



# Tasmanian Farmers and Graziers Association

## Submission to: Agriculture Competitiveness White Paper

April 2014



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## AGRICULTURE IN TASMANIA

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

- agriculture - \$1.15 billion;
- forestry - \$235 million; and
- fishing - \$597 million.

This is before considering input supply services and value-adding. Taking into account basic multiplier factors, this means the farm-dependent economy contributes more than \$5 billion to the gross state economy - in spite of adverse pressures on the forestry industry.

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

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

Milk and milk products followed by livestock and livestock products were the main sector contributors to farm production value. However, this was partly offset by reduced vegetables output associated with severe wet weather at harvest in the first quarter of 2011.

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

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

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

Compared to the previous year, growth in agriculture GVP has broadly offset the fall in forestry GVP.

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

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In 2011/2012, total exports from Tasmania were valued at \$3.196 billion. Agricultural products represented some 30% of that total – approximately \$1 billion. Almost 25% of total exports (\$502 million) were destined for ASEAN countries.

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

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

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

## **ABOUT THE TFGA**

The TFGA is the leading representative body for Tasmanian primary producers. TFGA members are responsible for generating approximately 80% of the value created by the Tasmanian agricultural sector.

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

With our purpose being to promote the sustainable development of Tasmanian primary industries, the TFGA is committed to ensuring that the agriculture sector in Tasmania is profitable and sustainable. We are also committed to promoting the vital contribution the agricultural sector makes to the environmental, social and economic fabric of the Tasmanian community.

The TFGA is a member of the National Farmers Federation (NFF). We support the detailed submission that the NFF has made on this issues paper. Our comments here are to be read in conjunction with that submission; and with specific reference to issues relevant to the agriculture industry in Tasmania.

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## A TASMANIAN PERSPECTIVE

We continue to hear and read that the prospects for agriculture are huge, with the need to feed, clothe and house a booming world population. World population growth will climb to more than nine billion by 2050, driving demand for both quality and quantity of food and fibre, as well as the availability of arable land and water. We are entering the 'Asian century' and Tasmanian farmers are well placed to capitalise on this.

With the Tasmanian mainland representing just one per cent of Australia's land mass, we have 12 per cent of the nation's fresh water. Our ratio of arable land to population is the highest in Australia, with agriculture occupying 24 per cent of the state's land mass. Being further south, we have the most usable sunshine; less than the mainland in winter, but more in the critical ripening periods of summer and autumn. And we have some of the world's most skilled farmers and researchers.

As a result, agriculture has long been the backbone of the Tasmanian economy. The sector is forecast to generate almost \$2 billion at the farm gate this year. This is approximately 10 per cent of the overall state income, and one in every three dollars of private sector income. We employ (directly and indirectly) one in every ten Tasmanians. So every Tasmanian has a stake in the future success of the agriculture sector.

Our industry has grown year on year, even during tough times like drought, which is a performance not matched by any other sector. Farming has kept not only Tasmania, but also Australia, out of recession since the global financial crisis. Agriculture has an enormous uptake of new technology, we employ thousands of people, we keep many rural communities alive, and we produce the clean, healthy, fresh food that Tasmanian families take for granted, and indeed that families across the country and world enjoy.

Professor Jonathan West has identified agriculture as one of the key opportunities for growth in the state economy. In the Innovations Strategy he prepared for the state government, he identified that our sector could generate another \$5 billion pa.

Agriculture is also one of the key targets for growth in the state's Economic Development Plan, which includes a vision for Tasmania to substantially increase its food and agriculture production and become a major supplier of the nation's premium food products.

These findings have been supported by the recently released Deloitte's report entitled *Positioning for Prosperity? Catching the next wave*, which focuses on business imperatives for a prosperous Australia. The report identified that the next set of super-growth waves we need to ride as agribusiness, gas, tourism, international education and wealth management.

Deloitte says that the first place to look for sectoral growth is in markets that can be expected to grow faster than the global economy as a whole. Their analysis shows that we have a 16.2% comparative advantage in agriculture. The Australian average is 5.2%; and the next nearest sector is mining at 13.3%.

On this basis, they have identified agriculture as Australia's 'forgotten hero' – the sector which offers the greatest potential for economic growth amongst the five top spots. Furthermore, they have singled out agriculture as Tasmania's best prospect for growth.

So it is not just farmers saying that Tasmania's economic prosperity is dependent on agriculture!

However, it is important to understand that this future is dependent on just one thing: growth. Just as crops need water to grow, the farm sector needs investment to grow.

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TFGA recognises the parlous financial circumstances facing the nation at present and we understand the efforts governments are making to address this crisis. We are under no illusion as to the magnitude of this task and we understand that it will require difficult budget decisions. We are supportive of tough measures by the Australian government to consolidate the national fiscal position, reinforce our reputation as strong and responsible economic managers and build a sustainable economic base into the future. However, cost cutting alone will not deliver the systemic change we need to move forward.

Both federal and state governments should be looking for options to grow income, as well as cut costs. Yet there's been no recognition at all of the other side of the ledger in the current debate.

Governments must actively pursue key opportunities to invest in growth sectors of the economy, sectors that already make a key contribution in setting the Tasmanian economy up for future prosperity and that can actual do more into the future, sectors such as agriculture. Now is definitely not the time for government to be cutting its investment in agriculture.

It is important, for instance, that relevant capacity within government agencies is not further eroded, as has been the case in the past. Some cuts have delivered efficiencies, and there is still room for re-ordering of departmental priorities and funding allocations. However, the agriculture industry is concerned that there is little room remaining in the system and unfortunate resourcing trade-offs are already emerging. This will be to the detriment of the industry - and the state - at a time when experts are emphasising the importance of expanding agricultural research and development activities.

There is a national debate about food and agricultural policy in Australia and policy that impacts food and fibre production. The development of the National Food Plan, the ongoing work to implement the Beale Review reforms to Australia's national biosecurity system, trade developments, the introduction of the carbon tax and moves to remove it and the carbon farming initiative, negotiations on the future of water use for agriculture, and public debate around issues such as milk pricing and coal seam gas have highlighted the need for governments to maintain a strong policy capacity and investment in areas related to agriculture. Unfortunately, current resourcing constraints limit government capacity to contribute to national debates and policy development.

Certainly, there have been some very positive developments over recent times in a policy sense and some parts of government are actively promoting the value of agriculture and the vital role farmers play in creating wealth for all Tasmanians. Yet, at the same time, other parts of government seem to be going out of their way to stifle growth and drive farmers out of business.

More and more policy decisions are putting our agriculture sector at a disadvantage with even our mainland colleagues let alone when compared to farmers in other less regulated international markets.

This is unsustainable. If agriculture in Tasmania is to continue to be one of the key, if not the key economic drivers of the state economy and to generate more wealth and prosperity, farmers must at least be able to compete on a level playing field with other Australian producers.

Regulatory costs continue to impose significant burdens on farmers with no evidence of any increased return. We are continually told that farmers must operate in a global market – and we do. That means our prices are set by factors well beyond our control; and we have limited capacity to claw back more of the retail dollar to cover increasing on-farm costs.

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We all recognise that regulations are a necessary part of everyday life. However, regulations need to be practical and evidence-based. Good public policy requires ownership by those that it impacts, failure to achieve that goal results in poor policy outcomes. There seems to be a mindset within some parts of government that they must set the highest regulatory standards anywhere in the world regardless of the science and the impact on farm businesses. It is not clear if this bizarre disjunct is deliberate or inadvertent. What is clear is that, unless we get a more sensible approach to regulation of the agriculture sector, then many of our farms will be driven out of the industry.

Clearly, given the right operating environment, agriculture is a key part of the solution to financial woes at both state and national levels. However, this can only happen if governments understand the impacts their decisions have on farm businesses and ensure that regulations are not burdensome. If governments continues down the current track of unjustified over-regulation, then farmers simply can't continue to absorb the costs that result. And that will put paid to our capacity to drive much needed growth for all Tasmanians.

## **SITUATION OVERVIEW**

In 2012/2013, the Australian agriculture sector had a gross value of production (GVP) of \$48 billion. Around 60% of predominantly broad acre commodity production is exported annually – so the industry contributed \$27 billion in exports in that year. The sector effective rate of protection has been declining for the better part of 30 years and is now approaching zero. These figures suggest that by most economic measures, the sector is already highly competitive.

The economics of comparative advantage have underpinned the sector, allowing Australian farmers to access relatively low cost natural land and water assets to produce and export an increasing supply of competitively priced food protein and fibre. Australia is also fortunate in being regionally close to populous Asian nations that are achieving rapid growth and fast rising incomes that ensure increased food demand. Australian farmers also deliver high quality products with some of the most stringent secure food quality and trace-back systems in the world.

In spite of these advantages, average agriculture profitability is well below the cost of capital; while the cost of production inputs (energy and labour especially) are at levels significantly higher than in competing food producing nations.

As a result, the TFGA believes that current policy settings combined with extreme macroeconomic pressures are mining the industry's comparative advantage and that this in turn is weakening future competitiveness and resilience.

Significant downsides are already evident:

- insufficient profitability as a result of cost/price squeezes has seen the demise of at least half the nation's family farming businesses -from around 70,000 in the 1980s down to the current level of c35,000;
- diminishing interest in some sectors of the industry in generational transfer and business ownership models that support it;
- loss of regional supply chain value-adding capacity that is increasingly held in fewer mostly foreign hands;
- uncertain demand for human capacity-building skills and training along the supply chain;
- reduced financial capacity to invest and take innovation risk, pointing to lower productivity growth rates in future;

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- limited private investment in research and development as a result of reduced financial capacity;
  - reduction in public investment in on-farm extension activities, which seemingly no longer justified on the basis of market failure;
  - under-investment by both public and private sectors in new efficiency-increasing infrastructure, as well as failure to invest in maintenance of existing infrastructure eg in grain producing regions, processing plants, abattoirs etc; and
  - potential foreign investment (including from including pension funds) in abeyance due to uncertain returns.

These downsides have come at the same time as major competitor countries (including the US and Europe) have significantly increased industry support and protection levels. To cap it off, farmers are told that they must do more to prepare for natural disasters including managing (at their cost) more severe ad hoc weather events.

As many farmers know, a drought 'does you slowly' and at its uncertain end, 'it does not rain dollars'. However, other short term weather events can be equally catastrophic – especially with respect to production of high value crops. Yet little policy attention has been directed to how best to equip farmers to manage in the face of seeming increasing weather volatility. In spite of this obvious market failure, broader disaster and taxation underwriting assistance is not available to Australian farmers. This is in clear contrast to competing countries.

It can be argued that the steady removal of industry assistance in tandem with Australian government National Competition Policy may have increased the transparency of market signals. However, when it comes to competing, it is largely the effective management of costs that determines capacity to stay in the game.

Australian farmers receive next to nothing in subsidy payments. In fact, with New Zealand, our farmers get the lowest level of assistance in the world.

According to the OECD, only three per cent of an Australian farmer's income is attributable to government assistance. The three major components of that subsidy are: matching dollars for industry funded R&D; assistance after natural disasters, and the diesel fuel rebate. The OECD average is 20 per cent, capped by Norway at 60 per cent.

The equivalent figure in Australia for cars and parts is 8.5 per cent; for textile clothing and footwear manufacturing 10.6 per cent; for wood and paper products manufacturing 4.7 per cent; and for metal products manufacturing 4.3 per cent.

Let's make that a bit clearer. The OECD says that the average Australian farmer receives US\$1,360 pa in government assistance. American farmers receive US\$30,170 pa; US\$106,975 in the EU; and US\$165,591 in China.

The average hourly rate for a farmhand in Australia is US\$16.88/hour for a 38 hour week. The equivalent NZ farm worker is on US\$11.18/hour for a 40 hour week; in America, US\$7.25; in the UK, US\$10.02; and in China, US\$1.19.

There are no tariffs or quotas on most food products into Australia. The equivalent tariff rates are 5 per cent into the US; 18 per cent into the EU; and 20 per cent into China.

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In the much-vaunted free trade agreement currently under negotiation with South Korea, the 304 per cent tariff on potatoes is to be immediately removed. Tariffs of 36 per cent on cheese and 89 per cent on butter will be eliminated over the next 13 to 20 years. Australian dairy exporters will also benefit from growing duty free quotas for cheese, butter and infant formula. The agreement will provide an increased duty-free quota for malt and malting barley and eliminate high out-of-quota tariffs of 269 and 513 per cent over 15 years. This is hardly truly free trade.

On any measure, Australian farmers amongst the most efficient in the world. On a level playing field, they can compete with anyone. Unfortunately, the playing field on which Australian farmers operate is anything but level.

Against this background, TFGA believes that the level of investment in agriculture sector capacity building by both federal and state levels does not adequately reflect the industry's contribution to the economy. At the same time, there is little recognition of the important social and environmental custodial roles that the sector plays on behalf of the Australian community.

A further and possibly unintended consequence of these policy settings is that the Australian farm sector is increasingly reliant on other countries opening doors to their markets to give Australian farmers a more competitive multi-lateral or bilateral trade solution needed to help them make ends meet. Yet recent evidence shows this is unlikely to happen.

This is not to ignore the extremely welcome recent progress in completing free trade agreements with key Asian countries (including South Korea and Japan) after many years of negotiation. Having said that, many of our competitors have negotiated more favourable deals much earlier – including with China, where we have yet to finalise an agreement. This means the Australian agriculture industry is constantly playing catch-up in a market that is viciously competitive – and that leaves us in a very exposed position.

In the current world environment, these factors make it apparent that increased, targeted government assistance is vital if the Australian agriculture sector is to sustain and maintain its natural comparative advantage. Without policy settings that recognise the competitive disadvantages, many of which are created by government, the industry's contribution to national economic growth and wellbeing are being eroded. This compromises the industry's resultant capacity to support the less certain resilience of rural communities into the future. It also destroys its capacity to provide low-cost economic stewardship activities

The TFGA believes that there is no need to make any apology for recognising these circumstances. The government must now provide appropriate measures to redress the imbalances resulting from the lack of an international level playing field.

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## ENHANCING AGRICULTURE SECTOR COMPETITIVENESS INTO THE FUTURE

### Ensuring food security in Australia and globally

Australian agriculture can remain a secure food supplier nationally and internationally - provided it is profitable. Farmers and the supply chain will in turn invest in their comparative advantage at the firm level by refining practices, searching out markets and managing costs.

Government can assist by supporting the sector with 'public good' services including:

- a comprehensive agriculture data collection and dissemination system covering market and customer needs, sector operating costs, foreign investment in the sector and financial performance benchmarking of suppliers in Australia and overseas;
- investment (including co-investment) in key efficiency increasing infrastructure such as ports, rail, road and irrigation;
- assisting with export market access and working with other countries to dismantling questionable sanitary and phytosanitary (SPS) barriers to entry;
- assisting overseas customers with food quality and safety in return for clarity on imported food quality standards
- providing a science based, transparent biosecurity system at Australia's borders;
- ensuring greater clarity with country of origin labelling;
- maintaining trade intelligence capability in emerging markets; and
- establishment of a comprehensive "carrot and stick" natural disaster insurance program to address clear market failure in this area.

From a Tasmanian perspective, additional measures are needed to address specific disadvantages in relation to:

- recognition of the need for regional SPS and area freedom protocols to protect Tasmania's relative disease-free status;
- the cost competitiveness of freight movements across Bass Strait, which is essential to maintain export market competitiveness;
- data collection on value-adding for product shipped (ferried) from Tasmania to the mainland, to ensure accurate understanding of on-island production issues;
- food security, recognising the higher than average population of low socio-economic status residents; and
- recognition of the additional disadvantages of agricultural producers on smaller island communities including King, Flinders and Bruny Islands.

### Farmer decision-making to improving farm gate returns

Good decision-making is obviously essential to improving farm gate returns. However, the quality of decision making is not the only factor that must be taken into account in improving farm returns.

Considering the high rate of family farm adjustment out of the sector over recent decades, the issue is seemingly more than simply poor decision-making.

In many cases, farmers know clearly what the need to do to obtain better returns on their significant investments. However, this in itself is not sufficient to ensure better outcomes. No matter how good the decision-making, if profits are insufficient to take on debt or raise productivity, then implementation of decisions will remain problematic.

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The fact is that farmers are at the start of the supply chain, with little or no capacity to engineer high prices or lock in margins - irrespective of the impact of higher land values on returns. Further, where cost-saving remedies have been exhausted, farmers are no longer able to protect their comparative advantage, especially when affected by unforeseen climatic events.

In Tasmania, geography has resulted in limitations on expanding farm size ie increasing scale. This has resulted in development of business models which rely on greater diversification to enhance productivity.

As a result, Tasmanian farmers have developed significant skills in managing relative environmental and climatic advantages, assessing diversification options, and implementing innovative business models efficient farming practices to maintain and increase returns.

However, these competitive advantages are increasingly offset by the rapidly growing burden of regulatory costs. These costs are significantly higher than those facing mainland producers, let alone those in competitor countries.

Government can assist by providing mechanisms to:

- encourage an economy-wide and comprehensive understanding of potential macro-economic impacts on farm returns;
- review and remove unnecessary regulatory burdens, and, where appropriate, ensure national consistency of regulations;
- where appropriate, more closely align regulatory and statutory requirements with those in competitor countries;
- ensure that, beyond a basic duty of care, social expectations impacting on farm businesses are fully funded;
- ensure transparency in competition regulations and that appropriate penalties are not only available but are seen to be enforced - for example through the establishment of a mandatory code of supermarket conduct, stronger enforcement of anti-dumping regulations and more stringent testing of imported products to ensure compliance with domestic standards;
- ensure farmers have a comprehensive understanding of their place in the supply chain and how this interacts with and defines their competitiveness;
- encourage farmers to take on capacity building skills which would enable them to better manage risk and assess the financial implications of production alternatives – increase scale, diversify, find new markets and assess possible debt implications in respective situations;
- ensure farmers have a comprehensive understanding of their place in the supply chain and how this interacts with and defines their competitiveness;
- further reduce the restrictions on access to farm management deposits as a tool to manage income volatility;
- facilitate alternative ownership structures that can unlock investment capital;
- address market failure by underwriting a multi-peril risk insurance program similar to schemes available to farmers in major competing countries;
- return the emphasis in government-funded natural resource management programs to farmer-focussed decision making, as opposed to the current trend to funding an ever-increasing plethora of ENGOs; and
- invest in programs and initiatives that give peak industry organisations the responsibility and resources to work directly with their industries on tackling value chain, business

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development, biosecurity, climate change, workforce, regional planning and natural resource management issues.

### **Enhancing access to finance**

The Australian agricultural sector has been reliant on the provision of external development capital since well before Federation.

Whether it is capital to buy land, invest in new technology or build essential infrastructure to reduce the tyranny of distance, there has never been sufficient finance created within farming businesses to meet the task.

At the farm level, the focus has been on maximising the comparative advantage applying to relatively cheap land and, under cost-price squeeze pressures, making land and water more productive. Further downstream the value-adding task has largely been financed by external capital. The exception has been when in more profitable times farmers themselves invested in their supply chain and market intelligence, mainly via co-operatives.

Co-operatives reflected a collective culture which helped farmers maintain some balance in very competitive supply chains. For a range of reasons, the exit of co-operatives from the agriculture landscape has occurred to a greater extent in Australia than has been evident elsewhere in the world. Underlying competitive tensions in the Australian agricultural sector mean there is little prospect that this co-operative culture will be resurrected.

The global financial crisis, the relative high Australian dollar and the recent spate of significant weather events across Australia have resulted in particular and specific difficulties in accessing finance for farm-related investments. This combination of circumstances is impairing the ability of farmers to increase their business debt levels.

Past poor seasons, low commodity prices, increasing input and compliance costs and the uncertain future of various industries and markets have all contributed to this situation. Banks tightened their lending requirements as a result of the GFC. Before the GFC, banks required only 50 per cent equity for borrowing; the current requirement is a minimum of 60 per cent and often more. Farmers therefore have to tie up a lot of capital to just stay in business. This is capital that could be used in developing their businesses.

The sector now faces the situation where the public component of an infrastructure investment is increasingly beyond government either in its own right or via public private partnerships. At farm level, the investment focus is on maintaining competitiveness; while downstream value-adding is largely left to foreign owners that generally hold a competitive market position with final outputs. Overseas pension funds have also been active at various times in the sector.

Certainly, the tax driven managed investment scheme approach shows just what can go wrong given unforeseen macroeconomic and market volatility. Such uncertainties also limit the investment attraction to venture capitalists.

Accessing capital for the sector is becoming increasingly difficult because of the perceived low investment return. Externally funded investor models demand a return over a much shorter timeframe and this rarely fits with the vagaries of agriculture investment – even with high value outputs. Following the global financial crisis, traditional bank and other financiers have also looked

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for much higher short term returns and, as a result, they have withdrawn to some extent from the sector.

In relation to Tasmania, the scale of infrastructure investment required will in many instances be insufficient to deliver a meaningful return, a key reason why government continues to own most of the infrastructure assets in the state.

While the opportunities for expansion of agriculture in Tasmania are clear, there are numerous hurdles to be addressed if this potential is to be achieved.

There is a significant 'small farm' problem in the Tasmanian agriculture sector. While there is no quick fix solution, and the impact is likely to be longer term, there is considered to be a sound case for government to extend current sector support arrangements to farm consolidation property purchase.

The particular challenge of vineyard, orchard, and other perennial agricultural finance is the substantial gap between planting and commercial harvest (about five years). Similar challenges face farmers looking to establish or expand dairying facilities that require significant initial investment but have a relatively long payback period. Purchase of irrigation entitlements also poses challenges for many farmers. The upfront purchase price is just the beginning of required expenditure and delivers water only to the farm gate. Industry estimates are that every dollar spent on purchasing entitlements requires another two to get to the point of delivering water - on irrigation infrastructure, drainage, equipment and so on.

Current structures for debt and equity do not address these problems.

Banks are reluctant to lend for these purposes when first cash flow is so distant, and landowners commonly do not generate sufficient cash flow from other activities, such as sheep grazing, to meet the obligations of substantial loans.

Equity investors are reluctant to commit without ownership of the underlying land, which landowners are reluctant to grant.

The result is that most landowners invest in small units, hoping to expand incrementally as cash flow builds. The total industry in Tasmania expands very slowly by international comparison.

The issue of sovereign risk in the forestry industry has been a further complication facing many farmers in Tasmania.

Private forests make a larger contribution to Tasmania's gross state product (GSP) than either mining or the hospitality and tourism sector. A 2008 report, *Measuring the Economic Value of Private Forests to the Tasmanian Economy*, found that 26 per cent of Tasmania's forest cover is privately owned. These private forests contribute \$450 - \$650 million annually to GSP, or 3.2 per cent of the state's economy. Mining directly contributes 2.6 per cent and hospitality and tourism 2.2 per cent.

Private forest owners have carefully managed forests, often for generations. These management regimes have resulted in maintenance of biodiversity and non-forest values while still generating an income for families. In many cases, the returns from these investments have been used to enhance and improve both the environmental and economic aspects of the resource.

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However, recent developments as a result of the Tasmanian Forests Agreement 2013 have significantly impacted not only on returns from forestry assets but on the value of those assets themselves. Financiers have not only tightened lending ratios on new farm developments, but in some cases have also reconsidered ratios for existing portfolios and required further cash injections or divestment to maintain loan facilities.

This industry restructure has had devastating impacts on many farmers. Yet there has been no recognition from government as to how this might be redressed.

No one clear solution appears to exist to accessing increased sector finance in the short term. However, as more and more experts are predicting that global demands for food will be increasing rapidly in coming years, it is likely that finance will become somewhat less of a limiting factor.

Government can assist by:

- underwriting the issue of long term infrastructure bonds which might be of interest to domestic superannuation funds where the return is ultimately based on listing or selling off the infrastructure asset;
- further reducing the restrictions on access to farm management deposits as a tool to manage income volatility and consider alternative ownership structures that can unlock investment capital;
- providing access to or underwriting lending programs to assist in establishing or expanding farm activities with longer term return profiles (eg orchards, vineyards) – possibly through a HECs type funding scheme; and
- recognising the structural adjustment issues facing the private forest sector in Tasmania and providing short term financial assistance for farmers impacted by the outcomes of the Tasmanian Forests Agreement.

### **Increasing the competitiveness of the agriculture sector and its value chain**

It is clear that if Australian farmers are to remain viable, let alone capitalise on the many identified opportunities for growth and expansion, they will have to innovate in a third agricultural revolution.

Many commentators are recognising that there has to be a concerted effort to deliver on-farm cost efficiencies if we are to meet global food needs without a major expansion in agriculture's footprint.

This will require the trend of declining investment in research, development and extension activities to be turned around sharply; and the Australian community has to be prepared to reinvest in integrated food, water and energy research, development, extension and education (RD&E) here in Australia.

Even assuming this happens, if producers are to be able to respond to the output from RD&E efforts, they must have sufficient capital to adopt the new practices. This requires the ability to invest over a relatively long timeframe with a reasonable expectation that current profitability will be sufficient to cover the investment in new equipment, varieties and practices.

Because farming returns are ultimately determined by value chain efficiency, there is a basis for a more integrated approach to monitoring and ensuring that competitive value is fairly accessed by the agriculture sector.

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Recent debate on labour awards has focused on penalties for working on weekends in the hospitality sector. Such penalties – weekend, shift and other loadings - apply right along the value chain, adding a layer of cost to operations. This is especially the case in food processing where to achieve and maintain food quality standards, harvesting and processing of fresh vegetable (for example) will often not wait till Monday.

Consumers in today's world expect and receive service 24/7.

Further, such penalties are generally not an outcome of five day week employment but under permanent part-time or casual employment arrangements. This work often starts in the middle of the week and weekend days make up standard hours. While anachronistic, such added costs penalise global competitiveness – especially in regional Australia where there are often no other jobs to be had.

Furthermore, domestic producers are subject to a range of market behaviours designed to maximise profits at the retail end to the detriment of the production end of the value chain. The continual downward price war being engaged in by the two major retail outlets is taking its toll – with many farmers already driven out of business.

Therefore, another major area of concern to agriculture competitiveness and one which will shortly get more attention is the proposed review of competition law. Its effectiveness is highly relevant to the efficient transfer of fair value up and down the value chain.

Tariff and non-tariff barriers to trade are a further area that impacts agriculture value chain competitiveness. This is especially the case in Asian markets where Australia is seeking to grow the demand for beef and dairy products, kick-start trade in domestically-oriented horticultural produce and access inputs and technology.

Government can assist by:

- establishing an Office of Agriculture and Food Policy within the Prime Minister's department to drive the whole-of-government food policy and provide high level strategic advice;
- a whole-of-government commitment to sustainable agriculture as part of the overarching national policy agenda. This should involve a cooperative approach to sustainable agriculture that places emphasis on self-management rather than regulation.
- ensuring an ongoing and strong investment into RD&E as a key productivity increasing tool;
- allocating an adequate level of resources via the budget process to ensure that the agricultural sector continues to advance and innovate and to deliver improved performance and value to the overall state economy;
- closer monitoring of the value chain to prevent market power abuses and, where appropriate, invoke relevant legislation including competition and anti-dumping laws;
- ensuring labour laws are applied competitively along the value chain;
- actively pursuing the elimination of tariff and non-tariff trade barriers, especially in regionally important emerging markets;
- addressing the cost of freight movements across Bass Strait, including a review of cabotage and infrastructure impediments to competitiveness; and
- providing comprehensive and timely information related to trade activity and market access issues.

### **Enhancing agriculture's contribution to regional communities**

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The TFGA believes that rural and regional communities will be served best where the inputs and services environment enables agriculture investment, value-adding and wealth creation to thrive.

However, where such agriculture base load activity and employment fails - such as has been recently the case in the Tasmanian forest industry - the resultant flow of benefits to local communities cannot be sustained.

Competition for labour and resources from the mining sector combined with the high value of the Australian dollar over recent years, have placed exceptional upward pressure on regional agriculture value-adding costs. This is especially the case where business has sought to retain essential engineering and electrical skills. It has also shown how mobile the labour market can be if comparable wage rates cannot be met.

New communications technology such as Sense-T have been facilitated by the roll out of the NBN in some rural Tasmanian regions. This program is demonstrating significant the potential for capacity building and cost lowering in the application of key agriculture sector inputs.

Investment by farmers in increasing the level of skills and training serves regional communities well. However, in the face of a steady exit from the sector, the extent to which agriculture is capable of continuing to deliver these outcomes seems unclear.

Where farm profitability is depressed, the regional communities dependent on the agriculture industry will suffer. This in turn will place increasing pressures on already-stretched government services and facilities.

Tasmania already lags behind the national average on many socio-economic measures. We can ill-afford further lead in the saddlebags.

Government at all levels can assist by:

- supporting regional communities by ensuring base load services are provided to agriculture and industry on cost competitive terms rather than as a source of income;
- maintaining and enhancing the regional skills base;
- providing access to communications technology that helps build industry and regional capacity; and
- investing in technologies such as Sense-T which facilitate the adoption of precision farming applications that reduce input costs and improve on-farm efficiencies.

### **Improving the competitiveness of inputs to the supply chain**

The price of most key agriculture inputs, including chemicals, fertiliser and fuel, are set in international markets; and the cost of distributing such inputs is determined locally. For this reason, the logistics of transport and distribution must be sound for the agriculture sector to access them competitively.

Reference has already been made to the impact that inflexibility in labour laws can have on the cost of service delivery. Similarly with competition law that fails to adequately address market power distortions along the supply chain.

Under current Australian government policy, there are issues surrounding the cost of energy including the carbon tax and the renewable energy target (RET); while the rapidly rising cost of

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poles and wires networks points to a lack of competitive pressure. Such added cost imposts make it harder for agriculture to maintain productivity and be price competitive with outputs. Further, the impact disproportionately affects intensive production systems due to the greater electricity power requirements for irrigation, packaging and cool storage.

Road, rail and storage infrastructure that have supported agriculture competitiveness in the past are considered to be a key issue for the future.

As previously discussed, the path for delivering a return sufficient to encourage external investment is far from clear and currently points to a slowdown in activity and far greater investment prioritisation. It is anticipated that the sector will be increasingly reliant on foreign capital to support infrastructure investment.

One of the key impediments to competitiveness in Tasmania is the cost of transport of goods across Bass Strait.

The TFGA believes that the Tasmanian Freight Equalisation Scheme (TFES) and the Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES) are not subsidies. These schemes exist to address specific freight and people movement disadvantages across Bass Strait on terms that seek to 'equalise', offset or compensate to a level that equates with the cost of conducting the same activity over a similar 420 kilometre distance by road or rail on the Australian mainland. The justification for doing so is underpinned by Australian federation of the states. There are also a number of precedents in similar circumstances in the UK, US and Canada.

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

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

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

The 2006 Productivity Commission Inquiry established that Bass Strait freight rates were at the time equal to or higher than most other short haul sea freight distances around the world. This continues to be the situation today – with sea freight rates from northern Tasmania to Melbourne port being similar to (or even higher than) the freight rates for the same product from Melbourne port to Asia shipping hubs and beyond.

As the Productivity Commission has previously pointed out, the relatively short distance across Bass Strait does not suit a shipping efficiency mode, which, for the most part, favours longer hauls with weight being less of a constraint than for road transport.

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Further, the Productivity Commission has pointed out that Australian coastal shipping policy does not assist competitiveness in respect of manning, wage rates and access by international flags and consultation at the time identified that overhaul of this policy area is long overdue.

The loss of a regular direct shipping service to international markets from Tasmania further hinders shipping competitiveness. The Port of Melbourne (with its associated freight and port costs) now effectively controls Tasmanian exports to international destinations.

While recent discussion has pointed to the potential for increased air freight, this will only ever be a realistic option for small quantities of high-value and perishable products.

It is therefore imperative that the Australian government takes immediate steps to address this unsustainable and inequitable situation.

Government can assist by:

- taking immediate steps to address the unsustainable and inequitable cost of transport across Bass Strait;
- seriously addressing anachronistic labour laws that apply along the supply chain;
- focussing on infrastructure priorities and mechanisms to fund these – possibly taking advantage of currently low interest rates to access capital;
- supporting the uptake of new technologies to improve productivity and lower cost production environments; and
- streamlining carbon and renewable energy pricing and increase competition in electricity delivery network.

### **Reducing ineffective regulation**

Every day, Australian farm businesses work to deliver a reliable, consistent and sustainable supply of high-quality food and fibre products for millions of domestic and international customers.

Agriculture is a highly productive, innovative and efficient sector of the economy, using modern technology and rigorous assurance processes to maintain food safety, product quality and environmental protection. The opportunities for the agricultural sector in the coming century, both nationally and at a state level, have been well documented. And yet, the sector is being limited in its efforts to seize these opportunities through a tangle of complex regulations which increase costs to industry and governments, and limit our competitiveness as individual businesses and a nation as a whole.

The TFGA acknowledges the need for effective regulation. Regulation provides important protections for the business owners, employers, workers, and the community, and sets a minimum level of performance required to meet community standards and expectations. However, it is important that regulation is appropriately targeted, clearly communicated, and that its restrictions are minimised as far as possible to avoid perverse outcomes.

Governments also need to purposefully consider whether a regulatory approach is the best way to achieve the desired outcome.

TFGA is of the view that, while there are a range of necessary regulatory imposts across the entire agricultural sector, it is the cumulative impact of the multitude and overall accumulation of minor or peripheral regulations that underpin the industry concern. On their own, minor regulatory impacts

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may not appear too burdensome or costly. It is only when federal, state and locally based regulations are added to sector specific regulations that the impacts become clearer.

The administrative and cost burdens to comply with and carry on business in the agricultural sector are significant.

The regulatory environment in Australia is much more demanding than in most other jurisdictions, and these requirements add significant costs to production. Tasmania has the most stringent regulatory requirements of any Australian state, and so our farmers are at an even greater disadvantage.

The Tasmanian government's 2013 report 'Measuring Red Tape' study reported some astounding figures. The gross value of production of agriculture, fishing and forestry in Tasmania is \$1.982 billion, of which the agricultural sector accounts for \$1.150 billion. The total cost of red tape for those three sectors of the industry is \$321.4 million a year. That figure is staggering enough as a standalone number, but it represents 16.2 percent of the value of production. It means that one dollar in every six at the farm/fishery/forest gate is lost on regulatory imposts, meeting the cost of compliance.

So where agriculture, fisheries and forestry account for around 9% of Tasmania's GSP, these sectors carry more than 25 percent of the total bill for compliance on this limited suite of measures alone. Even a very basic analysis shows that this study had a narrow scope and that, by taking into account the areas that were not measured as part of the report, the actual cost could be double the reported estimate.

Challenges to maintain competitiveness on farm are already substantial with the high Australian dollar and increased input prices driving a declining terms of trade. Tasmanian farmers face the added costs of our isolated location.

The problem becomes compounded when unnecessary regulatory burdens are imposed on industry. This can arise in a number of ways, including through excessive regulatory coverage; overlap or inconsistency; unwieldy approval and licensing processes; heavy-handed regulators; poorly targeted measures; overly complex or prescriptive measures; excessive reporting requirements; or creation of perverse incentives.

It is in the interests of government to consult early with industry to determine the industry perspective on the perceived problem or concern that needs to be addressed. While there are regular opportunities for consultation, often the problem has been identified and agreed upon without debate and discussion with the key stakeholders who will be impacted by the proposed measures. As part of the regulatory development process, it is critical that there is a clear understanding of the market failure or problem that the regulation is seeking to remedy. Industry must be part of the conversation early to ensure there is an open and comprehensive consideration of the issues.

While governments are already taking steps to review and scrap unnecessary regulation, this process needs to be fast-tracked. Old and outdated regulations need to be repealed; duplicative and unnecessary regulations need to be rationalised; and, where appropriate, regulations need to be streamlined across all jurisdictions. Importantly, any new regulation must be preceded by a comprehensive impact assessment that incorporates a detailed and costed business case.

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Government can assist by:

- starting from the position that regulation should not seek to do what the market can do by itself;
- collecting sound background data to demonstrate the impact of regulation on the cost of doing business and in order to evaluate whether necessary or otherwise;
- ensuring industry is consulted in a meaningful way in the development of any new regulation; and
- ensuring that all levels of government participate in the process of removing unnecessary duplication and imposts.

### **Enhancing agricultural exports**

There is little doubt that a large, increasingly affluent population in our region will provide significant economic opportunities for Australian farmers.

The main opportunities for agricultural producers lie in understanding the great variety of consumers, cultures, languages and markets that exist within Asia, in order to target high quality and high value products to export to selected markets.

Tasmanian farmers are already well ahead of the game in recognising the importance of Asia as an export destination.

In 2011/2012, total exports from Tasmania were valued at \$3,195.56 million. Agricultural products represented some 30% of that total – approximately \$1,000 million.

ASEAN countries have become increasingly important destinations for Tasmanian exports, with food exports increasing significantly from \$71.16 million to \$95.62 million over the period 2009/2010 through 2011/2012. Major products exported to ASEAN countries included dairy (\$42.28 million); seafood (\$31.63 million) and wood products (\$19.5 million estimated from private forestry sector). Key destinations included Japan (35%), China (21%), and Hong Kong (21%).

Tasmania has many potential opportunities as a trading partner in the Asian region, but also in Europe. We should be able to capture new markets strengthened by our global reputation and integrity as a cool climate island state producing clean “safe food” which is disease free. This would boost the state's agricultural export opportunities. Future expansion and further innovation could occur in the area of both unprocessed and value added agricultural products.

Asia's robust economic performance over three decades, as well as a growing and increasingly affluent population, provide positive trade prospects for Tasmanian products. As reported in the 2012 state issues paper, *Tasmania's Place in the Asian Century*, the agriculture sector has significant opportunities to expand production including dairy, wine, beef, fruit and vegetables. There are also opportunities in biofuels and forest-based products.

China's rapid economic growth, industrialisation, urbanisation and expanding middle class present real opportunities for Tasmania – as do the growing westernised middle class cohorts in India and Indonesia. The increasing two-way trade in goods, services, knowledge and people between Tasmania and Asian countries will be increasingly important in providing both export income and investment in our economy.

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However, the suggestion that Australian farmers will automatically gain greater access to Asian markets due to regional proximity is naïve at best.

As is already clear, market competition for a share of Asian food and fibre demand growth from all round the world is intense; while cultural barriers take time to break down and build trust with potential customers. This means that only globally competitive food and fibre supply chains will be able to access and further build presence in such markets.

A strategic approach to identifying and developing new high value and high growth export markets will be vital to achieving success for Australian agricultural exporters. To exploit the potential growth in export markets for agricultural produce, the federal government must push for consistent market access regulations across Asian countries, as these barriers have a significant impact on production processes and agrochemical practices.

Harmonisation of phytosanitary standards and regulations for fresh produce imports are crucial for an optimal trading environment for exporters.

The government has recognised the urgency needed to gain and maintain access to these markets because the comparative advantage on which the agriculture exportable surplus has been built is at risk of being lost if agriculture fails to compete effectively. It also recognises the benefits to the community in accessing lower priced goods and technology by removing import barriers to trade.

Government can further assist by:

- completing free trade agreements, initially with China and subsequently with India and Indonesia;
- increasing the focus on non-tariff barriers to trade such as with SPS;
- parallel investment in road, rail and port infrastructure to ensure logistics efficiencies in product aggregation and shipping are maintained;
- facilitating market access and market intelligence through Austrade and with EMDG support;
- encouraging investment from domestic and foreign sources to build capacity and resilience in the Australian agriculture sector; and
- maintaining a comprehensive and user-friendly trade database to measure and assess market opportunities and activities.

### **Assessing the effectiveness of incentives for investment and job creation**

As outlined at the start of this submission, the Australian government does not have to make any apology for investing and creating jobs in the agriculture sector supply chain as effective rates of assistance are now substantially lower in Australia (and New Zealand) than in all other competing countries.

It is also clear that the agriculture sector makes a major contribution to sustaining jobs and infrastructure in regional communities, as well as providing an important custodial role in managing the environment.

The positive outlook for agriculture outlined in this submission means that, with the right policy settings, these roles can be enhanced.

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There is a well-documented shortage of labour in the agricultural sector. This shortage shows no signs of reducing over the next decade, as baby boomers start to retire and the gap is unable to be filled by the incoming labour supply. In short, the gap between supply and demand for agriculture shows every sign of widening as the market for labour becomes even more competitive and individuals are able to become even more selective in their choices.

The demand for skilled labour in the agricultural industry is, not surprisingly, mostly in the intensive farming areas. These requirements should continue to be addressed as a priority.

There is also a shortage of middle management personnel – an area that appears to attract little attention in most discussions around the agricultural labour shortage. There are some institutions that are helping to fill this gap through programs such as leadership courses. However, this area needs to be looked at and a training model aimed at middle management needs to be developed.

Supply of labour is market driven. Farming is competing with industries that are willing and able to attract labour by offering generous salaries. Also, salary packages often include non-cash benefits that are rarely formally recognised as part of overall remuneration eg farm housing etc.

Until the farming industry itself recognises the need to become more competitive in this area, and develop targeted salary package options, this is unlikely to change.

Farmers have traditionally been very poor in promoting training and education in their existing workforce. Whilst this trend is slowly changing, there needs to be a much quicker acknowledgment that an investment in skilled labour is an investment in their business. Farmers need to be much more proactive in helping to develop their own skilled workforce.

The continuing automation and rapid development in ICT in farming will alleviate some on-ground labour shortage issues. However, other measures need to be adopted if the gap in supply is to be reversed. It is worth noting that these automation and increasing ICT applications are at the same time opening up a whole new skill demand within agriculture as we seek people able to operate and service these technologies.

In light of these circumstances, it is disappointing to note that there has been a reduction in funding in real terms in training and skills development in the agriculture sector over recent years by both state and federal tiers of government.

This is exacerbated by the shift to full cost recovery for course fees by government deliverers, which is placing access to courses beyond the reach of many individuals and employers.

The adequacy of funding is further impacted in Tasmania by the constant restructuring of the post year 10 education system in recent years. Splitting of TAFE into separate bodies, namely the Tasmanian Polytechnic and the Tasmanian Skills Institute (TSI), increased costs and caused confusion in the marketplace. The recent decision to once again combine these two entities into TasTAFE is welcome, but has caused further disruption to students and employers. This will take some time to settle down.

A lack of demand for specialised industry studies has led to a corresponding challenge to the viability of traditional agricultural training facilities.

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There is a need to review the model which is being used to deliver agricultural training in Australia to bring it into line with contemporary farming practices. The model under which most of the current facilities operate is unsustainable and dated.

Most farm facilities in educational institutions are not being kept updated due to the financial challenges of operating in an environment where commercial realities are not the driving factor for the farm's existence.

This has resulted in teaching being delivered in an environment that often has not kept pace with current technology and best practice.

Rather than continuing a losing battle to make struggling farm education facilities viable and relevant, there needs to be a shift in focus to developing strong partnerships with industry to deliver the practical side of programs. This has dual benefits: education is delivered in a 'real world' environment; and stronger partnerships with industry are forged.

It is clear that, for the agriculture sector to maintain growth in food and fibre trade, substantial investment will need to be made in infrastructure and R&D to maintain supply chain competitiveness.

The debate as to whether adequate funding is allocated for agricultural research in Australia continues. In straightened economic times such as these, perhaps the best we can hope for is to prevent further contraction in investment and to preserve what we have. However, we certainly need to get smarter about how we use existing resources across the board.

The effectiveness of R&D will in part be determined by government commitment to extension services at all levels, predominantly targeted at mid-range farmers who need to be encouraged to keep pace with change and because they play a critical role in supporting follow-on rural community services. Another key capability measure will be the development and uptake of technological approaches to industry development – such as Sense-T, robotics, improved genetics and so on.

Rural supply chain competitiveness would be further assisted by dismantling labour market inflexibilities as they are a product of a bygone age and do not exist in countries with which the Australian agriculture sector competes.

The nature of farm businesses has changed dramatically in recent decades. Today, most properties have moved away from the traditional family farm model, handed down through the generations, operated in the same way and based on knowledge inherited along with the land. Today's successful modern farm is run as a business, often specialising in specific fields utilising scientific knowledge and innovative practices.

If the future demand for education and skills training is to meet industry expectations, then any model adopted must not just reflect the needs of a successful modern farming enterprise but also be proactive in looking at future needs.

Finally, agriculture in general needs an image makeover. There needs to be a shift in the focus of training from the limited and narrow traditional image of farming to a more relevant and contemporary image. We need to broaden this view to reflect the need for other skills within the industry. Agricultural knowledge could be adopted as a specialised area within another field – for example accountants, lawyers, marketers, HR people, ICT experts, irrigation experts, dam engineers,

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genetic researchers etc. This can largely be achieved by using agriculture examples in the training structures of those other specialised programs and qualifications.

Government can assist by:

- implementing policies that assist in building agriculture sector profitability which in turn will lead to increased employment demand at all levels;
- maintaining a strong focus on trades training through the TAFE system;
- expanding curriculum content and accessibility of relevant courses in the post TAFE-education environment
- facilitating extension of the scope of training and education beyond the traditional agricultural areas into the broader skills and professions needed to support the modern industry;
- committing to public funding of R,D and E and the retention of R&D skills within agencies;
- facilitating increased labour market flexibility;
- taking an active role in facilitating investment in infrastructure and new technologies; and
- working with industry to position agriculture as an industry with a wide range of career opportunities and a strong future.



## **Tasmanian Farmers and Graziers Association**

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