

AGRICULTURE COMPETITIVENESS GREEN PAPER

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I am encouraged that Government is focussed on agricultural competitiveness.

The Green Paper contains many areas for possible attention, but correctly recognises that some prioritisation of these issues is necessary. My comments below are made with a view to contributing to this prioritisation process.

1. Need for a Vision

I believe the White Paper needs to set out a clear vision for the agriculture sector. This will help to prioritise future actions and provide context. In my opinion, such a vision needs to embrace the following at least:

Feeding ourselves a healthy, nutritious diet

Supplying the surplus into niche markets in the region

Internationally competitive

Sustainable environmentally, socially and economically

Developing Northern Australia

Not deluding ourselves that we are a regional food bowl

Addressing what might be done in the inland pastoral zones if wool continues to decline, or climate change significantly reduces the viability of agriculture in those regions.

2. Overall Economic Environment for Australian Agriculture

Over the past several decades, the marketing and distribution infrastructure that had been built up around the Australian agriculture sector has been dismantled by Governments or sold to private investors, and along with it the subsidy regimes that used to exist. This has been done under the guise of Australia as an open, free market.

At the same time, Governments have been far less successful in dismantling the subsidy regimes that exist for farmers in many of our major competitor countries.

As a result, the playing field has been tipped against the Australian agricultural sector. Indeed, the concept of a level playing field, so often mentioned during the early stages of the free market debate, barely gets mentioned by policy makers nowadays. Recent bi-lateral free trade agreements have clawed back some of the lost ground for some agricultural sectors, but there is still a very long way to recover what Australian agriculture has lost on the altar of free trade over the past thirty years or so.

The tipping of the playing field against Australian agriculture has been further exacerbated by Commonwealth competition policy makers permitting distribution and retail oligopolies to be created, and by Commonwealth and State governments introducing environmental, OH&S and farm chemical legislation, and other red tape, that has impose costs on Australian farmers that are not borne by many of our competitors. Often, Commonwealth and State legislation is overlapping and unnecessarily duplicative.

Several of these issues are raised in the Green Paper. They are issues that have been created by government(s) and therefore are fixable by government(s). They should receive high priority.

3. Foreign Investment

Foreign investment has a major role to play in the development of Australian agriculture and of Australian agribusiness. That said, I believe that there needs to be a clear recognition that foreign investment (and perhaps even investment by Australian companies from outside the agriculture sector) is driven by factors that need not be the same as those that drive investment made by Australian farmers. So, the rules governing such investment need not be the same as those applying to investment by the agriculture sector itself.

Over recent decades, we have seen substantial investment by both foreign and domestic companies into the food distribution and manufacturing businesses. These companies generally seek a higher operating return on capital than is sought by farming enterprises, which rely for part of their return on long term capital gain. Where chain participants extract increased operating returns, and final (world) market prices remain the same, there is inevitably a lower price paid to the primary producers. In my opinion, this conclusion holds, notwithstanding the oft-quoted arguments about competition increasing returns. As an aside here, the CEO of Graincorp has recently been reported as saying “it is not too late for Australia’s grain industry to compete globally, but Graincorp must expand and source more grains overseas to stay relevant to its customers”. Not too late to compete globally! I wonder what the grains industry has been doing for the past century! Also, Graincorp used to be grower-controlled and operate on behalf of, and in the interest of Australian grain growers.

In light of changing investment philosophies, I believe there needs to be encouragement for the establishment of co-operative structures whereby primary producers have the option to get back into the supply chain, rather than continue as at present as price takers. It should be said here that governance practices have moved on very considerably in recent decades, so that the bad old days of ineffective governance of co-operatives need no longer apply. I believe a modern co-operative structure could allow farmers to get back into the supply chain, and create increased leverage for farmers against oligopolies in the wholesale and retail supply chains. Furthermore, such co-operative structures would be much less inclined than companies with no direct investment in primary production, to simply close up and move off-shore at times of a strong \$A.

The food manufacturing industry is largely foreign-owned. The commercial reality is that those companies own the IP and will apply it wherever the raw materials are available at the appropriate quality and manufacturing can be done at least cost. Increasingly, that place is not Australia, as can be seen from the rapid increase in imports of both branded and generic manufactured food products. Agricultural policy needs to recognise this commercial reality, and focus in particular on adding to farm gate values, and on products that are intrinsically Australian, and can be promoted as such.

At present, there appear to be no reliable statistics on foreign ownership of Australian agricultural land. I think the public deserves to know what is happening to the beneficial ownership of land generally. We need a register of land ownership that traces through to beneficial ownership, not just to the country of residence of the company or entity that owns the land.

Similarly, we have seen a move to sequential acquisition of agricultural land, such that aggregations can become very substantial even over very short time periods. We need to require approval to exceed a certain investment level by a foreign entity, irrespective of whether the investment occurs in a single transaction or in multiple transactions. I believe the present limit below which FIRB approval is not required, which I understand

is in excess of \$200 million, is far too high. Where the beneficial ownership is a foreign government, the aggregation needs to apply to that government also, irrespective of the number of entities involved in the ownership chain. FIRB needs to be adequately resourced to meet its obligations, and to get serious about meeting those obligations. (The present situation with foreign acquisition of residential real estate is simply not credible.)

Finally, on a much broader scale, it seems to me that over the past several decades, our nation's consumption expenditure has become so dependent on imports that selling our assets (land, buildings and companies) has become necessary to "balance the books". Clearly, this is a road to nowhere, because assets can be sold only once, whereas consumption expenditure is re-current. Sadly, I do not see policy makers and governments of either political persuasion making any attempt to explain this reality to the country's citizens, nor making significant effort to change the policy direction.

4. Research and Development

a. We must re-emphasise productivity-oriented R&D

For many decades, the responsibility for agricultural R&D in Australia was carried almost entirely by CSIRO, by state departments of agriculture and by some universities. Collectively, they did a good job, and much of their research outputs translated to productivity and other gains for the agriculture sector.

In the 1980's RDC's were introduced, which led to substantially more producer investment in R&D. The government matching of grower R&D contributions was justified, at the time, mainly on the basis of spill-over effects.

Since that time, we have seen several important changes. Investment by state governments in both research and extension has declined significantly. CSIRO has become increasingly driven by the opportunity to obtain external earnings and by the development of income-earning IP; with a resultant significant decline in investment in, and collaboration with, the agriculture sector.

Additionally, society has placed increased emphasis on environmental and other social outcomes, and this has resulted in governments switching emphasis in research funding away from productivity-oriented research. We no longer hear much about spill-over effects, which initially at least provided the principal justification for Government to match farmer R&D levies; instead we now hear that governments have some right to influence where and how their matching contributions are spent. Additionally, community pressures have held back some productivity gains that might have been available from new technologies such as GM.

The outcome has been declining investment in productivity-oriented R&D, and we are now witnessing declining or static growth in productivity in some of our larger agricultural sectors. Once productivity growth cannot offset our inherent cost disadvantages, the sector can only decline. There is no value in assuming, as do some, that commodity real prices will increase as world population grows, and that these real increases will save the sector.

I trust that, out of this review, we will see a greater commitment from Government for productivity-oriented R&D, and a commitment to facilitate rather than hinder the

application of new technology. Without such renewed focus, calls by government and others for increased productivity to offset cost disadvantage are simply unrealistic.

- b. We must recognise that government organisations should do research in the national interest, not just research that is IP driven and attracts external funding.

Over recent decades, as large multinationals have entered the agriculture space, we have witnessed increased focus on IP. This increased focus on IP generation and ownership has also carried into CSIRO and other government research providers. A lot of IP in agriculture is effectively know-how, the spread of which cannot be controlled (nor should it be), because it leads to incremental gains within the sector- the so-called spill-over effect.

We need to see a commitment from Government, and Government research providers, to fund R&D that is first and foremost in the national interest, and which develops outcomes even when there are not major IP benefits to be gained. A good example is weeds. Management of weeds costs Australia around \$4 billion per annum, excluding the social and environmental costs. Most of the cost is borne by farmers, either for direct control of weeds or via lost productivity in weed-infected pastures. In NSW alone, the annual cost born by farmers is around \$1.3 billion, or 10% of the farm gate value of agricultural production in that state. Long term cost reduction could come from biological control. However, over the last twenty years, our national research capacity has declined by 75% (CSIRO estimate). There is simply not enough incentive from IP generation to attract investment from the private sector, and there are not enough public funds to offer leverage to research providers like CSIRO and state departments of agriculture to meet their external earnings targets. The Commonwealth has contributed to this decline in leverage funds by closing the Land and Water RDC, and by discontinuing funding for the Weed CRC.

We need a more sophisticated approach to R&D prioritisation, one that fully considers the national interest. It would be very appropriate for the Commonwealth to provide a lead in this area.

- c. We need structures that can undertake long term research on big issues.

In addressing those national research priorities, we need to recognise that some of those priorities will require a long term commitment, by organisations that can make such long term commitments, unencumbered by short term political interference. For example, in the sheep industry, shearing and drenching are major costs, which are increasing year by year. It is most unlikely that other countries will solve these problems for us; in the case of veterinary chemicals, the world market for sheep-specific products is quite small compared with, say, those for pigs, cattle or poultry; and in the case of shearing, labour costs for shearing are much lower in other sheep-producing countries than in Australia. We need a long term commitment to research, probably a decade or more, to address these sorts of issues. I doubt that RDC's are the appropriate vehicle to do this; there is, increasingly, too much politics around director elections which result in research objectives which can be relatively short term. They are the sorts of issues that, in my opinion, should be undertaken by CSIRO in the national interest. But, without government direction, I do not see that occurring.

A further issue in relation to RDC's is the frequent reference to inadequate collaboration on cross-sectoral issues. Another body has sometimes been suggested, but yet more

overhead is not needed. Rather, consideration should be given to mergers of existing bodies. For example, a merger of AWI and MLA would result in a well-funded body that could look at sustainability, pasture and productivity issues in a holistic and long term manner across the entire Australian landscape. If established effectively, some at least of the political issues that currently surround and adversely affect board elections and appointments, and hence organisational effectiveness, could be eliminated. After many years of involvement in research organisations, I am firmly convinced that agripolitical organisations and representatives have a very important role, and can be quite effective, in defining research priorities for their industry, but their capability to then direct and manage the research and development that is necessary to implement those priorities is deficient. The outcomes of recent high level inquiries do not seem to have recognised these issues.

d. Finally, I would like to make comments on CRC's.

CRC's are very effective vehicles to address longer term, focussed research issues, because funding is committed for seven plus years, and they can be established with a clear, detailed plan which can be implemented under the governance of an independent skills-based board. In my experience, CRC's that are well-governed and have a well thought-out research plan, are very successful in delivering for agriculture and environmental issues, where IP issues are less likely to create roadblocks among participants. There are no better structures for creating collaboration among parallel research bodies such as RDC's, state departments of agriculture and universities.

5. Mining and Agriculture Must Co-exist

Over recent years, many media commentators and activists have agitated against mining activities being conducted in some agricultural areas. This sort of activism is somewhat destructive and, in the short and long term, counter-productive.

In NSW at least, regional towns which rely on both mining and agriculture are, in my experience, more prosperous, more progressive and more culturally diverse than regional towns that rely exclusively on agriculture. There is a real need for government to show leadership and then encourage, expound and deliver the benefits of co-existence. In my opinion, an important step to encourage co-existence would be for reasonable changes to be made to allow the owners of freehold land to gain some proportionate benefit from the value extracted from beneath the land by mining activities. Without this, land-holders have little incentive to resist activists who want to "shut the gate". Hopefully, the White Paper will help facilitate this.

6. We do not need More MIS Schemes

The Green Paper raises a number of concessional tax issues. Government interventions in the market through concessional tax arrangements have a poor record for delivering medium-long term benefits. Over the past decade or so, we have seen the MIS scheme, which can only be described as a disaster for most investors as well as for many regional communities. Before that, we had tax-driven incentives for vineyard plantings, which might have benefitted a few city-based investors and advisers, but created a glut of wine grapes and undermined many long-established wine grape growers.

Government needs to be very cautious, indeed pre-disposed against, the introduction of tax-driven incentives in the agriculture sector.

