Agricultural Competitiveness White Paper –
Submission IP99
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My Submission

A business will survive and thrive if the participants believe in what they are doing and that there is a viable future. With a viable future participants will solve their own problems and create new solutions, others will seek to enter. Agriculture does not need a variety of support measures and programs, it only requires the farmers to know their efforts will be rewarding, in the long term. Government policy should be directed towards allowing farmers to retain the value resulting from their efforts.

In this submission I have avoided raising matters that are common to all businesses in the current environment, e.g. penalty rates, dumping, superannuation costs. Rather I have stuck to matters unique to farming. Our own business is that we, my wife and I, are niche agriculture producers employing 30 people manufacturing our own and others dairy products for local and export markets.

Executive Summary

Increasing farm productivity will be the result of improving farmer motivation. Capital Gains tax reduces farmer motivation to invest in productivity gains. Sales tax is a barrier to transfer of ownership and renewal. Encourage new entrants and employees by having a rewarding future. Producer groups ensure the maximum long term best price for farmers. Until the world goes hungry, no GMO.

Capital Gains Tax

Normal business valuations include a multiplier of the business based on sales and profit. Investment in farm productivity often requires significant capital investment, generally resulting in increased production rather than reduced costs of production, e.g. a farmer's milk quality will not increase with irrigation or a new milking parlour, or a new tractor. Rather farm productivity will increase, while neither the unit value of the litre of milk increases nor the unit cost of production decreases. This is at odds with other business, say manufacturing, where product differentiation occurs as a result of investment, a shinier TV, faster internet or reduced costs from automation. Unfortunately for most agriculture its products are a commodity, any milk is all milk, any meat is all meat, and any wheat is all wheat.

So for the average farmer producing a commodity product the only real way to improve is to increase production of the commodity. Under the current tax rules the return on investment for production increases must be short term, i.e. annual. Unfortunately agriculture and Mother Nature does not work in the same way, farm improvements are often slow and incremental, e.g. investment in productivity requires additional fertiliser, new pastures, additional stock, additional infrastructure etc, not to mention the annual risk of flood, fire, pestilence and volatile market conditions. Farming is a long term strategy for the farmer, not a short term trading position.

Capital gains tax removes the incentive for long term investment. Capital gains tax restricts land development, restricts land value increases based on productivity, restricts bank lending criteria, restricts further investment and importantly restricts the number of new entrants into agriculture.

Recommendation; modify capital gains tax on productive farm land to the extent it is not a barrier.

Stamp Duty

An important step in improving land productivity is to facilitate the movement of farmers on and off the land. Farmers should be motivated to improve production, whether it is to buy another farm or sell the farm to family as part of a succession plan. Stamp duty is a significant barrier to growth and renewal.

Recommendation; remove stamp duty

Employment

Unfortunately employment in agriculture is often seen as a last resort by employees, with the industry having to cope with fewer trained and skilled staff than desirable. To some extent this is contributed to by the lack of perceived reward from farm ownership for new entrants and young people. Until new entrants believe that farming will provide a good living and superannuation, then interest will be lessened. See comments about capital gains tax.

Recommendation; provide for the reward, remove capital gains tax, remove stamp duty.

Foreign Ownership of manufacturing and sales

Farm produce is a commodity. There is no doubt that some sectors have been temporarily successful in branding their produce, e.g. Angus burgers, but for most, in the long term, farm produce is a commodity. This is generally because nothing can be done with farm produce by the end consumer. Farm produce requires further processing, manufacture and to be broken down into consumer sized portions. Commodities can be produced anywhere, and are sourced at their lowest cost (within the constraints of market perception and especially trust) by international buyers. This makes farming a competitive business where the margins are tight. Proprietary companies are bound to send their profits home to their shareholders and will generally have less long term interest in their suppliers than a locally owned or farmer owned manufacturer. One could argue that the poor condition of the dairy industry is due to lack of Australian owned dairy companies, currently dairy processing is majority owned by international entities that send their profits home. Farmer owned producer boards, coops and companies have proven to be successful over time, even if they are not perfect. The difficulty now is that it is difficult to achieve funding to set up new manufacturing as many of the producer boards have been sold off (interestingly they were successful enough to sell). Long term, producer groups provide for the full sales price to be sheeted home to the farmer. Producer groups support regional production, regional infrastructure and regional economies.

Recommendation; evaluate funding options and support for producer groups.

Overseas and corporate ownership of Agricultural land

Farming is a commodity business. The only real value for overseas or corporate ownership is where there is an additional benefit not directly land related. These additional benefits could be a tax benefit for special write-offs, specialised farm production systems, or production for specialised markets. So long as all farmers have the same access to those benefits then corporate ownership will always be at a disadvantage to the family farm.

Recommendation; don't create special benefits or distortions

GMO

At this stage there is no positive price advantage for GMO, only price depression. A small shift to GMO may result in a wider reduction in farm product price. People care about what they eat, at this time there is no demand for BST produced milk, no extra premium for GMO, no demand for hormone boosted food, so why bother. These comments are not whether the food is good or bad, that is not yet decided, but there is no need at this time.

Recommendation; until the world desperately needs the additional food, no GMO

Other farm income streams / sustainability

Agriculture, by definition, inhabits the wide open spaces and none more so the Australian agriculture. Green power and green power generation well away from reasonable concerns of neighbours can provide long term benefit to the farmer and locality. It is now common place in some countries for farmers to have green power, mainly wind, on their properties. So much so that revenue from generation can exceed other farm revenues. The farm has additional benefits in that on-farm generated electricity immediately provides a return on investment at the full electricity retail price. A program of funding by government secured primarily against the generation equipment will result in a large investment in renewable energy. A good outcome for the individual farmer, Australia and the world.