

Harvest Moon's Submission to the Productivity Commission's Review into the Competitiveness of the Tasmanian Freight Industry – December 2013

Company Background

Founded in 1981, today Harvest Moon is Tasmania's leading vertically integrated fresh vegetable company. From humble beginnings as a potato trading company the business has grown over the years such that Harvest Moon now grows and packs 50,000 tonnes of fresh vegetables in Tasmania annually. Of the 50,000 tonnes grown and packed 15,000 tonnes is marketed to customers within the state while the remaining 35,000 tonnes is shipped and marketed to customers in mainland Australia, South East Asia and Europe.

Harvest Moon has a highly seasonal workforce with numbers varying between approximately 150 in the winter to approximately 350 in the summer. We estimate that we employ 240 FTE's annually.

Harvest Moon's Economic Multiplier Effect

Approximately 50% of the vegetables we grow and pack are grown on our own farms while the other 50% are grown under contract by contract growers. Harvest Moon pays contract growers in excess of \$10 million a year in proceeds for fresh vegetables. Many of the contract growers are small family farming operations who do not have the volume, infrastructure or capability to grade, pack and market fresh vegetables outside the state in their own right.

In addition to the proceeds Harvest Moon pays to contracted growers for fresh vegetable the company is a substantial user of allied service providers in the region including but not limited to farm input resellers, technical services providers, trade service providers and transport services. Harvest Moon therefore is a significant driver of economic activity in what is otherwise a struggling region economically.

Freight Requirements

Relative to many other fresh food stuff's such as fruit and aquaculture, fresh vegetables are a relatively low value item per tonne. The freight component of the landed cost of the goods in Melbourne, Sydney, Brisbane, Townsville, Hong, Kong, Singapore, Malaysia and Europe is very substantial. In most domestic markets the freight component is equivalent to 25%+ of the cost of goods. In export markets it can be 35%+ of the cost of goods.

Harvest Moon is in the fresh vegetable business. All of our products are highly perishable. In most cases crops are harvested today, washed, graded, packed and dispatched tomorrow. Harvest Moon is not able to stockpile product and ship at backload rates or quiet times of the year. Once harvest starts the supply chain must keep moving or the system will haemorrhage. A frequent, reliable and cost effective refrigerated transport service is absolutely fundamental to the business's supply chain and therefore viability.

Significance of the Tasmanian Freight Equalisation Scheme (TFES)

In 2012-13 Harvest Moon claimed \$2.4m under the Tasmanian Freight Equalisation Scheme (TFES). The TFES is worth approximately \$70 / tonne for produce.

With the TFES in place the cost per tonne to ship produce from Devonport to Melbourne is between \$75 and \$80 / tonne. Road freight for the equivalent freight service (320 km's of refrigerated road transport) from Melbourne to Bairnsdale is \$54 / tonne and from Bairnsdale to Melbourne is \$64 / tonne. The TFES does not provide Tasmanian based shippers with an unfair advantage versus mainland companies. It simply means we are only disadvantaged by \$15 to \$20 / tonne rather than \$85 to \$90 / tonne.

Without the TFES Harvest Moon would not be competitive in mainland markets. If the scheme were to be removed or materially wound back;

- Prices paid to contract growers would need to reduce by \$70 / tonne in which case growers would not be able to cover the cost of production.
- The company's production would be reduced from 50,000 tonnes annually to approximately 15,000 tonnes
- All crops would be grown on Harvest Moon's own farms meaning that the company would no longer require the \$10 million in vegetables currently purchased from contracted growers
- The FTE's the company employs would reduce from approximately 240 to approximately 50 per annum
- The economic activity the company generates on the North West Coast of Tasmania would be dramatically reduced

On southbound freight TFES is applicable to plastic, cardboard and paper packaging but not to Returnable Plastic Crates (RPC's). RPC's are an environmentally friendly form of reusable packaging and all the major chain stores including Woolworths, Coles and ALDI utilise them. Harvest Moon believe that RPC's should be made eligible for TFES such that they are treated the same as other forms of packaging.

Other Factors Effecting Harvest Moon's Freight Costs

Four recent developments have compounded the freight cost challenges faced by Harvest Moon and therefore other fresh produce grower / packer / shippers in the state;

1. The loss of the direct overseas freight service from Bell Bay. Harvest Moon export approximately 220 TEU's per year. The extra handling cost of containers due to transshipping through the Port of Melbourne is equivalent to \$1,025 / TEU or a \$225,500 per annum bottom line impact on Harvest Moon.
2. The loss of the opportunity to cabotage produce to mainland ports on export vessels. The annual value of this to the business is difficult to quantify.
3. Harvest Moon ship approximately 2,400 TEU's through the Port of Melbourne each year. The introduction of the "Port Tax" by the Port of Melbourne on all containers moving through the Melbourne port is equivalent to \$40 / TEU or \$96,000 per annum
4. The carbon tax has directly impacted Bass Strait shipping as the tax applies to bunker fuel and not land based fuel. This has added 2.04% to the cost of sea freight which is equivalent to \$23 / TEU or \$55,200

The total annual bottom line impact of the four factors listed above is in excess of \$376,700.

Summary

- Twelve years ago Harvest Moon endeavoured to take greater control of its freight requirements across Bass Strait by partnering with a number of other businesses to form Fresh Freight Tasmania. This gave the company more certainty with respect to capacity and more confidence with respect to cool chain control.
- Food manufacturing in Australia is a challenging business. In order to remain competitive Harvest Moon continues to invest in technology, genetics, automation, skills, new product development, value adding of raw material etc....
- The company is not accustomed to pointing the finger at government and expecting them to provide the solution however the viability of Harvest Moon in its present form and the subsequent economic activity generated on the North West Coast of Tasmania is dependant on the retention / strengthening of the TFES.
- We believe the TFES should in fact be extended to cover export and RPC's
- We are ready and willing to actively participate in further discussions and / or provide further details and documents to the inquiry if and when they are required.