Agricultural Competitiveness White Paper – Submission IP130
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AGRICULTURAL COMPETITIVENESS

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Presentation Notes

Environmental Scan of Competitiveness in Agriculture

To quote directly from the ANZ Insight Report tabled in October 2012 titled "Greener Pastures: The Global Soft Commodity Opportunity for Australia and New Zealand: **"Strong agricultural demand combined with growing supply constraints is driving an enormous opportunity for agricultural trade".**

At a global level we are faced with decades of very high demand for food production through agriculture. It is estimated that by 2050 we will need to increase production by about 60% from a base of 2007. Key drivers include global population growth, the very large increased emergence of middle classes in China and India and a possible review of Chinese one child policy. These factors fuel opportunities for both commodities and high quality niche and value added food products.

The "Nation States" are being steadily replaced by the "Global Private Enterprise States" in many aspects of goods and services provision, market access and trade in agricultural commodities. These global businesses are represented not by a national Flag but by a logo that signals their brand. They choose whether or not to pay taxes (e.g. Microsoft) and if they do, choose in which "Nation State" they are taxed in their best interests of their shareholders (e.g. Bunge, Monsanto). Their influence on cost price squeezes at agriculture farm gate and processing chain levels have to be recognised, assessed and predatory or exploitive pricing practices need to be constrained.

There are only five recognised major agricultural and food production and exporting regions in the world and it is becoming an increasingly common, almost annual event for one of those regions to experience serious failure. Of these most export from a high domestic market base and are in a position to unlevel the playing field.

In an overall sense there exist quite dramatic opportunities available for any area that has the potential to increase their food production. Australia as a whole is extremely well positioned to reap the benefits of this situation. Individual regions and their mix of products are however separately vulnerable.

It is therefore paramount that we identify markets where a regional Australian brand has a high level of esteem and reputation for reliability in meeting both quantity and quality demands. As agricultural regions across Australia do not share simultaneously the same climatic disaster events of flood, drought and fire and the same exposure to biosecurity threats, a national rather than State or regional framework is needed with a form of insurance and safety net system and protection of brand reliability.

Furthermore Australia has both Government and private enterprise consulting and research businesses with global respect and the services they provide are sources of export income to the Australian economy that can be grown in respect to both building our existing overseas markets and identifying opportunities for emerging new markets.

SOUTH WEST REGIONAL AGRICULTURE AND FOOD PRODUCTION

ACTION PLAN

The catalyst for bringing this proposal forward was the Federal Government's National Food Plan Green Paper. That paper was widely distributed, including to RDA's and to the Academy of Technological Sciences and Engineering (ATSE) for comment and stimulated discussion about the state of agriculture in the regions against the backdrop of global and national perspectives.

The intention has been to work collaboratively with a broad range of stakeholders, based on expectation is that RDASW and SWDC would then be facilitate players shepherding the project forward. A key project ingredient will be employing a suitably skilled consultant specialist to take a primary role in authoring the Action Plan. Involvement of regional Catchment Councils as well as LGAs is important in assessment of land use, water resources and biosecurity issues and for integration of environmental and social planning aspects.

1. Comments and Proposal - the National Food Plan Green Paper

The NFP green paper generated a useful representation of agricultural and food industries in Australia. Additionally, various strategic considerations outlined placed agriculture in the context of both Australian and worldwide parameters. From review of that document workshops built a map of matters of high relevance to the South West in terms of agricultural productivity, connectivity, opportunities and 'big picture' settings.

In the SW we currently have a substantial under utilisation of land and, by bringing this land back into full production, major productivity improvements would result. Land usage has diminished over the past two decades on the back of deteriorating conditions for a range of activities including dairying, beef cattle, grape production, the conversion into tree farming and so forth. Ramping up productivity would create obvious regional benefits including more employment and increased industry diversification as well as potentially enhancing the viability of existing agricultural enterprises. However; increasing productivity will not occur unless there are profitable pathways for primary producers. Those pathways are primarily market determined and differentially affect the various sectors of agricultural production and value-adding where quite diverse influences prevail.

It is proposed that RDA south west act as the initiating body responsible for developing an Action Plan incorporating strategies to promote increased and more effective usage of agricultural land in our region. It would be a high level strategic document engendering support from all tiers of government. The central tenet is that here in the south west we have surplus land available along with relatively favourable climate, soils and other conditions conducive to generating highly productive, quality agricultural production. Attention to effects of climate change in relation to productive capacity in land-use, technological best practice and sound regional infrastructure investment is of paramount importance.

It is in the national interest to focus attention on ramping up agriculture in our region. It is one of the few regions within Australia that has the capacity to significantly improve production. The global food production scenario and resultant challenges create opportunities for the south west and it therefore makes sense for that case to be put forward to galvanise improved competitiveness of agricultural production in our region.

Some key background information

- By 2050, world food demand is expected to rise by 77 per cent in monetary terms. Much of this growth will occur in Asia where demand will double. An estimated one billion people are undernourished globally.

- 15% of all Australian jobs are in the food industry. Its importance to the strength of our economy cannot be overestimated. It is especially important for regional Australia. 90% of food production jobs and 50 per cent of food processing and manufacturing jobs are located in non-urban areas.
- Almost two-thirds of the Nation Building Program for transport infrastructure will be allocated to projects in rural and regional communities. This will assist in reducing barriers between farms, factories and markets.
- The government proposes to continue facilitating export of Australian goods and services by identifying international business opportunities for the food industry and providing trade services to support export-ready Australian businesses to compete in growing and emerging markets.
- The total gross value of farm and fisheries production (excluding non-food production such as timber, wool, cotton, fibres and pearls) in 2010–11 was $40.7 billion. The major components were meat ($13.6 billion), grains and oilseeds ($12.2 billion) fruit and vegetables ($7.4 billion), milk ($3.9 billion), seafood ($2 billion) and other food ($1.6 billion).
- Food and beverage processing covers a number of product groups including meat, dairy, fruit and vegetables, beverages, flour milling, baking, edible oils, sugar and confectionery. The total gross value of food and beverage processing in 2009–10 was $82 billion.
- The regions that contribute most to the gross value of agricultural production include northern tropical areas, high-rainfall coastal regions, the southern irrigation regions of the Murray–Darling Basin, south-west Victoria and south-west Western Australia.
- Continued growth in global demand for food is mainly driven by rising incomes and populations. The world population is projected to reach 8 billion by 2030 and 9.1 billion by 2050—an increase of 32% from 2010 levels.
- Global food demand in coming decades will be associated with a shift to higher value and more production-intensive diets, particularly protein-rich foods such as meat.
- Growth opportunities are not limited to food commodities; strong growth is projected in demand for processed food in the shorter term to 2016 (HSBC 2012), which may indicate ongoing opportunities for food manufacturers to export or invest directly overseas.
- The Organisation for Economic Co-operation and Development (OECD) projects that the world's middle-class will grow from 1.8 billion today, to 3.2 billion in 2020, and to 4.9 billion by 2030, with 85 per cent of this growth coming from Asia. According to OECD projections of middle-class consumption, by the mid-2020s spending by Asia's middle-class will exceed that of the United States of America, the European Union and Japan combined.
- One common suggestion is that Australian businesses should seek to 'move up the value chain' by adding value to raw food products to realise a greater return. The relative return on such investments would determine whether this is possible for a business.
- Regional engagement: RDA Committees …. In addition, there are value-adding opportunities in food processing and manufacturing and in innovation and collaboration across the supply chain.
- Even with a projected population of 30.9 to 42.5 million people by 2056 (ABS 2010), the government considers that food availability is not likely to become a problem for Australia. The Prime Minister's Science, Engineering and Innovation Council's (PMSEIC) report *Australia and Food Security in a Changing World* concluded Australia is food secure and could produce enough food today to feed approximately 60 million people.
- Land use change is essential for economic development and social progress. Changes arising from intensification, diversification and innovation can provide increased economic returns to farmers, improved productivity and positive land use outcomes.
- The Food Processing Industry Strategy Group was established early in 2011 to identify the strengths and weaknesses of this complex sector, and look for opportunities to enhance innovation, improve the sector's long-term productivity and competitiveness, and boost the industry's strategic planning capability.

2. Regional Agriculture and Food Production Action Plan

<u>Current Status of SW Agriculture.</u> Though a significant state and national player, our production is relatively stagnant. We still concentrate production on primary products faced with high competitive pricing pressures and have barely retained long standing but less profitable industries.

Farmers are ageing, leaving the sector and backing away from capital investment. In short, this regionally important sector is not exactly thriving. It is time to re-evaluate our position and to seek a better path.

The basic premise of regional underutilisation of agricultural land needs to be researched and tested. For example, much erstwhile farmland close to towns and regional cities is out of production, for a variety of economic and social reasons, some held for capital gains, often by absentee owners resulting in biosecurity threats and direct costs to neighbouring farmland.

Our existing agricultural industries and the potentials for business innovation differ greatly across the various component businesses in the SW agricultural sector. Competitiveness of each depends on what market is being competed for (Domestic and/or Export), with whom competition exists, or may in future exist (within the domestic market or in the export markets) and on what basis the competitiveness can be enhanced.

For some sectors building value adding food precincts and vertically and horizontally integrated industry hubs is an important strategy. We may also identify certain niche crops that would augment existing farming enterprises or encourage new players into the agricultural industry sector.

Value Added Food Precincts

A recently retired senior Department of Agriculture officer advised that he had become quite disenchanted with being approached by investors, including overseas companies, who were ready to implement agricultural projects but were ultimately unable to proceed due to a lack of a processing site. It was usually the case that nothing was immediately available and any potential site would have taken far too long to commission. The investors either shelved their plans or looked elsewhere.

Advocates for the establishment of value added food processing facilities in our SW region are frustrated because, in trying to take the concept forward, they are being advised that government support would only be given where a major cornerstone client had already signed up to anchor the project. It rarely works like that in the commercial world; serious investors do not buy “a pig in a poke”.

Conversely we cannot take a ‘build it and they will come’ attitude. Rather, it is about building a strategic picture, identifying an opportunity, undertaking a sensible risk assessment, developing a business plan and taking clear and substantial steps to create something for the future.

A few years ago a brief paper was presented proposing the establishment of a Value Added Food Precinct in Manjimup at the site of the Bendotti chip factory. The site already has considerable relevant infrastructure (waste disposal facilities, water purification, weighbridge, surplus freezer/refrigeration etc) operating at well under capacity and there is plenty of spare land adjacent the factory site. A couple of small industries are already collocated and a number of other possible ventures had been identified. These business ideas, based on taking locally grown produce to a value added dimension, had come from very successful farmers in the area. Again, without approvals that would underpin action to secure the site, nothing eventuated.

Conclusion

We have an opportunity to take action to improve agricultural competitiveness in the south west. In examining the options and priorities, the review of Agricultural Competitiveness provides the platform for adopting measures to increase agricultural productivity and profitability in our region.

An Action plan must be transformative with big ideas driving major change.

Those **changes will not happen unless the Plan**

- demonstrates that improved profitability for the individual primary producer (family farm or company) will eventuate.
- provides policy settings that are adopted and conformed to by all three levels of Government (e.g. biosecurity action plans, land use planning and rating schedules)
- provides cost effective support through education, skills training, accessible advice, research, development for implementation of best practice.
- makes it easier for primary producers to access capital investment and low interest finance.
- links primary producers into supply chain and market chain systems, possibly enabled by new forms of cooperative shareholding.
- links State and LGA planning approval processes and land use priorities to clear business plans for those businesses directly involved and to feasible strategic regional aspirations.
- includes the business case underpinning the economic cost benefit analysis to support measures being advocated to significantly improve agricultural production and market connectivity.

Stakeholders/Participants:

There are a large number of stakeholders and other parties that need to be involved in providing input towards the development of the Action Plan. There is a substantial amount of information available from many sources and there are many knowledgeable people available to contribute ideas, to undertake research and to provide constructive feedback. The following is an initial list: -

- Local governments
- Groupings of local governments; BWEA, WBSA
- State government
- Department of Agriculture and Food WA
- Industry Associations; Dairy, WAFF, Fruit West, Pastoralists and Graziers, Vegetable Growers Association, Potato Growers Association
- South West Development Commission
- Federal Government entities
- Catchment Advisory Groups
- Wellington Discovery Forest
- Manjimup Food Council
- Faculty of Agriculture UWA
- Australian Academy of Technological Sciences and Engineering in WA (includes 10 active fellows inc Professor Adrian Egan, across a range of disciplines such as water, climate change, soils, plant and animal health, biosecurity, agricultural business economics).
- CSIRO

Action Plan – Recommendations:

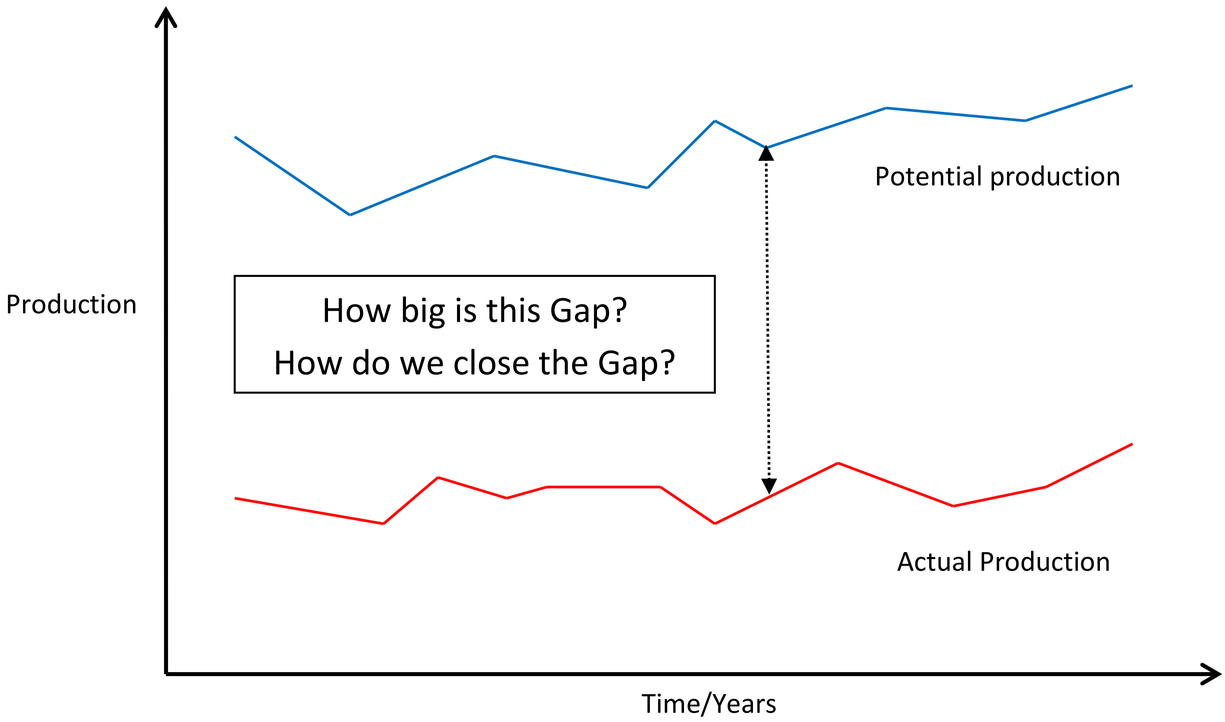
- Infrastructural measures such as enhancing rail freight options, perhaps reopening inland rail routes. In relation to transport rail, it cost roughly $17- 30 m / km to build new rail line but only $5m / km to upgrade existing. Possibly re-evaluate the merits of adding standard gauge line to allow use of rolling stock from other states.
- Developing a planning policy around the concept of Priority Agriculture land classification. This provision would include protection of key production land from urbanisation.

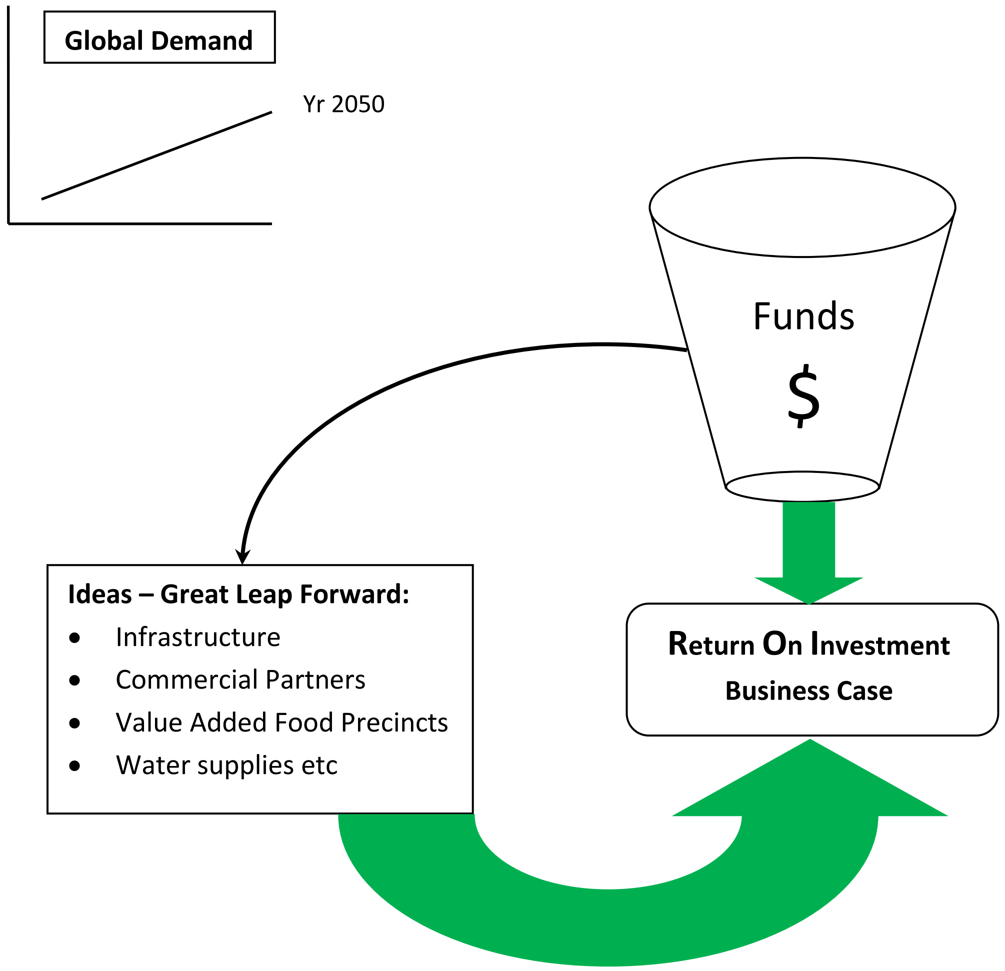
- Implementing a water strategy to support increased production and diversity. There has to be a better distribution system to move surplus water to areas in need. Industrial water recycling, conservation irrigation.
- Implementing an improved biosecurity action plan as Government is not currently meeting this challenge through its regulatory powers in either agricultural protection on freehold land or in environmental management on non-freehold land.
- Financial assistance packages to initiate the creation of identified niche industries. Smart incentives - relates to financial and planning support through tax and rating system, special incentive fund through 'Royalties for Regions' style future fund. Low interest loan schemes and other catalytic investment by government.
- Defining domestic and export target markets and working more actively with growers to fill those niches.
- Building up specialised business productivity services.
- Re-evaluate potential for various food production (grains, legumes, stone fruits etc).
- Develop high value niche products by assisting in the establishment of a green tea industry (or other possible industries)
- Developing value added food precincts or some form of decentralised infrastructure hubs. Infrastructure and innovation hub development - incubator parks in key centres, decentralised.
- Regional Brand development and accreditation systems; Creation and Protection of the brand.
- Smart rotations and landscape planning: land use improvement, trees on farms, ground water recharge protection, bio security, climate change and weather adaptation measures.
- Assisting setting up of co-operatives and other vertical integration measures aimed at improving the viability of identified industries.

Relationship Exercise – Water

<table>
<tr><th>Opportunities</th><th colspan="2">Project benefits</th></tr>
<tr><td>Wellington Dam</td><td>Agricultural (facilitating expansion of the efficient Harvey Water scheme) and industrial supply. Gravity fed reduces running costs. Very high value for money compared with desalination.</td><td rowspan="8">Improves water efficiency.
Does not draw down on the aquifer saving water resources for a growing population.
Mitigates against climate change identified by Bureau of Meteorology and noted in the CSIRO Flagship study on water in the SW.
Raises productivity.</td></tr>
<tr><td>Yarragadee Aquifer</td><td>Recharge with waste water to replenish for use.</td></tr>
<tr><td>Waste water</td><td>Opportunities for agricultural expansion (especially value vegetable production which requires more water).</td></tr>
<tr><td>Food precinct</td><td>Creates additional markets and opportunities for niche products facilitating greater productivity and financial sustainability.</td></tr>
<tr><td>SuperTowns</td><td>Underpins employment in the hinterland – food in Manjimup and industry in Collie</td></tr>
<tr><td>Wahaha Group</td><td>Flow on affects to the fodder and dairy sectors as identified by DAFWA. Job creation.</td></tr>
<tr><td>Connectivity</td><td>Linking Manjimup's minor surface water supplies will protect against losing crops.</td></tr>
<tr><td>Bunbury Port expansion</td><td>Work has started on grain silos to handle export volumes of 500,000tpa.
Potential for containerisation opens up new possibilities, especially bulk high value product which would link with food precinct proposals.</td></tr>
<tr><td colspan="3"></td></tr>
<tr><th>Constraints</th><th colspan="2">Impacts</th></tr>
<tr><td rowspan="3">Agriculture</td><td colspan="2">The lack of available water is the key constraint to expansion. It affects individual businesses and collectively the industry.</td></tr>
<tr><td colspan="2">Traditionally wet areas are beginning to struggle and lose production due to drier conditions. (25% decline in rainfall since 1976)</td></tr>
<tr><td colspan="2">There is a limited capacity to move water from one area to another.</td></tr>
<tr><td>Industry</td><td colspan="2">For some projects to go ahead, the issue will need to be addressed. At some point industry cannot continue to draw down on the aquifer.</td></tr>
<tr><td>Community</td><td colspan="2">The South West population grew 22.1% between the 2006 and 2011 census collections. The demand on supplies is unprecedented.</td></tr>
<tr><td>Environment</td><td colspan="2">The SW is Australia's only entry on the world list of biodiversity hotspots.</td></tr>
<tr><td colspan="3"></td></tr>
<tr><th colspan="3">Obstacles to infrastructure investment in the SW</th></tr>
</table>

Lack of cohesion to align opportunities between stakeholders
Need for a sectoral *Infrastructure Australia* – a form of *Agriculture Infrastructure Australia*
Focus elsewhere (Ord River and Murray Darling Basin)


Production
Potential production
How big is this Gap?
How do we close the Gap?
Actual Production
Time/Years


Global Demand
Yr 2050
Funds
$
Ideas – Great Leap Forward:
Infrastructure
Commercial Partners
Value Added Food Precincts
Water supplies etc
Return On Investment
Business Case