

PREMIUM FRESH TASMANIA

SUBMISSION TO THE TASMANIAN FREIGHT SUBSIDY INQUIRY

June 2006

Company Background

Premium Fresh Tasmania is based in Devonport, Tasmania. The company packs carrots, onions and swedes for sale to supermarkets and wholesale markets throughout Australia. More than 95% of sales are to the mainland states.

Vegetables are sourced from the North West coast of Tasmania from approximately 70 individual farmers. Payments to these farmers in 2005/06 will be \$2.65 million.

The company employs more than 100 people during the main vegetable season from December to July and between 30 and 50 people from August to November. Total wages paid to these employees in 2005/06 will be over \$2.2 million.

A more complete list of the 2005/06 company's major expenses is in *Attachment A – In commercial confidence*.

Current Freight Arrangements

The cost of interstate freight in 2005/06 will be over \$4.2 million. This represents approximately 35% of all costs. The company uses two freight forwarders to transport freight from Devonport to mainland markets. During the past 3 years many costs have increased but the company has been able to keep the cost of freight per tonne static, (excluding fuel surcharges). The company believes this has been achieved by using its increasing market power to ensure the freight forwarders use the most efficient transport handling techniques and combinations. This ensures the company achieves the lowest possible freight rates.

Effect of TFES on Freight Rates

The assistance offered by TFES does not affect the incentive for the company to negotiate the lowest possible freight rates. This is because the scheme operates on a sliding scale of assistance depending on the amount of freight paid.

It is likely that without TFES there would be less freight moved over Bass Strait and the number of freight forwarders would be reduced. The effect of this would be to reduce the competition and likely increase the cost of freight.

Increased Costs as a Result of Sea Freight

There are extra costs incurred by the company (both direct and indirect) as a result of using sea freight from Devonport to Melbourne. When refrigerated pantechicons are unloaded in Melbourne all freight is transferred from the Tasmanian refrigerated units into mainland equipment for transport to Sydney, Brisbane and Adelaide. The cost of this extra unloading and loading is at least \$140 per 20 pallets transported.

There are also indirect costs such as those caused by the strict “cut off” times for freight delivered to the ships. If transport is delayed and the cut off time for the ship is missed delivery to Melbourne is delayed 24 hours. This delay invariably means that a delivery to the supermarkets is lost resulting in loss of sales.

There is a limited amount of transport equipment in Tasmania at any time and during times of increased activity it can sometimes be difficult to obtain equipment when required.

Premium Fresh Tasmania’s Significance to Tasmania and the Importance of TFES

The company operates the largest carrot washing facility in Tasmania and has increased production by more than 100% over the past 5 years. The company has plans for further expansion over the next 5 years. Premium Fresh Tasmania is a very significant employer in North West Tasmania, employing many unskilled and semi skilled people from areas of traditionally high unemployment.

If Premium Fresh Tasmania did not receive assistance through the TFES to offset the extra costs involved in using sea freight to transport produce to the mainland states the company would have to significantly down size its operations. Premium Fresh Tasmania operates with very narrow profit margins and would find it difficult to compete with the mainland producers who do not have the cost disadvantage of a sea freight component in their transport costs. The company would not realistically be able to relocate to the mainland.

Premium Fresh Tasmania has grown from a small farming enterprise to the largest fresh carrot producer in Tasmania and one of the largest producers in Australia with the TFES as part of its cost structure. If this equalising assistance was now removed or reduced the company would find it impossible to continue operating in its current form. The employment and income for local farmers and businesses generated by Premium Fresh Tasmania’s operations in this part of regional Tasmania would be lost.