interstate vineyards can be finished by March). Additionally, the average vineyard size in Tasmania is less than 5 hectares. As a consequence, there is an increased cost of labour in Tasmania per vintage and vine management is highly specialised and more labour intensive.
- The high freight costs for the import of critical production inputs such as chemicals and glass bottles. The loss of a direct international shipping service from Tasmania and the increased port charges at Port Melbourne placed a further burden on Tasmanian exporters, including the wine industry. Whilst the Tasmanian Government has limited opportunity to influence the cost of freight across Bass Strait, it will continue to focus on ensuring that all eligible claimants secure the benefits of the Tasmanian Freight Equalisation Scheme. The Scheme was devised to compensate Tasmanian industry for the disadvantage caused by having to move cargo across Bass Strait by sea, compared to road transport.
- Much of the Tasmanian wine industry is relatively small scale characterised by high costs of production. Many small vineyard owners rely heavily on tourist trade coming to the cellar door. A combination of a high Australian dollar and weaker global economic conditions has contributed to a decline in tourism visitation to Tasmania and a fall in export sales resulting in many vineyards struggling to remain profitable. Added to this is the issue of access to casual labour at peak periods of production such as vintage. Furthermore, these constraints, overlaid on a backdrop of global macroeconomic uncertainty, have given rise to caution among investors which has resulted in limited availability to funds through private sector investment. This investment is essential for the wine industry in Tasmania to grow.

In a recent industry survey⁶⁴, the key priority issues where government could have an impact were stated as:

1. Cost and structure of freight services including sea freight services.
The Tasmanian Government administered the \$20 million Export Freight Assistance Package to help local exporters reach international markets.
2. Reinstatement of the State Cellar Door Rebate
Direct subsidies on cellar door wine sales from the Tasmanian Government ceased from 2004-05, after which time all expenditure previously allocated for the State scheme was provided to the Australian Government in support of the replacement national scheme. Since 1 July 2006, the Australian Government has provided wine producers with a Wine Equalisation Tax (WET)

⁶⁴ Industry Survey to support the Northern Regional Economic Development Plan (Wine Industry), 2012

rebate of up to \$500 000 each financial year, which equates to approximately \$1.7 million (wholesale value) of eligible sales. The wine equalisation tax (WET) is a value-based tax which is applied to wine consumed in Australia. It applies to assessable dealings with wine (unless an exemption applies) which include wholesale sales, untaxed retail sales and applications to own use. Several mainland states also offer their own state-based rebate, over and above the Australian Government scheme. This has placed Tasmanian producers at a relative disadvantage in the past. It should be noted though that New South Wales recently ceased its scheme and South Australian significantly reduced its state-based rebate.

3. Support for promotional/tourism activities under the Tasmanian Brand
Tasmania Unbottled, a Wine Tasmania event supported by the Tasmanian Government, is the state's major annual national wine promotion event undertaken by more than 25 Tasmanian vineyards in key national markets, that showcases Tasmanian wine to more than 1 000 trade influencers and discriminating consumers.

Other joint industry and government promotional activities include inward buyers visits which promote the Tasmanian brand of food and wine in combination with tourism, and also Tasmanian food and wine branded showcases at various trade and consumer shows such as Fine Food Melbourne; and The Good Food and Wine Show.

Current legislation requires that all bottles containing Tasmanian wine are branded 'Tasmanian Wine' which, by proxy, provides identification of the product as being Tasmanian. Further, senior representatives from the Tasmanian government sit on the Brand Tasmania Council alongside business leaders across the spectrum of Tasmania's primary production⁶⁵. Brand Tasmania collaborates with leaders in various industry sectors. It is accepted that an increase in tourist numbers will result in a downstream increase in visitation to wineries.

Opportunities

- Tasmania has a growing reputation for the production of premium cool-climate wines. Despite current concerns over water security in other parts of Australia, Tasmania has an abundance of water and land available for growing grapes. These factors were contributory to Tasmania being chosen in 2012 by a leading international wine magazine, *The Drinks Business*, as second only to China as the best place in the world to invest in the wine industry.
- Brown Brothers, with the purchase of Tamar Ridge in 2010, is the most recent significant interstate wine sector investor in the northern region. Previously, Yalumba (Jansz Tasmania Vineyard), Kreglinger (Pipers Brook Vineyard) and Constellation (formerly Hardy wines, Bay of Fires Winery) have also made significant investments in the northern Tasmanian wine region. The motivation for these purchases has generally been a desire to produce high quality Pinot Noir and sparkling wine. Mitigating against the potential future impact of climate change in interstate growing areas has also been highlighted as a key driver for investment in Tasmania.
- Private sector investment in the northern region's wine industry is supported by government who will continue to work to further build the demand for Tasmanian wine through a range of branding activities, thereby creating an environment to attract investment.

⁶⁵ http://www.brandtasmania.com/show.php?ACT=Public&menu_code=200.100 accessed 20 June 2012

- The resulting investment will increase economies of scale providing industry with greater wine volumes to market nationally and internationally, particularly the growing markets of Hong Kong, China and Canada.
- The wine sector simply cannot grow without access to skilled labour. The need for ongoing training in the wine industry has been recognised by the government, and continued support for training in wine and viticulture was reaffirmed in May 2012⁶⁶.
- A key component of sustainable viticulture is the availability of reliable water supply for irrigation and/or frost protection at key phases in the growing season. Tasmanian Irrigation Pty Ltd is progressing a suite of regionally significant irrigation schemes in many parts of Tasmania; some of these schemes have the potential to positively impact the wine sector. Six of the fourteen new schemes being developed by Tasmanian Irrigation are in the northern region.

⁶⁶ Tasmanian Government, <http://archive.media.tas.gov.au/release.php?id=34813>, accessed 27/06/12

Annexure C – Industry Sector Profiles

Southern Tasmania

Fruit and Vegetables Sub Sector –Southern Region

Snapshot

The Tasmanian fruit industry comprises three parts:

- Pome fruit - primarily apples with some pears produced.
- Stone fruit - primarily cherries and apricots with some nectarines, peaches and plums produced.
- Berries - strawberries, raspberries, blackberries, blackcurrants and blueberries.

Pome fruit:

High freight costs and the rising Australian dollar have seen apple exports decline, with the industry experiencing a period of rationalisation and diversification of varieties planted. The pome fruit part of the sub sector is still an important contributor to the Tasmanian economy with a 2008-09 farm-gate value of \$37 million.⁶⁷ In 2009-10 apples had a gross value of \$26.4 million, down \$8.8 million from the previous year.⁶⁸ Limited opportunities exist in export markets in South East Asia. China has been identified by industry as a developing market to target with higher value varieties and when the Australian Dollar exchange rate becomes more favourable for exporters.

Major southern producers of pome fruit are:

- Hansen's Orchards, Grove
- BW Griggs & Sons, Franklin
- Lucaston Park Orchards, Lucaston
- Raw Organics, Grove (organic producers only)
- Calvert Bros, Waterloo.

Stone fruit:

The cherry segment of the fruit sub sector is a relatively young but rapidly expanding sector. The industry has estimated that production could increase to 7 000 tonnes by 2015, making Tasmania the largest cherry producing state in Australia.⁶⁹ Tasmania's niche for cherries is the top end of premium overseas markets, where Tasmanian product is differentiated on the basis of quality and larger fruit size. In 2008-09 the cherry sub sector's farm-gate value was \$24 million.⁷⁰

⁶⁷ This figure is taken from preliminary, unpublished data provided by the Department of Primary Industries, Parks, Water and Environment, from the *Tasmanian Food and Beverage Industry Scorecard 2008-09*.

⁶⁸ Figure from *Food and Beverage Industry Scorecard - 2009-10 Snapshot* provided by the Department of Primary Industries, Parks, Water and Environment

⁶⁹ Information provided by Fruit Growers Tasmania in consultations with the Department of Economic Development Tourism and the Arts on 10 August 2010.

⁷⁰ This figure is taken from preliminary, unpublished data provided by the Department of Primary Industries, Parks, Water and Environment, from the *Tasmanian Food and Beverage Industry Scorecard 2008-09*.

Tasmania has a relatively small stone fruit production area. However significant growth, particularly in apricots, has occurred in recent years. The focus has predominantly been on supplying the domestic market but as volumes increase, overseas exports may increase. In 2008-09 the farm-gate value of apricots was \$5.6 million and other stone fruit (excluding cherries) \$1.2 million.⁷¹

Major southern producers of stone fruit are:

Apricots

- Cool Climate Investments, Coal Valley
- Qew Orchards, Coal Valley
- JW Kirkwood Pty Ltd, Coal Valley
- G&J Martin, Dunalloy.

Cherries

- Reid Fruits, Derwent Valley
- Hansen Orchards, Derwent Valley
- Aussie Cherries, Castle Forbes Bay
- Glenburn Orchards, Cygnet.

Berries (Soft Fruits):

Berry plantings in Tasmania have increased substantially in recent years, with further expansion planned. The berry part of the fruit sub sector currently contributes just over two per cent of Australia's total berry production. Blackcurrants are the principal berry fruit grown for processing. Blueberries and other berries are smaller contributors, although the potential for blueberry production has yet to be realised with some plantings not yet reaching full production. A number of producers in the soft fruit sub sector have successfully incorporated tourism and visitor experiences into their business model to niche value add through cafes, retail outlets and 'pick your own' experiences. Raspberries and strawberries comprise 60 per cent of state production. The farm-gate value of the berry sector is estimated at \$13.8 million.⁷²

Major southern producers of berries include:

- D&M Jennings & Sons (largest strawberry producer) - Huon
- Lanoma Estate (raspberries & blackcurrants) - Derwent Valley
- TruBlue berries (blueberries) – Huon Valley
- Key tourism berry fruit ventures include: SorrellFruit Farm, Bruny Island Berries.

⁷¹ Ibid.

⁷² Ibid.

Overall:

Tasmania's temperate climate provides the essential winter chill followed by a long mild growing season to support fruit development and enhanced flavour. Tasmanian stone fruit and berries have a clear, late season production advantage both within Australia and overseas. This provides a defined market advantage since there are few competing production regions in the southern hemisphere. The timing of Tasmanian production also provides counter seasonal supply opportunities to the northern hemisphere.

The state's island status with risk based quarantine controls means Tasmania also has an advantage due to its relative disease and pest free status. This provides access to a number of international markets, including Asia, where stringent import regulations are in place. The peak body representing the industry is Fruit Growers of Tasmania, an organisation that has played a crucial role in the development of the industry and its export culture.

The Tasmanian fruit processing sector is small with the majority of players being micro or small operations - predominantly preserves and jams - servicing niche markets. There is one dominant processor of apples, blackcurrants and raspberries for fruit juice and value added products.

Constraints

- Changes to quarantine restrictions which will allow apples to be imported from New Zealand to Australia may increase the risk of fire blight and other diseases becoming established in Tasmania, including in the southern region. At the time of writing, NZ apples or apples from any fire blight affected country are still not permitted to enter Tasmania. However, the issue of fire blight may also be seen simply as risk to be managed.
- Tasmania's key competitors have a high profile in global markets and can produce at a lower cost than Tasmania. Therefore, market development and maintenance will need to become a higher priority for southern region growers in order to grow market share in new and existing premium overseas markets - focussing on quality rather than volume.
- Increasing global competition from low cost production countries, with Tasmanian fruit producers generally facing higher production costs, in terms of key inputs such as water, energy, freight and labour, relative to global competitors. This is a concern for all Tasmanian fruit production – especially cherries.
- The cost of and access to appropriately skilled labour, both technical and business. Of greatest concern is the cost of labour which is impacted by employment costs such as superannuation for itinerant workers, which is having a major impact on the sector's profitability and global competitiveness. Availability of skilled and highly specialised staff is an ongoing issue⁷³.
- Reduced investment by industry and/or government in research and development is impacting on research and development capacity and ability to investigate/develop new technologies, production systems, and new fruit varieties to remain globally competitive.

⁷³ Industry Survey to support the Regional Economic Development Plan (Fruit Industry), 2012

- Water security - access to water and surety of supply for irrigated fruit orchards is essential for forward planning and access to finance.
- Infrastructure - any reduction in port access and/or sea freight services interstate acts as a constraint.
- Value adding/processing capacity - the development of this sector to profitably utilise second and third grade fruit is crucial. Currently there is minimal processing so industry is heavily reliant on high pack-out results, with limited outlets for value adding second grade fruit.
- Regulation and 'red tape' which presents a barrier to development but is not required for environmental, public benefit or transparency reasons is a constraint to business. This may include regulation, tax arrangements and administrative processes and other issues such as variable planning schemes.
- The impact of climate change and climate variability is likely to have significant implications for fruit-growing. Growers must have access to current climate data and trends to make well-informed decisions in relation crop plantings.
- Managing generational change and lack of succession planning for some operations is a considerable constraint. There is the challenge of generational change in vocation and the attraction of labour to other industry sectors.

Opportunities

- Tasmania's island status offers relative disease freedom giving production benefits and market access advantages, particularly in high value niche markets.
- Increased market access into China and other parts of Asia, combined with rising affluence, and improved cold chain presents good export opportunities, particularly for apples and cherries.
- Water surety and potential for increased access to water through new irrigation schemes. However, the industry will need supporting infrastructure to pursue these opportunities.
- Development of premium niche markets through Tasmanian brand recognition in international markets. This will be important for the fruit sector as volumes of export quality fruit increase.
- Innovation - such as utilisation of technology (such as *SenseT*) and modern production systems to increase product quality, productivity, product development, value adding and processing will further increase productivity in the sector.
- Climate change may see new market opportunities, with climatic conditions seeing the production of stone fruit moving further south.
- Better utilisation of tourism infrastructure, including the combination of niche value adding with tourism will allow co-leverage to benefit two key southern region industry sectors.

Poppy Sub Sector –Southern Region

Snapshot

Tasmania's cool temperate climate, quality soils, reliable irrigation water and presence of existing production and processing capability provide the state with a competitive advantage in the production of high quality poppy crops. Crops are grown in the north, north west, north east extending to the midlands, the central highlands and the Derwent Valley with potential to develop areas in the southern midlands. Tasmania is the only state in Australia producing poppies for processing, although Victoria is pursuing the option.

The Tasmanian poppy industry was established on a commercial level in the 1960s. It has grown rapidly from cultivating 4 000 hectares of poppies in 1987 to 26 000 hectares in 2010. More than 30 000 hectares have been approved for cultivation in the coming season. At the same time productivity has increased dramatically. The average commercial yield active ingredients from poppy grown in Tasmania between 2007 and 2011 has been well above the yields achieved by other production areas such as Turkey, France and Spain. This is due to the large investments made into research and development for poppy varieties and production practices. Tasmania's high productivity is a competitive advantage for the state.

Tasmania is the world's largest producer of thebaine poppies. In 2010 Australia produced 181 tonnes of thebaine equivalent, accounting for 78 per cent of global production⁷⁴. In the same year, Tasmania produced 25 per cent of the world's production of morphine contained in concentrate of poppy straw and is the only producer of oripavine alkaloid contained in concentrate of poppy straw.⁷⁵

The three processors present in Tasmania - Tasmanian Alkaloids (Westbury), GlaxoSmithKline (Latrobe) and TPI Enterprises (Cressy) - expect Tasmania to produce around 300 tonnes of concentrate alkaloid this season. Production is expected to double in the medium term. Over the next two to three years the three processors are positioned to make capital investments that could total up to \$100 million. The Tasmanian government is working with industry stakeholders to secure this investment in Tasmania.

Tasmania has led the way in poppy variety research and development. This research, development and extension has given the state a distinct production advantage over other producer areas. For example the Tasman poppy has recently been released which manufactures codeine in-field. At present, codeine poppies constitute a small percentage of the total crop, although its importance is expected to grow quickly.

Industry representatives report that in 2012 payments made to Tasmanian poppy growers is forecast to exceed \$100 million for the first time and that production growth over the next seven years is expected to be similar to the last 10 years⁷⁶.

⁷⁴ Technical Report 2011: Comment on the Reported Statistics on Narcotic Drugs, International Narcotic Control Board (United Nations), pg 77

⁷⁵ Technical Report 2011: Comment on the Reported Statistics on Narcotic Drugs, International Narcotic Control Board (United Nations)

⁷⁶ Poppy industry stakeholder consultation meetings 2012

Given that Tasmania has relatively high production costs it is imperative that productivity remains high and that industry continues to invest in achieving improved outcomes. Processor representatives argue that continued growth in the sector into the future is reliant on the ability to meet customer demand at all times. To ensure that this is possible processors need some flexibility in their operation. Producer representative groups believe that Tasmania can meet demand into the future and that local solutions are available to any surety of supply issues that arise.

Constraints

- A significant concern of processors is that their customers see high levels of risk in relying on one location for the production of poppy raw material. The security of supply risk is more significant for thebaine products than morphine and other alkaloids due to Tasmania's dominance of the market. Increased flexibility in operation will help to secure Tasmania's position as the leading poppy producer in the world.
- All processors have agreed that there are opportunities to expand production and productivity in the state but are looking for certainty that they can access alternative supplies to meet their customer demands if required.
- The quality of land and experience of farmers in new, more marginal production areas can increase the risk of production as the industry expands.
- The other element of land availability is the number of hectares poppy processors are able to access through growing contracts. Growers choose to accept growing contracts or not for a number of reasons. The range of factors that influence how much land growers make available for poppy production include:
 - price for crops
 - availability of land
 - availability of rotation crops that fit with poppy production
 - production support from processors and quality of plant material
 - relationship with processors and reliability of contracts.
- Poppy Growers Tasmania and the Tasmanian Department of Primary Industries, Parks, Water and Environment (DPIPWE) are funding a research project to better understand the reasons that farmers choose to grow or not grow poppies in Tasmania. This will assist industry and government to address any areas of concern and improve land availability and management.
- The quality of management of the land used to grow poppies has a direct impact on the quality, productivity and sustainability of poppy crops in Tasmania as well as the state's international reputation as a quality supplier of raw product.
- All sales contracts for poppy material are negotiated in US dollars. The increase in the value of the Australian dollar to above or near parity with the US dollar has affected the competitiveness and profitability of the Australian poppy industry.
- The high Australian dollar has also increased the competitive environment for other crops produced as part of farm rotations in Tasmania, reducing farm profitability and in some cases limiting the number of rotation crops available.

- The regulatory environment that poppy growers and processors operate in within Tasmania is driven by the United Nations Single Convention on Narcotic Drugs 1961 and operates across all Australian jurisdictions. The system is considered complex and restrictive by some. Opportunities to review the operation of the regulatory and administrative environment should be pursued. Facilitation of government and industry interaction and a single point of contact would benefit the operation of the industry.
- Freight is an essential element of Tasmanian economic activity. Tasmania's island status causes it to rely heavily on sea freight and the port system. Freight costs have been impacted in recent times by a variety of factors including the high Australian dollar, new interstate port fees and changes in international shipping, including a move to larger vessels and high-volume 'hub and spoke' international shipping arrangements. These factors have caused unavoidable cost rises for Tasmania. The Tasmanian Government has prioritised the transport and logistics system as an area of ongoing focus and has argued successfully for the retention of the Tasmanian Freight Equalisation Scheme (TFES) and other freight support programs that assist Tasmanian businesses to combat freight costs wherever possible.

Opportunities

- Tasmania is regarded by the UN to be at the vanguard of poppy growing security and manufacturing operations. Tasmania's secure location gives major customers comfort as to the quality and legality of the product being purchased.
- Expanding production and processing capacity to meet a growing global demand for raw alkaloid product.
- The relative pest and disease-free status of Tasmania fosters access to markets. Maintenance of biosecurity is a high priority for industry to ensure that this status is retained.
- Opportunities exist to improve production techniques to achieve better productivity and efficiency and to increase scale of farming operations.
- Skilled and efficient farmers offer an opportunity. However industry groups note that existing farmers are skilled, but some may need further training as irrigation schemes come on stream⁷⁷.
- There is an opportunity to achieve optimum yields and productivity on farm by adopting new technologies.
- Research and development into processing techniques will also improve the productivity of the companies sourcing raw product from Tasmania. These research and development activities are likely to be conducted on an individual business level.
- Provision of on-demand irrigation via a number of large irrigation infrastructure projects will enable the transformation of land throughout Tasmania to allow the expansion of value-added crops⁷⁸ such as poppy and vegetables.
- Recent research by TIA and DPIPWE has indicated that there is suitable land available for poppy growing in Tasmania. The report estimates that approximately 60 000 hectares of land is

⁷⁷ Ibid.

⁷⁸ <http://www.tasmanianirrigation.com.au>, accessed 10/07/12

available on a sustainable basis. However the quality of the land available, and the expertise of the people growing poppies on that land, varies. Recent construction of irrigation infrastructure will assist in improving the reliability of production areas and potentially open up new areas for production.

- Opportunities exist for processors and growers to work cooperatively with each other and with government research and extensions service providers to improve land management practices across the state.
- Many industry representatives acknowledge that productivity varies significantly across farms and good opportunities exist to increase performance within the existing hectares planted. Opportunities to increase productivity through:
 - improved production practices
 - land management planning
 - information sharing between processors and other stakeholders on land use
 - research and development into poppy plant material and production techniques.

Salmonid Sub Sector –Southern Region

Snapshot

The marine farming of salmonids - Atlantic Salmon and Ocean Trout - has expanded to be the second largest primary industry within the state in terms of farm gate value⁷⁹. It is estimated that the industry contributes approximately \$152 million to Gross State Product, and employs approximately 1 100 people.

Background

Marine farming of salmonids in Tasmania commenced in the mid-1980s. By 2002 there were 16 companies and in 2012, four⁸⁰ now comprise the salmonid sub-sector. This decade of structural adjustment has positioned the industry for sustainable growth and production.

- **Tassal** Group Ltd (Tassal): Publically listed company Tassal is a salmon-only grower and is the largest operator in that market, operating predominantly in Tasmania's southern region. Tassal also operates two farming sites in Macquarie Harbour on the west coast and is fully integrated with its own hatchery, marine farming, processing and marketing capability. In addition to its own activities, Tassal currently acts as a contract grower for Petuna and sub-contracts its Macquarie Harbour processing requirements to Petuna.
- **Huon Aquaculture** Company Pty Ltd (Huon): This privately owned company is based mainly in the south and also has farms at Macquarie Harbour and processing capacity at Parramatta Creek. Huon grows mostly salmon, but also some trout. The company has its own hatchery, marine farming, processing and marketing capability, making it a fully integrated operation. The company employs around 400 staff nationally including 300 in Tasmania, 90 in South Australia and a national sales team of 10 people based in Victoria.
- **Petuna** Aquaculture Pty Ltd (Petuna): Petuna is a privately owned company. Petuna is the largest operator in trout, and also grows salmon, some of which is done under contract for Tassal. Petuna also sources some fish from Van Diemen Aquaculture. Petuna has a hatchery at Cressy in the state's north, farms in Macquarie Harbour, and processing in Devonport. The company employs approximately 110 staff, and has renewed the majority of assets since 2008-09. Sealord, a New Zealand aquaculture company, bought a 50 per cent share in Petuna in 2010. The companies have a 15-20 year relationship including joint ventures for blue grenadier trawling. Petuna plans to continue upgrades to its infrastructure over the next 5-10 years and has already spent \$10 million upgrading its Devonport site. Petuna received \$880 000 from the North West and Northern Tasmania Innovation and Investment Fund to assist in this work.
- **Van Diemen** Aquaculture Pty Ltd (VDA): VDA is a privately owned company based at Rowella in the state's north and employing around 27 staff. Petuna owns a share in the operation, and supplies smolt to VDA which grows the salmon and sells its back to Petuna to process and market under the Petuna brand. Van Diemen sells a small amount of fish under its own brand.

⁷⁹ Economic Development Plan (salmonid sector summary)

⁸⁰ *The Mercury*, 22 February 2012

VDA uses anchored brass-cages technology with walkways linking them to the shore. Feeding and harvesting is done without any boats being used.

Tassal, Huon and Petuna have vertically integrated production and processing systems, and produce a range of value-added products for the domestic and export markets.

In 2010, Petuna, Tassal and Huon applied for an expansion of marine farming lease areas in Macquarie Harbour at Strahan. This is in line with the industry's Strategic Plan to double salmon production in Tasmania by 2030 to enable ongoing growth in the industry.

The required documentation was presented to the Marine Farming Planning Review Panel which made a recommendation to the Tasmanian Government which approved the amendment and announced the decision on 29 May 2012. The amendment to the Draft *Marine Farming Plan* has been assessed by the Australian Government under the provisions of the *Environment Protection and Biodiversity Conservation Act 1999*. The expansion of marine farming has been determined not to be a Controlled Action as long as it undertaken in accordance with the provisions of *the Marine Farm Development Plan*.

The modeling suggests the land and sea based investment will be approximately \$60 million over a five year period and create the equivalent of around 100 jobs in the construction phase, some 45 further jobs in the farming of fish, and another 120 in processing.

Industry recently received \$3.924 million of Tasmanian Intergovernmental Forestry Agreement funds to establish a fresh water bathing scheme in the D'Entrecasteaux Channel in the Lower Huon. The total project cost is approximately \$8.5 million. Huon and Tassal have together already spent \$3.2 million on dam works and other infrastructure. The project will improve fish health and has the potential to significantly increase the direct and indirect industry employment in the Huon Region. Work should be completed by early 2014.

Constraints

- There is limited access to suitable water for new leases in existing marine farming development areas. Managing the increasing competition for marine resources will be required, and this will affect, but not be limited to tourism, residential view-scape, conservation and recreational fishing.
- There is work to be done to balance industry expansion with environmental sustainability and improve community acceptance. Scientific and environmental studies need to be undertaken to understand and validate the case for sustainable industry development.
- Finding alternative supplies of food stock and fish meal is a challenge. As global aquaculture production increases, access to sustainable sources of fish protein and fish oil for feed is becoming more competitive and is generating interest in alternative feed sources as well as research and development in fish feed.

- Production increases will need to match sales growth through increasing the size of existing markets and/or developing new markets.
- Any reduction in port access and/or sea freight services interstate would be detrimental to competitiveness. Whilst the Tasmanian Government has limited opportunity to influence the cost of freight across Bass Strait, it will continue to focus on ensuring that all eligible claimants secure the benefits of the Tasmanian Freight Equalisation Scheme. The scheme was devised to compensate Tasmanian industry for the disadvantage caused by having to move cargo across Bass Strait by sea, compared with road transport.
- Attention will need to be paid to increasing the size of existing markets or to finding new markets should production increase, as is expected.⁸¹
- Retaining and upskilling staff is difficult with potentially lucrative work on offer interstate and in other industries.

Opportunities

- Tasmania has a strong and thriving aquaculture sector and is regarded highly across the globe as a quality producer.
- There is increasing global demand for high quality aquaculture products. The middle class numbered two billion in 2010 and is expected to be five billion in 2030 with most of the growth occurring in Asia.⁸² Asian demand for seafood is three times that among Western populations and rising numbers in the Asian middle class who have the means to purchase Tasmanian salmon and trout will increase demand.
- Members of the industry are planning a significant expansion program over the next 20 years. By 2015, they plan to increase production levels from 34 000 HOG (head-on gutted) tonnes to 48 000 HOG tonnes.⁸³ Government is working with industry to ensure growth is achieved in a sustainable fashion. This includes development in Macquarie Harbour and a bathing scheme to support fish health in the Lower Huon.
- Tasmania's relative pest and disease free status compared with other salmonid aquaculture regions reduces production costs.
- Tasmania has a strong and thriving aquaculture research, development and production sector and is highly regarded globally as a quality producer.

⁸¹ *Ibid.*

⁸² Dr Mike Hall, Marine Industry: growing opportunities, *Sustainable Economic Growth for Regional Australia*, 2011.

⁸³ Rebecca Thyer, 'Sustainable salmon leads aquaculture expansion', *Fish*, 2010, vol.18, no.1, p. 8.

Wine Sub Sector –Southern Region

Snapshot

The Tasmanian wine industry is a relatively small but high value, high profile industry. The southern Tasmanian vineyards feature in four areas in Tasmania's south. This provides a compact wine route as an attraction for tourism: East Coast, Coal River Valley, Derwent Valley and Huon Valley. The 'Southern Tasmania Wine Region' encompasses these four wine producing areas and includes more than 14 cellar doors⁸⁴. The sector has close linkages to the tourism sector and makes a significant contribution to the Tasmanian brand as a tourist destination. The Tasmanian wine industry is made up of a number of small wineries, vineyards and contract wine makers that produce cool climate wines of generally high quality and are value-oriented toward the premium and super premium end of the market.

Wine Tasmania is the peak body for Tasmanian grape growers and wine producers. Its members represent 98 per cent of total wine production in the state.

Tasmania has been relatively insulated from broader sectoral challenges and has continued to record increases in vine plantings. Though a very small producer, the state has emerged as one of the strongest wine regions in the country. It has the opportunity to lead the Australian wine industry in matching supply with demand and growing its premium and super premium markets.

The main grape varieties grown in Tasmania are Pinot Noir and Chardonnay. Riesling, Cabernet Sauvignon, Sauvignon Blanc and Pinot Gris varieties are also grown.

Over the five years to 2012, average annual production in Tasmania has been just under 8 000 tonnes of grapes and there are now 1 598 hectares under vines.⁸⁵ Tasmania has approximately one per cent of grape area planted nationally and produces less than 0.5 per cent of Australia's wine. Despite its small size, the Tasmanian wine sector represents six to seven per cent of sales in the premium and super premium wine categories. Importantly, the average price per tonne paid for Tasmanian grapes significantly exceeds that paid for grapes from other regions of Australian, across all varieties.

It is estimated that the wine industry contributes approximately \$75 million towards Gross State Product and employs around 1 000 people. Sales values are based on 40 per cent of production going interstate and eight per cent overseas.

In the southern region the major grape growing areas include the Coal River Valley and the east coast each producing 14.5 per cent of the state's yield in 2012, with the Derwent Valley and the Huon and Channel area producing six and two per cent of the state's yield respectively.

There is potential to grow the industry, although it is considered that any significant or accelerated expansion will require investment from outside the state.

⁸⁴ <http://www.winesouth.com.au/WineRoutes.html> accessed 17/06/12

⁸⁵ Wine Tasmania, 2012 Tasmanian Vintage Report

Opportunities do exist, however, as some large wine companies are looking to diversify their brands into the premium and super premium cool climate varieties in which Tasmania has a distinct competitive advantage.

In a recent industry survey⁸⁶, the key priority issues where government could have an impact were stated as:

- Reinstatement of the State Cellar Door Rebate - direct subsidies on cellar door wine sales from the Tasmanian Government ceased from 2004-05, after which all of the expenditure previously allocated for the state scheme was provided to the Australian Government in support of the replacement national scheme. Since 1 July 2006, the Australian Government has provided wine producers with a Wine Equalisation Tax (WET) rebate of up to \$500 000 each financial year, which equates to approximately \$1.7 million (wholesale value) of eligible sales. The wine equalisation tax (WET) is a value-based tax which is applied to wine consumed in Australia. It applies to assessable dealings with wine (unless an exemption applies) which include wholesale sales, untaxed retail sales and applications to own use. Several mainland states also offer their own state-based rebate, over and above the Australian Government scheme. This has placed Tasmanian producers at a relative disadvantage in the past. It should be noted though that New South Wales recently ceased its scheme and South Australian significantly reduced its state-based rebate.
- Support for promotional/tourism activities under the Tasmanian Brand - current legislation requires that all bottles containing Tasmanian wine are branded 'Tasmanian Wine' which, by proxy, provides identification of the product as being Tasmanian. Further, senior representatives from the Tasmanian Government sit on the Brand Tasmania Board alongside business leaders across the spectrum of Tasmania's primary production⁸⁷. Brand Tasmania collaborates with leaders in various industry sectors. It is accepted that an increase in tourist numbers will result in a downstream increase in visitation to wineries, resulting in increased sales.

Constraints

- At present, across the globe, winemakers are dealing with the challenge of oversupply. However, Tasmania is insulated from this challenge to some degree by virtue of the varieties produced and the premium focus of the wines produced.
- Cost and structure of freight services including sea freight services - the Tasmanian Government is administering the Australian Government \$20 million Export Freight Assistance Package to assist local exporters reach international markets. This is a one off package to support those exporters that have been affected by the loss of the Tasmanian direct international container shipping service.
- Climate both defines and constrains the wine industry in Tasmania, concomitantly. Tasmania's cool climate results in a longer period required for grapes to ripen and therefore a longer growing season - September to May; in contrast, vintage on most mainland vineyards is usually finished by March.

⁸⁶ Industry Survey to support the Southern Regional Economic Development Plan (Wine Industry), 2012

⁸⁷ http://www.brandtasmania.com/show.php?ACT=Public&menu_code=200.100 accessed 20 June 2012

- The average vineyard size in Tasmania is just five hectares with a large number of very small businesses resulting in minimal economies of scale. Operators face greater input costs particularly freight (dry goods going both ways), making Tasmania an expensive place to grow grapes and make wine. These costs are exacerbated by the infrastructure limitations in the public (ports) and private (shipping services) sectors. The loss of a direct international shipping service from Tasmania and the increased port charges at Port Melbourne are a further burden on Tasmanian exporters, including the wine industry.
- Although the Tasmanian wine industry is viewed as a significant aspect of Tasmania's attraction as a tourism destination, the sector is challenged as a manufacturer due to its relatively small scale and high cost of production. Many small vineyard owners rely heavily on tourist trade through the cellar door.
- In a period characterised by the high exchange rate on the Australian dollar and weaker economic conditions, tourism numbers have declined in Tasmania and have put many small operators under business stress. Small operators are finding it more difficult to remain profitable and, at the same time, are finding it difficult to sell at this time. Added to this is the dearth of casual labour at peak periods of production such as vintage. Furthermore, these constraints, overlaid on a backdrop of global macroeconomic uncertainty, have given rise to caution among investors which has resulted in limited availability to funds through private sector investment. This investment is essential for the wine industry in Tasmania to grow.

Opportunities

- Tasmania has a growing reputation for the production of premium cool-climate wines. Despite the current concerns over water security in many mainland wine growing regions, Tasmania has an abundance of water and land available for growing grapes. These factors were contributory to Tasmania being regarded in 2012 as the second-best place globally to invest in wine⁸⁸. This is supported further by the Tasmanian Government through the construction of irrigation schemes across the state which will allow greater productivity and variability in rural land usage.
- Adelaide Hills producer Shaw and Smith acquired Tolpuddle Vineyard in the Coal River Valley in 2011. Long term insurance against climate change and Tasmania's pristine environment were considered as factors for Shaw and Smith to invest in Tasmania⁸⁹. Similarly, Brown Bros purchased the Gunns Limited vineyards in August 2010, including Coombend on the east coast as insurance against global warming.⁹⁰ The affordability of land has also been recognised as a major drawcard to investing in the Tasmanian wine industry.
- Private sector investment in the southern region's wine industry is supported by the Tasmanian Government which is working with stakeholders to expand the market for Tasmanian wine. The focus is on creating an attractive environment for more investment in processing capacity and production to grow the industry. This will enable economies of scale and access to larger markets both nationally and internationally (especially China, Hong Kong and Canada).
- The opportunity exists in Tasmania to encourage expansion of the wine industry through targeted support for training, which attracts and retains skilled labour.

⁸⁸ <http://www.thedrinksbusiness.com/2012/04/top-10-vineyard-investment-regions/>, accessed 04/05/12

⁸⁹ <http://blog.shawandsmith.com/2011/09/05/why-tasmania/>, accessed 12/07/12

⁹⁰ <http://www.brownbrothers.com.au/newsevents/news/gunns-out-of-wine>

- The Tasmanian Government recognises the need for wine industry skills expansion and reaffirmed its support for industry specific training in May 2012⁹¹.
- Reliable access to water underpins the wine industry and Tasmanian Irrigation Pty Ltd was established on 1 July 2011 as a state-owned company responsible for the development and operation of a suite of irrigation schemes in many parts of Tasmania. The capital cost of these schemes is shared between the community and the private sector. Private capital contributions are made through the purchase of tradeable water entitlements to a particular scheme by the beneficiaries of that scheme. Operating costs are met by an annual charge on water entitlement holders⁹². Six of the fourteen new schemes being developed by Tasmanian Irrigation are in the southern region.

⁹¹ Tasmanian Government, <http://archive.media.tas.gov.au/release.php?id=34813>, accessed 27/06/12

⁹² <http://www.tasmanianirrigation.com.au/Projects.aspx?page=B536FD54-1B08-45F8-A739-6E0A54DDB1AA>, accessed 27/06/12