

# Agricultural Competitiveness 2014

Regional Development Australia – South West

Feedback for Agricultural Competitiveness Taskforce, DPMC



## Background

Feedback on Agricultural Competitiveness is provided at the request of the Minister for Agriculture, the Hon Barnaby Joyce.

This RDA response follows a submission on the National Food Plan in 2012 and will generally work through the points noted and will refer heavily in relation to a major study commissioned jointly by RDA, the South West Development Commission and the Department of Agriculture and Food WA (DAFWA). The study has engaged widely with stakeholders in the South West of WA and was undertaken by Deloitte Access Economics. The work, *Action plan for transforming agriculture in the South West of Western Australia*, will be published in the New Year.

As might be expected, this RDA-South West feedback will be examining the proposal from a regional perspective and will draw on some local experiences. It is also worth mentioning that our regional capital is away from a major population centre (Perth is 185km to the North), and features an agricultural region that is the most diverse in the State and which employs 73,900 people. It was worth \$630m or 12% of the total gross value of agricultural product in 2010-11<sup>1</sup>.

The South West has an emphasis on dairy, beef cattle and horticulture. In 2010–11, the Bunbury region accounted for around 89% of the total value of WA milk production. It also accounted for 91% of the total value of WA's avocado production, 86% of the total value of potatoes, 76% of apple and pears, and 67% wine grapes, the region being home to the Margaret River appellation.

The most important commodity in the Bunbury region in terms of agricultural output value was milk, which contributed 22% (\$139m) to the total gross value of agricultural production. In 2010–11, vegetables for human consumption accounted for 21% (\$133m) of total regional output. Cattle and calves accounted for 16% (\$99m), fruit 13% (\$80m) and wine grapes 9% (\$59m).

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<sup>1</sup> ABARES (2013) Agriculture, Fisheries and Forestry in the Bunbury region of Western Australia, 2013

## Issue: Infrastructure

Infrastructure that provides efficient and cost-effective transport and communications infrastructure to support the movement of farm inputs and outputs, reduce costs and open up new markets; and facilitates new or intensified agricultural production.

### Policy idea 1: Building new transport infrastructure

The South West region's land transport system is mostly very sound. The real opportunities lie in Busselton Regional Airport having the capacity to export high value perishables.

Aviation policy supports capital city airports and very remote airports (for example, to provide RFDS services). Food isn't grown in the cities so the regional airports provide our best opportunity for economic growth.

A third sealed East-West road link will not boost exports and only adds to biosecurity risk, while sealing country roads that form vital links in the supply chain will be of benefit.

### Policy idea 2: Improving existing infrastructure and transport regulation

Upgrades to regional ports offer genuine opportunities. Containersation at the Port of Bunbury would be a significant supply chain boost.

COAG standardisation of rules in the transport industry has proved both and successful among operators.

### Policy idea 3: Enhancing communications

Technology is a part of life for farmers. Weather patterns and forecasts can be monitored, stock managed, prices checked and the whole farm operation managed. Among the greatest beneficiaries of mobile communications are country people and it is rural communities that generally have the poorest communications. The launch of dedicated NBN satellites is welcomed as that may be the only solution to run equipment based on telemetry technologies.

It should also be acknowledged that communications are crucial in attracting the younger generation to the land, and communications can 'sell' the story behind the produce, educating urban residents who have become disconnected from food production and marketing clean, green food.

**Working with States and Territories to deliver improved outcomes for Australian agriculture, including by tackling deregulation through the COAG agenda.**

#### Policy idea 4: State governments and deregulation

It is expected that COAG will move towards a national biosecurity framework.

The South West is Australia's only biodiversity hotspot recognised by the World Wildlife Fund. Two-thirds of the region comprises State and National Parks. In broad consultations with the agriculture sector, Deloitte did not find any issues with land clearing constraints. However, there are major issues with:

- fire safety regulations limiting farm building construction;
- the red tape burden adding to costs; red tape constraints on responsive business activities;
- regulation as a barrier to entering the sector;
- regulation as an enterprise barrier in value adding product.

#### Policy idea 5: Protecting the resource base

Contrary to comments in the Green Paper, RDA-SW finds that the greatest threat to high quality agricultural land is housing and consequent land values. While it would be logical to build homes on our least productive land, the paradox is that developers like flat paddocks close to existing urban landscapes. Often this land has historically been for market gardening or other farming uses, and the value attached to land on the fringes of developed areas means that farmers see better returns in selling out and those that wish to expand their operations are priced out by developers.

Protecting the agricultural land resource will mean very robust policies around quality land preserved for agriculture with absolutely no process to overturn such a designation.

In terms of extraction of mining resources, the South West experience is that farmers have the right to refuse mining access.

It must also be made very clear that the extraction of coal seam gas in WA is completely different to coal seam gas extraction in the Eastern States. The WA geology is different, the formations of aquifers are different and the gas is different. Hydraulic fracturing dangers are not relevant in WA where such practices would be without risk<sup>2</sup>. Policies should be wary of adopting a one-size-fits-all model in this context, particularly where WA reserves are such that they could meet Australia's energy needs for 80 years.

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<sup>2</sup> Dr Peter Stone, Deputy Director Sustainable Agriculture Flagship, CSIRO, presenting at the WA Natural Resource Management Conference 2014

### Policy idea 6: Strengthening farm businesses

Green Paper comments in relation to cross-State regulations on running co-operatives, subsidised energy audits and streamlined development applications raise basic business issues. It is arguable that farms are simply businesses and could be supported through the existing network of AusIndustry officers. Establishing a whole new network would be a needless duplication of personnel and bureaucratic structures.

## Issue: **Competition and regulation**

**Competition and regulation which gives farmers the best chance to earn a fair return on investment by ensuring fairness and transparency in the supply chain; and making sure that unnecessary red and green tape is removed and that necessary regulation creates the least possible costs for businesses and individuals.**

### Policy idea 7: Improving market competition

It is noted that farmers are generally price takers, not price makers. The retail duopoly domination by Coles and Woolworths is often heralded as a key problem but consumer choice must also be recognised. Where Israeli or American lemons sit beside more expensive Australian product, for example, what choice will the consumer make?

Getting to the root of improving market competition will not be that easy. There additionally needs to be a culture of supporting domestic product over matching imports, and while a minor price differential might see the pendulum swing to Australia, a significant price difference will not.

### Policy idea 8: Strengthening competition laws

It is accepted that legislative changes should seek to end any abuse of market power, but the focus of policy will need to target less the duopoly and more on cost reduction so Australian producers can compete with cheaper imports. One of the legal changes that can be made is in the area of enabling the rise of co-operative structures.

### Policy idea 9: Improved regulation

It is agreed that AgVet chemical regulation can be improved and country of origin labelling should be made clear to consumers.

**Finance, business structures and taxation production – improving access to reliable independent business information and advice; and ensuring that the tax system appropriately encourages investment.**

The issue of food security is very real and so is the nature of international competition in the marketplace. However, this is a difficult area since farms are businesses like any other so we have to ask why should one Australian business get preferential treatment over another?

We particularly have to ask why the “family farm” should be specifically supported rather than the industry as a whole. Most sectors have gone through a transition from family operation to corporate structures, franchising and high street names. These structures have delivered savings and widespread access to products.

The reliance on family farms also comes into question when considering the average age of farmers and lower take up of young people seeking a farming life. ANZ says that \$400bn will be required between now and 2050 for farm takeovers as ageing farmers make way for the next generation<sup>3</sup>.

Australia needs to ensure its productivity levels are high and that might mean delivering policies that are less protectionist in nature and more facilitative ie policy focuses on bigger picture outcomes for the nation as a whole rather than individual producers.

CSIRO notes that the top 25% of farms are seeing growth and the bottom 25% are unprofitable. This is seeing a move towards large farms and some fragmentation at the bottom end towards hobby farms which add no value to the economy.

#### Policy idea 10: Improving access to finance

It is often cited that Chinese business can borrow money at 1% and that gives them an advantage. While levelling the playing field through tariffs is not an option in the face of the recent FTA, perhaps there could be some loan mechanism that redresses the balance. This would also mitigate the need to complicate taxation.

Farms in the future will need to look at new methods of doing business, including:

- Greater levels of co-operative behaviour;
- Providing product as a service to processors;
- Partnership arrangements (particularly equity partnerships to de-risk investment);

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<sup>3</sup> ANZ (2012) Greener Pastures: The Global Soft Commodity for Australia and New Zealand

### Policy idea 11: Improving tax system efficiency and equity

Incentives to encourage institutional investment in agriculture would be welcomed, particularly investment in value-adding primary product.

### Policy idea 12: Farm business improvement

Business improvement and business advice services already exist. Comments in the Green Paper suggest extending services but this may be hard to justify given the availability of free, accessible advice.

Suggestions to launch an initiative to bring businesses together is also questionable. Farmers within regions already know each other and every part of the farming industry has its own peak body which breaks down to units at a regional and sub-regional level. Where an appetite exists for collaborative behaviour – shared marketing or regional brand consistency – then farmers can come together and drive their efforts from within. Outside support is not sustainable.

## **Issue: Foreign investment**

**Foreign investment – encouraging responsible foreign investment to build new production capacity; and ensuring the foreign investment regulatory framework takes into account the needs of the agriculture sector.**

### Policy idea 13: Improving the transparency of foreign investment

The free movement of money is an accepted part of a global economy. It is reasonable that when farm businesses are put up for sale, the vendor wants the best price possible.

However, a register of foreign ownership of agricultural land would be useful in monitoring the situation.

**Education, skills and training, and labour – ensuring agriculture is well covered in our education system; making education more accessible for children in remote areas; increasing skills of new and existing workers; enabling access to a flexible workforce; and, attracting new entrants into agriculture.**

Policy idea 14: Strengthening agricultural education

Deloitte<sup>4</sup> notes that education and demographics are not currently favouring the future of agriculture. Across other industry sectors, 25% of the workforce is aged 25-34 and 3% is 65 and over. In agriculture, 3% is aged 25-34 and 20% is 65 and over.

However, those interested in gaining an education in agriculture are already well catered for in the South West. In addition, Agrifood Skills Australia has boosted the education of existing and potential farmworkers by offering training in such areas as chainsaw safety, chemicals, tractors and so on. This has proved successful in employment.

An area of learning that is often overlooked is less about training interested country people about farming but educating city people about how their food got to their plate. Such understanding would ensure a greater appreciation of farming.

Consideration should be given to incubator facilities to encourage skills learning in value-adding product.

Today's young farmers will have more business demands made on them than anyone who has gone before them. Agricultural education needs to be broader than farming and needs to include business skills and marketing among other things.

Policy idea 15: Strengthening labour availability

The Seasonal Worker Program has been successful in the South West. A number of Tongan workers have returned year after year and fully understand their jobs. The Pacific Islanders have proved popular seasonal workers while some humanitarian refugees from the UNHCR Program have also settled well into a farming life.

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<sup>4</sup> Deloitte (2014) Action plan for transforming agriculture in South West Western Australia (Draft)



## Issue: Drought

**Drought – building resilience and risk management capability; and providing appropriate support to farm families and otherwise viable farm businesses suffering severe droughts.**

Cribb<sup>5</sup> estimates that there will be increasing climate instability with a 40% increase in drought episodes over the next three or four decades.

### Policy idea 16: Increasing drought preparedness

Intuitively it appears that being prepared is a far better strategy than funding support after the event. Strong businesses will be more resilient and those who expose themselves to less risk will also be able to transition through drought.

Governments can help through the provision of permanent (not emergency) water infrastructure schemes. Connecting dams is also helpful and natural resource management initiatives help to keep the land in the best possible condition and so boost preparedness.

### Policy idea 17: In drought support

Comments provided in the Green Paper are supported.

## Issue: Water and natural resource management

**Water and NRM – identifying and building the water infrastructure needed for Australia’s future water supply needs; ensuring sustainable and productive use of natural resources for economic growth and development; improving our knowledge of sustainable resource use; and managing weeds and pests.**

### Policy idea 18: Improving water infrastructure and markets

Improving water infrastructure is not just good for agriculture but the whole community. The South West has seen rainfall decline around 25% since 1976<sup>6</sup>. At the same time the population has expanded and the area has been in the top five regions for growth for the past five years. Water use

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<sup>5</sup> Cribb J (2010) The Coming Famine, CSIRO Publishing

<sup>6</sup> CSIRO (2009) Water yields and demands in South West Western Australia

by agriculture is more than half the total used<sup>7</sup>. On this basis, any investment in water infrastructure should be considered an investment for all Australians not just the farming sector.

It should also be noted that governments sometimes have an appetite for high cost large projects when an aggregation of smaller projects can deliver the same volumes of water for less money.

The value of creating new surface water storage is debatable but good value for money is offered in bringing salt-affected supplies to potable quality and recycling waste water. There are some views that 'Australia is running out of water'. We will not run out of water – we will just have to pay more for it and preparing early will spread costs.

In terms of water markets, the mood in the WA Department of water is to align with the National Water Initiative so that water rights can be traded.

#### Policy idea 19: Natural resource management initiatives

The South West is very professionally covered by the State and Federally-funded South West Catchments Council. This body delivers high quality help and advice to support farmers on the land and contributes to sustainable practices aimed at raising productivity and profitability.

In terms of targeting pests and disease, there is a need for a co-ordinated approach across and between regions so, for example, wild dogs or foxes cannot simply bounce back from a culling programme because they were located in a neighbouring area where the programme was not initiated.

### Issue: **Research, development and extension**

**RD&E – boosting productivity through strategic and co-ordinated research and development; and making sure that farmers can apply the latest innovations through ensuring effective extension of new knowledge and technology.**

#### Policy idea 20: Strengthening the RD&E system

Investment in R&D will deliver the best dollar-for-dollar results than any other form of spending. Gains will also enable Australia to export knowledge as well as food, especially as the capacity to boost productivity may well be outstripped by demand.

The challenge for the agriculture sector is to double food output for a burgeoning world population with less water on less land with less traditional fertilisers<sup>8</sup>.

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<sup>7</sup> Water Corporation (2014) Water Forever: South West Draft Report

Any innovation in farming that increases quality, productivity and/or creates a point of product differentiation is positive. However, R&D investment should be targeted to enable access to high value markets and needs to be mindful of both climate change and diminishing phosphate supplies.

The challenge for future R&D will be broadly around finding ways to feed an expanding population in increasingly difficult conditions. This work will crossover into irrigation innovation, reducing waste, finding uses for 'waste' product/by-product, livestock biosecurity, invasive species and value-added product innovation.

R&D will:

- Prepare Australians for drought;
- Mitigate and reduce losses to pests and disease;
- Tackle biosecurity issues;
- Provide a point of difference in food that cannot be replicated by cut-price practices in other countries;
- Maintain productivity levels as tilled acreage decreases;
- Lead to irrigation innovation;
- Explore opportunities to value add; and
- Lead to the production of food tailored to an ever discerning consumer (for example, high protein, low GI, high fibre etc).

#### Policy idea 21: Improving the rural RDCs

Comments provided in the Green Paper are supported.

### Issue: **Biosecurity**

**Biosecurity – protecting our favourable animal and plant health status to maintain productivity and access to export markets.**

Biosecurity is a lynchpin of value. A production culture that uses less or no chemicals and additives saves both costs and adds an attractive point of difference to consumers.

WA livestock is free of John Disease, enzootic bovine leucosis, cattle tick, liver fluke and footrot. Of course WA would like to keep it that way but biosecurity controls add a significant cost not just to

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<sup>8 8</sup> Cribb J (2010) The Coming Famine: Risks and Opportunities, CSIRO Publishing

doing business but to opportunities to do business. Growing herds is a very slow process and cannot be expedited by bring in stock from the Eastern States. It would be unwise to drop disease control barriers but those barriers would not be needed if all Australian livestock were free of disease. That very aim should be on the Department's agenda. In the interim the Australian Government could support a quarantine zone so livestock can be safely moved without risk of facilitating the spread of disease.

#### Policy idea 22: Improving legislation

Comments provided in the Green Paper are supported.

#### Policy idea 23: Improving the biosecurity system

It is important to recognise that WA has traditionally been the best protected of all States and Territories given the natural desert barrier between East and West. WA's special status as largely disease and pest free must be protected. Agreements with New Zealand in recent years have seen new diseases that never before existed IN WA's orchards. Any legislative changes must reflect that there is no national one-size-fits-all approach to biosecurity.

### **Issue: Accessing international markets**

**International markets – giving our exporters the best chance of capturing high-value markets through addressing technical barriers to trade and ensuring trade negotiations deliver real commercial benefits for the sector; and, by doing so, contributing to global food security.**

#### Policy idea 24: Strengthening Australia's overseas market effort

Given that about 60% of Australia's agricultural output is exported<sup>9</sup>, this area is of great significance to farm sustainability. In addition to opening up trade through FTAs, the Australian Government can provide advice, assist with 'soft landings' and essential market intelligence.

AusTrade's TradeStart programme has been very successful in the South West which considers itself more of Asia's "deli counter" rather than having any aspirations of being a food bowl. TradeStart should be continued to broadly help any industry sector develop overseas markets.

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<sup>9</sup> Comments by Jammie Penm, Chief Commodity Analyst, ABARES 2012 Conference, Margaret River

This area of work crosses over into red tape reduction and work with trading partners to standardise food regulations and labelling requirements.

Policy idea 25: Strengthening Australia's export and import system

Comments provided in the Green Paper are supported, Additionally, South West producers have noted that what is organically certified in Australia is not recognised in China.

