

Issues Paper Prior to the White Paper

What is needed is a total change of thinking, to focus on the policy settings best able to provide an equitable income for primary producers in line with the growing incomes of the wider community while maximising productive advantage and dealing with seasonal realities and maintaining our natural environment and social capital. Establishing the information necessary is the first task and making the choices follows full disclosure and community understanding. This task must not be rushed or distorted by seasonal conditions or political ideological posturing.

Those who are today imagining that “something new” will be discovered to make ‘their’ particular free market system change the balance for farmers are poorly informed and wasting time, human and industry capital and failing their constituency.

To give effect to outcomes suggested will need adoption of a model of industry policy. Our Nation has had a view that industry policy is no longer needed, and so it has been removed. If the goal of government is to have no industry policy, there is no need for an industry minister.

Recommended Actions.

1. ***Enact the ARDB forthwith.*** This will buy some time and bring stability, lower the cost burden and offer hope. The contention that that 70% of the debt belongs to 12% of producers recently aired via the Reserve Bank of Australia follows the question we all have about who the debt is owed by, Is it the 20% who produce the 80%. If the 12% happens to be predominately the larger producers who make up the 20% then the problem is massively understated.
2. ***To set up a capacity to fully enquire into the structure and competitive arrangements effecting costs and prices in each industry in the Australian context.*** It is necessary to comprehend that what is needed for the beef industry is different from that needed for the fruit and vegetable industry which is different from the dairy industry or for that matter the grain industry. When in 1936 a Royal Commission was held into the wheat and flour industries it became clear just how the costs and profits were dissipated through the value chain. Only with this full information can appropriate policy be developed. Whether it is at the level of Royal Commission or a lesser enquiry is for better minds to ponder.

3. ***To establish the measures used by other mature nations to determine the profitability of their domestic producers and the logic for same.*** I doubt the DFAT would have any trouble providing a comprehensive data set explaining those measures used across the globe in a short time. Whether they would have the desire to expose fully to the Australian community the full extent of those interventions is an open question.
4. ***To now recommend to the Commonwealth Government the most efficient and equitable method to make profitable all agricultural industries.*** Once the information is gathered, only then can we advance, any attempt to pre-empt this process will certainly verify a lack of commitment to due process. Care will be needed and a full acceptance that process precedes political expediency.
5. ***Once established to begin implementation with industry participation.*** It is unclear of course from the outset what the outcome will be, assuming the movers of this process are interested in outcome rather than the smoke and mirrors that have led to the rolling crisis of the past several decades. Today it is clear that mature nations have well adapted industry policy suitable to domestic agricultural industries. It should be of interest to the reader that even the most free market system belonging to our near neighbour New Zealand maintains an effective single desk for the marketing of their major export, milk. New Zealand producers are able to capitalise on the growing demand in export destinations while the Australian producer is held ransom.

Introduction.

That rural profits have remained so very disconnected from the wider community and economy is a measure of policy failure over several decades..

In fact as this document is written a crisis of significant proportions is underway and there is an urgent need for some intervention to stave off a damaging overreaching adjustment and severe human tragedy.

This will be problematic for those who have successfully advocated for, and now deliver an agricultural policy that has the lowest level of intervention of the first world, even less than many in the third world. India itself heavily intervenes in some agricultural markets, the EU and US both see the policy prescriptions of consecutive Australian governments as laughable.

The uneducated will still say 'we want no government subsidy,' while their people at the very worst end of this crisis struggle to feed themselves and in the broad, high debt levels and drought threaten catastrophe.

What seems to be misunderstood is that any intervention will be seen by the purest, perhaps those with the ascendancy at this time as a subsidy. In fact it is reasonable to observe that as the bush has dealt with lower and lower prices and their costs have kept pace with inflation, that there has been a real transfer of resources from the bush to the wider population. Many properly would contend that the bush has for years been subsidising the incomes of the wider economy. That the reason this is not understood is a matter of the level of political horsepower available to the agri political leadership and in some cases that very leadership's solid ideological determination to hold the line on a particular philosophical direction. Unfortunately their ascendancy is yet to be unwound.

The sad truth is that there is very little new in economic philosophy, most who see themselves as ascendant belong to one or other of the various beliefs and very few are sufficiently trained to give balanced advice or to effectively offer research of value to a needy leadership.

If you were looking at the issue for agricultural industry policy from some distance it must be clear to all that a deliberate change of direction has occurred through various administrations from Whitlam's removal of fertiliser subsidies and lowering of Tariffs to the equally damaging unwinding of the various countervailing market power mechanisms recommended by the Hilmer review (like the single desk of the AWB) but followed so religiously through governments of both persuasions. And finally as if to underline the direction the removal of Exceptional Circumstances (EC) by the last government with the compliance of, and agreement of both state governments and industry leadership.

As if to recognise the actual failure of the policy the 2013 Federal administration provided \$420,000,000 to the states to meet a real need. I suspect that they recognised the empirical data proved that a clear need was demonstrated.

That the farm leadership had embarked on this adventure of industry policy says more about the advice provided and the failure of leadership to understand when better advice was needed.

In Western Australia, where the Federal government and a compliant state government ran a so called '*drought pilot program*' a meeting of over a thousand farmers in April 2013 carried a resolution to state that the pilot had proven to be '*an abject failure*'. This has not deterred the roll out across Eastern Australia. I imagine the state government would say that those thousand or so farmers did not know what they were talking about. The reality though, the do nothing brigade, those who believe in no subsidy and that any intervention is subsidy, held the ground, they think that if the invisible hand sorts it, the problem will be reduced or indeed go away.

Their problem in the end is one of national importance. It likely goes to the capacity of the nation to sustain itself, the retention of and enhancement of both social and regional capital.

The terms of reference (taken from the web) speak of *encouraging a strong agricultural sector with primary producers which remain among the most innovative in the world*. It does mention profitability, but only in as much as we must build competitiveness. The TOR requires ***a clear strategy to improve competitiveness and profitability***. There is in fact no connection necessarily between competitiveness and profitability. What farmers need is in fact profitability. To be truthful they do not care where the profit comes from.

It is suggested important in Considerations and Scope that;

- Better drought management,
- Access to innovative finance
- Relationship to food and fibre processing
- Effectiveness of regulations

Drought Management

The timeliness of this consideration is of paramount importance, while drought is present, is a very good time to make consideration as to the appropriateness of any proposed policy, at its base the policy must allow the flexibility of effected produces to accommodate the particular period according to the needs of the farm business, but also the stock requirements so as to minimise risk of the more severe effects on the stock in question.

There is little doubt that a farmer will be able to act in a timely manner if the financial situation is not inhibitive.

Of critical importance then is the need for a profitable producer who is well able to destock, move stock or purchase feed requirements, hopefully for a short period. In some parts of the country abundance should be and is stored to be removed in periods of need. The level of profit though needs to be proportionally high to leave surplus financial capacity to deal with the inherent risk in the Australian environment and also to deal with what may be increasing climatic volatility.

It is impossible to see other than urgent need to simply allow destocking and feed provision in the face of the current circumstance. However through the full cycle it is imperative to gear up to retain either surplus feed harvested in the good times or sufficient surplus finance to provide for seasonal downturns. When a raging drought has hold of the land is no time for government to get precious and fail to provide, the time to adopt a policy to deal with drought is in the good times and it is imperative a comprehension of the financial need and capacity to develop production techniques to deal with this cyclical dry which seems so regularly to turn to crisis.

It may well be prudent to allow northern cattlemen the ability to supplement feed with underwater or of stream storages so they are able to fall back to nucleus of stock for a later rebuilding, rather than actually trying at the absolute wrong time to purchase and transport feed to starving stock. These things seem to make imminent sense and go to the advancement of our national capacity, and indecently could easily be funded through a programme funded through the ARDB.

Access to innovative Finance

I suggest the adoption of the Australian Reconstruction and Development Board (ARDB) as soon as practical for this purpose. Please refer the ongoing work with the economic committee at this time, refer the submissions and a sound understanding of the health of the rural community, the logic for and capacity of the ARDB.

It should be noted that the need in these things is for very long term and very cheap finance. Some flirt with the likes of super companies or overseas operators, full consideration of both these forms of funding leave the reality bereft of successful outcome in the national interest.

Relationship to Food and fibre Industry.

The reality is that significant downstream benefits results from domestic manufacture of our agricultural production, both consumed domestically and overseas. The fact that we are a high living standard nation by logic suggest that with other nations who have either cheap capital or low wage structure and lower living standards we will be uncompetitive. If we want to retain our living standard we have no choice but to protect ourselves from imports from those nations who both have cheap wages and/or protect their producers and manufactures.

It takes little to explain how important it is for producers to have their production manufactured domestically, for consumption here or overseas, a shutdown in one area of a cannery will have damaging effects on producers in some cases completely collapses the producer base. This has been a recent feature of the current industry policy. A better choice would be to use the ARDB to fund a group of local growers into local infrastructure so as to retain and build capacity.

The easiest way to protect against uncompetitive national economy is to lower the currency, a beggar thy neighbour approach much like the depression period seems to be underway with many of our competitor nations expanding money supply, apparently to lower currency values. Our currency has been held too high, at a competitive disadvantage to our nation, bankruptcies and industry and business failure are its mark.

The deeper question of how it is that we are seen to need to hold our currency at these uncompetitive rates should be explored, I suggest a flick over to the submission by Ben Rees and the limitations of foreign ownership with its empirical look at the widening current account as a result of the external flows of interest and dividends to foreign owners and borrowers. This unsustainable direction need remedial action quickly.

Much like we need the pig and chicken and beef and dairy industry to consume our grain, so do need the fruit and vegetable industries need domestic consumers including manufacturers the industry is stabilised.

Human Capital

Those who possess the knowledge to operate in the face of extraordinary climatic events are the backbone of the bush. Repeatedly new comers take decades to build local knowledge to prudently operate in the land farmed by Australian producers. Some last but a few years.

The greatest benefit of course is appropriate secondary and tertiary education, yet a lick of experience, whether taken form an earlier generation or from the passage of time make that human capital most valuable. The feature now prevalent is a generation of youngsters see no real future in the farming sector, numerous are the failed colleges, Dalby , Muresk just a couple. I am told UQ at Gatton struggles with restructure.

We desperately need to provide an industry policy which rewards farmers sufficiently to attract a new generation.

We are back to that old need for profit.

Effectiveness of Regulations

When regulations are mentioned more often than not farmers will recite the regulations which have reduced freedoms, like tree clearing laws and in some cases workplace health and safety laws.

More generally there has been an apparent push away from regulations which had a beneficial effect on agricultural marketing toward a form of production limitations which at times seem draconian and unhelpful in the agricultural setting. That is not to say complete removal of every regulation will assist in the push toward profitably.

It should of necessity by the reader be understood that the countervailing regulations used to provide producers with countervailing market power in situations where they sell production to industries dominated by oligopoly or similar industry phenomena must be to be considered. It seems clear that for the dairy industry the market power of the supermarkets are damaging dramatically

the producer's bottom line. Blind Freddie can see that there is something wrong with the cattle industry, while US producers receive almost twice as much for their production than Australian producers. That the dominate meat processor is a South American company funded by the development bank of its home country should send shivers up the back of concerned producers.

Certainty surrounds the contention that a broad enquiry of the structure of the industries of our competitor nations would be rewarding for all those concerned at the poor results here in Australia.

I urge careful advancement with this project with a determination to give appropriate resource to arriving at a full and effective result inclusive of test against delivery mechanism to see results reflect projections.

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