

11 December 2014

Agricultural Competitiveness Taskforce
Department of the Prime Minister and Cabinet
PO Box 6500
Canberra ACT 2600

Dear Sir/Madam

We write in response to your request for submissions to the Agricultural Competitiveness Green Paper (the Green Paper) and any further policy suggestions stakeholders wish to make.

Executive Summary

Agriculture and associated Food & Beverage Manufacturing combined are the largest single export sectors for South Australia¹. This State has a long and proud history of agricultural innovation, from Ridley's reaping machine to the stump jump plough through to our advanced irrigation technologies and world renowned grains research, not to mention the substantial innovation from our wine industry, including the wine cask. It is important that we build on past innovations and continue to look at what is required to keep improving our agricultural competitiveness.

Notwithstanding there are a myriad of issues impacting upon our agricultural competitiveness, the Government's primary role should be to ensure producers have increased and secure access to water and improved road infrastructure to strategically located ports. Accordingly, funding of projects to increase the irrigated capability of the Northern Adelaide Plains and Clare Valley are critical to growing South Australia's agricultural sector, and funding the Northern Connector project will lead to improved export competitiveness through reduced freight costs. These projects are particularly important for a State which is having to undergo significant structural adjustment to its economy pending the closure of local auto-manufacturing from 2016. We acknowledge the decision of the auto-manufacturers to cease production in Australia was not because of the discontinuation of Government funding. However, it is very important that there is Government assistance to support South Australia to transition beyond auto-manufacturing.

¹ Economic Analysis Division – State Department of Premier and Cabinet, SA Overseas Goods Exports October 2014, P3

Business SA is keen to see the broader community increase their understanding of the benefits of foreign investment in agriculture and the Government has a leading role to play in this respect. Not only does the institutional framework need to appropriately facilitate foreign investment in agriculture, but the Government needs to actively encourage it where local funding is either unavailable or at least not priced competitively. We have seen the success through our own members of partnering with Chinese interests to create distribution networks into otherwise difficult to access markets and such results should be celebrated and promoted. Australia is a net importer of capital and a small nation which can only succeed with liberal trade and investment policies, and the agricultural sector cannot be exempt. We also need to have practical consideration to food security issues and public policy should only respond where there are valid concerns related to Australia's strategic interests.

The Government has been outstanding in securing trade agreements with Korea, Japan and China and now is the time to ensure that arrangements are in place for businesses, particularly small businesses, to access the plethora of opportunities; a key aspect being appropriate access to export readiness training.

Background

We provide specific comments on each pertinent aspect of the Green Paper below:

Infrastructure

1. We recognise the Government's commentary that improving transport infrastructure is critical to opening up opportunities for new agricultural export markets. For this reason, the Government should be giving renewed consideration to funding the \$1.1 billion Northern Connector project which has already been assessed by Infrastructure Australia as being at the threshold stage; meaning it has strong strategic and economic merit. If there is a need to consider alternative forms of infrastructure funding to get this project 'off the ground', then the Government must put this proposition to South Australian business and the broader community.

The Northern Connector is the type of project which will reduce freight costs for key growing regions of South Australia including the Adelaide Plains, Barossa Valley, Mid North and Riverland and help to increase their export competitiveness across a range of commodities and food & beverage manufactures. Reducing freight costs is a key factor in increasing competitiveness for Australian produce in world markets, particularly where Australian produce is already at a significant disadvantage from having to compete against heavily subsidised European nations and the United States.

2. Business SA agrees that increasing port competition for agricultural produce is desirable, particularly in the absence of any port competition; which is presently the situation for South Australia's largest agricultural export of grain. However while new ports for agricultural produce alone are unlikely to be justified in South Australia, the Government should be supportive of proposals which combine minerals and agriculture, such as is being currently proposed on the Central Eyre Peninsula.

Notwithstanding the above comments, the number one priority for Government should be to improve freight competitiveness to existing ports and to ensure that port operators are appropriately regulated to provide equitable third party access which does not impinge their ability to offer marketers competitive throughput charges.

Competition and Regulation

3. The one area where the Government does have strong influence, albeit not necessarily total jurisdictional control over, is in heavy vehicle regulation. Australia needs an appropriate system of heavy vehicle regulation which actually results in smarter compliance outcomes for operators and in turns assists them to reduce costs. Any red-tape in heavy vehicle regulation only adds to costs which are ultimately passed back to farmers, consequently reducing their ability to price competitively into export markets. One such example is vehicles being stopped by regulators in multiple jurisdictions for the same random checks on one trip. Regulators need to understand that stopping trucks costs money and there must be appropriate risk management between jurisdictions to avoid unnecessary duplication.

Agricultural freight paths ignore State boundaries and regulations need to work to help farmers achieve optimal freight cost outcomes based on market factors, without being distorted by State based regulatory factors. There are also local issues such as 'last mile' impediments which require a collaborate approach to resolve.

4. Business SA has concerns regarding existing country of origin labelling and agrees that a balance must be achieved between balancing the needs of consumers relating to where their food comes from, and the regulations imposed on industry. However, it must be remembered that country of original labelling is to provide clarity to Australian consumers; and the needs of Australian growers and food & beverage manufacturers, not importers, must be paramount in the formulation of regulations. The country of original labelling must pass a 'reasonable person' test in so far as ensuring that if a person intends to buy an Australian labelled product that the product is to a reasonable extent manufactured from Australian ingredients (accepting there may be for example seasonal supply issues) and to a reasonable extent, substantially transformed within Australia. For example, if a consumer buys Australian Virginian ham, it should be from a pig raised in Australia.
5. In our view it is not the role of the Government to investigate new marketing mechanisms for growers in order to help restore the balance of power. The best way in which the Government can help growers is to reduce their cost base through providing better infrastructure and smarter regulation which cuts compliance costs. This will ultimately assist them in becoming competitive suppliers into export markets, more so than any collective marketing arrangement orchestrated by Government.

6. It is critical that the carbon sequestration component of the new Emissions Reduction Fund (ERF) operates to help genuine farming operations reduce greenhouse gas emissions, and that it does not reward farmers for just adopting what is already considered best practice, for example stubble retention. Furthermore, the ERF needs to be carefully structured to avoid scheming by non-agricultural entities, particularly to avoid a repeat of the recent high profile failures of agricultural managed investment schemes.

Taxation and Foreign Investment

7. The Government must proceed with caution in how it intends to allay concerns about foreign ownership in agriculture concomitant with the actual needs of industry for an injection of foreign capital. One of Business SA's winery members is an excellent example of a company which has expanded its sales significantly through a Chinese capital partner and now has an established distribution network in China. By no means was this deal easy, but it was possible with a collaborative approach by both Australian and Chinese interests. The recently signed free trade agreement with China will open up even more opportunities of this nature but Government policy needs to take a facilitative, not an obstructionist, approach to foreign investment in agriculture. If it was ever deemed that Australia had a potential food security issue, then there may be public policy rationale for taking an alternative approach, but we are far from that point and our strongest comparative advantage lies in agriculture which we must do everything possible to enhance.

There is little doubt that Australian agriculture has huge potential but the risk parameters of many local investors, particularly superannuation funds, do not necessarily align with the investment fundamentals of agriculture so we must be careful in how we limit potential funding from abroad to ensure that the industry can grow. We have a huge pool of local superannuation funds, but those fund managers are responsible to ensure strong and stable returns for retirees, not to enhance Australia's comparative advantage in Agriculture. We must be realistic in how we are to realise Australia's agricultural potential and accept that the investment dollars required all have the same nominal value, regardless of their origin. We agree there needs to be appropriate due diligence on foreign investors, but it needs to be managed in accordance with the actual and not perceived risks.

Education, skills and training, and labour

8. We support the Government investigating the possibilities for skilled backpackers to transition to 457 visas without ag-related degrees, particularly in consideration of the diverse range of skills required to successfully operate in agriculture and the fact that mechanical, electrical and engineering skills can often be quite valuable to farmers, particularly in broad acre grain production. Furthermore, it is often the backpackers who are more willing to work in regional and remote areas and realise opportunities that local urbanites may not necessarily be exposed to; for a variety of reasons, including difficulties in leaving established support networks.

Water and natural resource management

9. The Green Paper notes that output from irrigated land accounts for 29% of gross value added of Australia's agricultural production for less than 1% of the land used. This is a good segue into the need for Government support to realise two major projects proposed to increase South Australia's agricultural competitiveness:
 - a) Expanded horticulture on the Northern Adelaide Plains using waste water; and
 - b) The Northern Dams Upgrade in the Clare Valley for intensive livestock and horticultural production.

The proposed project on the Northern Adelaide Plains will also ensure less waste water is discharged into Gulf St Vincent and with it comes additional environmental benefits. Furthermore, it is important that this prime agricultural land on the flank of Adelaide is utilised to its greatest export potential, which will be further enhanced with Government funding of the Northern Connector project.

The water issues of Clare Valley grape growers are well known and the Federal Government should be assisting to ensure it provides alternatives to expensive water provided by monopoly provider SA Water whose costs are artificially inflated by a regulatory asset base which is determined by the State Government. South Australian industry, including large water users in agriculture and associated food & beverage manufacturing, have had to absorb a tripling of water prices since 2009 which has substantially eroded their competitiveness. Consequently, any assistance to provide industry with alternatives to potable water is very welcome.

10. Business SA supports examining options for increased flexibility in water trading markets, particularly through counter cyclical temporary trade of environmental water held by the Commonwealth. However, it is more critical for appropriate policies to be in place where major desalination plants are in operation to support the Murray Darling Basin, most notably in Adelaide. It is still unclear as to how the State Government will operate the 100 GL desalination plant through the next drought, which given South Australia's run of good seasons is potentially not far off. The State Government must carefully consider how that plant is used to limit the loss of irrigator allocations, notwithstanding other environmental flow concerns associated with drought which need to be managed in the Murray Darling Basin.

Water security is equally important for economic reasons and governments at all levels must utilise policy levers to protect irrigator allocations where practicable. Permanent crops consume the majority of the licensed irrigation water in South Australia. These crops are the most vulnerable to extended drought and so to, therefore, are the communities established around them. Certainty of water supply is required in the worst possible scenario for example, another 10+ years of Basin-wide drought. By contrast, annual crops can be planted or not, depending on the likelihood of water availability during the season.

Research, development and extension

11. We agree with stakeholder views in the Green Paper that research block grant funding should be amended to better incentivise universities to say, provide extension services. However, we would go a step further and call for all research funding to appropriately incentivise collaboration with industry, particularly in so far as enabling innovations through research which lead to commercial outcomes. Business SA has recently made two submissions, one to the Senate Innovation Inquiry and one to the joint Department of Industry/Education consultation on boosting commercial returns from research, both calling for a fundamental restructure of university funding to ensure Australia improves its poor performance in relation to firms collaborating on innovation with higher education and public research institutions. While core agricultural research has a strong reputation for being engaged with industry, particularly through organisations like the Grains Research & Development Corporation (GRDC), in order to maximise Australia's agricultural competitiveness we need to improve innovation throughout the supply chain; including through to food and beverage manufacturing where the significant value add opportunities lie.

Biosecurity and Accessing International Markets

12. Business SA is very supportive of Australia's rigorous biosecurity framework and acknowledges the need to protect our favourable animal and plant health status, particularly in so far as accessing key export markets. South Australia has a particular focus on promoting 'clean and green' produce and food & beverage manufactures which relies heavily on the strength of Australia's existing biosecurity system. Biosecurity is the backbone of our comparative advantage in agriculture, something we should be careful not to lose sight of.
13. Business SA commends the Government on its recent trade deals with Korea, Japan and China which provide substantial opportunities for Australia to leverage its comparative advantage in agriculture. The speed in which the Government has achieved such outcomes is unprecedented and the business community is eager to take advantage of the opportunities provided. In this regard, Business SA is pleased that the Government is looking to provide more exporter readiness training, which we agree can be more complex in the agricultural sector than many other export sectors. It is also critical due to the significant number of small businesses in the agricultural sector.

Business SA's major policy document, the *2014 Charter for a More Prosperous South Australia*, recommends the establishment of an Export Ready Program to bridge the services gap between setting up a business and transitioning it into a position where it is ready to export. In addition, the program should be workshop focused so that businesses receive practical knowledge and tools, rather than just theory based education. Furthermore, small businesses should have access to a coaching/mentoring program to provide support from experienced and successful business people and to assist with operational issues associated with exporting.

14. Business SA supports the Government considering options to increase research on consumer and market trends in emerging high value markets, but it will be important that this research is undertaken in collaboration with industry to ensure the outcomes are useful, particularly for small business. Furthermore, this type of research funding should be used as a catalyst to improve broader collaboration between universities and industry.
15. It is important that the Government review its overseas postings but any move to industry funded positions should be taken with care. There is a genuine need for government funded postings but we agree that they need to be properly targeted and positioned in cities which reflect the level of trade opportunities for Australian businesses and the difficulty businesses would otherwise face accessing those trade opportunities independently.

Who we are

As South Australia's peak Chamber of Commerce and Industry, Business SA is South Australia's leading business membership organisation. We represent thousands of businesses through direct membership and affiliated industry associations. These businesses come from all industry sectors, ranging in size from micro-business to multi-national companies. Business SA advocates on behalf of business to propose legislative, regulatory and policy reforms and programs for sustainable economic growth in South Australia.

Should you require any further information or have any questions, please contact Rick Cairney, Director of Policy, Business SA on (08) 8300 0060 or rickc@business-sa.com.

Yours sincerely

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