

Submission to: Australian Competitiveness White Paper

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Introduction:

This is an abbreviated submission of the professional standing which government might be seeking but it is well informed and I request of it your serious consideration.

My background is of practical agriculture mixed with career accidents which took me into merchant banking with Hill Samuel Australia Limited (which morphed into Macquarie Group Limited) where I built the Group's currency, bullion and financial instruments trading and associated risk management business between 1978-1986; corporate director of main board of Hill Samuel Australia Limited and then Macquarie Bank Limited 1980-1994; non-executive director (Member) of the Australian Wheat Board 1988-1992 and The Galore Group (Barbeques Galore) 1987-2001; Chairman of the Western Australian Wool Strategy Group 1997-2000; Member of the Western Australian Legislative Council 2008-2013; built upon tertiary education comprising B Sc (Agric) Hons 5-69; and an MBA from Harvard University's European school at IMEDE, Lausanne, Switzerland 1972 following being awarded a Rotary Graduate Fellowship.

Summary:

This submission addresses the competitiveness of agriculture on the basis that it can compete effectively in world markets, whether it can be produced from corporate or family farm businesses.

Accordingly, its recommendations are:

- A. Provide a means by which agriculture can cover its biggest risk – that of year to year climate variability and its impact on the farm business.
- B. Activate effective government to government relations in those countries which value trade occurring under such an umbrella, or where the intrinsic risks demand closer Australian and Australian State government relationships. The current minister's approach is refreshing and useful, but he cannot do it alone.
- C. Strengthen the Australian Government's catalytic role to ensure that infrastructure in the States which is essential in making any particular agricultural sector internationally competitive, must be enabled to achieve its most productive state. Western Australia's Tier3 rail deterioration should not be allowed to occur.
- D. Review, strengthen and foster use of the cooperative corporate structure in the agricultural industry as a means of giving countervailing power to farm businesses, which in most circumstances is in a much weaker commercial structure than that of those to whom they are both selling and buying services.
- E. Recognise the risk that climate is changing due to human induced global warming and encourage emphasis on research to deal with the consequences, on the basis that the world and Australia will be too slow in acting to contain the rise in temperature, and the consequential effects.

- F. Provide greater encouragement for agriculture to employ aboriginal workers who are normally lesser skilled and to motivate by compensating agricultural employers for the additional supervision time which lesser skilled employees require. In addition address the importance of regional towns by examining the transfer of responsibility for social quality from “silos” in state governments to local government authorities, whose local communities in which social dysfunction occurs, are each different; where the underlying reasons and knowledge of social dysfunction is better understood by it; and both recognise and utilise this governance structure which is already in place. The plan would conform to an individual community strategy of a generation time horizon, commencing as soon as possible after conception of the child. Finally, a carefully constructed government package under such a regional program as Western Australia’s R4R can attract new innovative businesses into regional towns – all contributing to the potential competitiveness of regional centres.
- G. Because Australia is essentially a primary producing country, particularly mining, review measures outside the scope of the Reserve Bank of Australia which can retard particular sectors of primary industry, when such a sector for example mining, is strengthening the \$A exchange rate at the expense of other export industries and import competing sectors.

Distinctiveness of Agriculture:

Agriculture needs to be considered differently to other industries. Firstly, it is almost the only industry directly affected by the weather and climate. Others are indirectly affected such as the barbeque and wood heater businesses of the original Barbeques Galore. Secondly, there is an absence of a level playing field in international agriculture, with Australian agriculture, and Western Agriculture specifically because of its export dominance, being disadvantaged against all other significant agriculture exporting countries due to their government subsidies. Thirdly, although there has been, and more recently a growing Australian and overseas corporate presence in agriculture mainly due to different expectations of food security , it is predominantly a small business industry, dominated by family controls which has been the secret to its sustainability over the decades. It is yet to be clear how sustainable corporate based firms are, unless real returns sustainably rise as a result of a marked change in the demand curve with accordingly higher real prices. Fourthly, agricultural production in the absence of an effective and competitive value chain has had its value seriously compromised. For example, the value chain for grain in Western Australia, with the exception of the blinded vision of government of the necessity of the Tier 3 rail system, is much more efficient than that in the eastern states, almost entirely due to the cooperative structure in place for storage and handling of grain. This would be significantly enhanced if sensible government policy was made in relation to the Tier 3 railway lines.

Most importantly, the fundamental industry supporting regional communities is that of agriculture. The addition of mining is the exception for a few regional communities. Agricultural policy cannot be considered without an awareness of the implications to the socio-economic fabric of regional Australia.

Measures for Consideration:

- A. **Agriculture’s Biggest Risk, and a Tool to Assist Financial Management - Climate Risk Mitigation Insurance:**

1. Climate is the biggest risk facing all agricultural businesses in Australia. Yet, apart from strategic decisions, there is no financial option available, with the exception of Letevo Limited, and some other small players, to manage this risk. Instead, the management of climate risk is left almost solely to the banking system through their credit policies. This is different to the iron ore industry where, to manage their exchange risk they can enter forward exchange contracts or options and all the other accompanying derivatives; or a copper or bullion producer can cover not only their exchange risk but also their price risk forward.
2. Banks have each expressed keen interest to colleagues and myself of mandating a substantial portion of their clients to use climate risk mitigation insurance. However, they are legally unable to do this unless there are at least 2 serious players in the market in Australia, and better with 3 or more. I am aware that at least one renowned insurer and reinsurer will not participate in Australia unless there are at least temporary measures which would encourage up to 40% of grain producers to take up the product. To achieve this in Western Australia, it might take up to \$15m of government expenditure each year for 3 years, a small amount compared to either government drought relief measures, or the costs of socio-economic and health stress which many agricultural businesses encounter.
3. The Minister's letter of 12th March to me concerning my email about this subject refers to "Feasibility of agricultural insurance products in Australia for weather related production risks" Oct 2012. If, as the Minister has noted that there are already a number of insurance products available, why aren't the banks pushing their clients to use these products? They aren't! Is there a continuing market failure? I have heard Ministers of other Australian governments make ill-informed statements in this area, and this is only because they are not abreast of developments, especially in the United States where the business has grown well outside that of the Government supported products. I commend the Minister to communicate with The Climate Corporation in the United States, then with Swiss Reinsurance in Zurich and Munich Reinsurance in Munich. United States technology in this area is frighteningly ahead of us. Australia's competitiveness is falling well behind. In Western Australia, it is even further behind where the Government resists appropriating expenditure into Dopplar Radar technology, instead insisting that stationary weather stations can do the task. They simply cannot do this and achieve the necessary competitive position for Australia – but speak to The Climate Corporation direct!
4. Any government drought measure such as those being offered now risk wasting government funds unless those receiving the government measure are required to transact an accompanying mandatory insurance cover to protect against further financial loss given the possibility of drought years re-occurring the following or subsequent years. I am aware that government historically has not considered dual measures of the kind I have outlined above. If we are to be competitive agriculturally, as well as competitive in extracting value from government funds invested in agriculture, then climate risk mitigation insurance requires investment by government to attract depth to the market, recognising Letevo's initial contribution, to give both product competitiveness and possibly phased government support of pricing until the product matures.

5. Bankers whose clients have their climate risk covered, at least to the extent of farmer costs of production, have a lesser lending risk. Accordingly, negotiations will need to be opened with the Australian Prudential Regulation Authority, as well as the banks, for them to consider the lesser risk and amend their guidelines regarding the margin that should accordingly be charged for the insurance covered risk.
6. Climate risk mitigation insurance has the capacity to be applied for the risk management of climate across any segment of the agricultural industry.

B. Trade Relationships:

1. Many countries with whom Australia, and through its states, transact internationally place much importance on government to government umbrella relationships. I agree that MOUs are worthless unless there is an ongoing relationship at Parliamentary level with counterparts in our trading partners. I request that the Federal Agricultural Minister map out a delegated plan allowing relevant State and Federal Parliamentary Members to assume responsibility for particular relationships appropriate to trade emphasis. The responsibility would particularly include attention to the most sensitive issues about the particular trade in each country, as well as identifying opportunities for trade growth. For example, live sheep, cattle and wheat is shipped from Western Australia to Indonesia and Middle East countries. Why shouldn't a Western Australian and Federal Parliamentary member, reporting to relevant Ministers, be delegated to visit these countries 3-4 times per year to be on top of issues in the relationship, rather than having the reactionary responses to some issues which have damaged the industry in these different countries on different occasions? MOUs might then have some meaning. Regardless of the MOU issue, trade is about relationships with relationships being well informed, for many countries, at both government and industry levels. There must be a new approach at the government level in Australia to nurture and strengthen these relationships.

C. Agricultural Value Chain Infrastructure:

1. Governments in Australia need to assume a much greater responsibility for infrastructure impacting on the effectiveness and productivity of agricultural industry. While government roles in the past may have dominated, (I recognise this applies mostly to state governments) the current approach is a mix of government and private investment in agricultural infrastructure. However, because of the introduction of private investment into infrastructure assets, it does not mean that government can wash its hands of its original involvement.

Western Australia's regional railway system servicing the south west agricultural sector is an example of the Western Australian government owning the asset, but abrogating any effective role to ensure that this asset is fit for the purpose of having loaded trains travelling in a manner which makes Western Australia competitive internationally in its timely delivery of grain to international destinations. Instead, there is a policy of standing away from the issue, with the default position being for significant parts of the grain industry to use trucks on roads, mostly inferior for bulk grain movement in spite of government funds being spent on roads, and have ships wait the extra time in the harbour to be inefficiently filled with grain. Trucks simply cannot move the quantity of grain as quickly as trains. Accordingly, queues of ships wait to gain entrance to the

loading terminal, where capacity is not a constraint. In Western Australia, the government has been complicit with the below rail lessee in rendering a large segment of the rail moribund, when there are other parties willing to utilise the asset for productive effort and making Western Australian grain industry more competitive.

2. New agricultural producing zones such as the Kimberley and Northern Territory will not operate effectively unless government seed capital is made to build the effective infrastructure necessary for delivery of product to markets. Government must see itself as part of the package, financially structuring arrangements so that government can get a return from its investment both prior to and as a result of selling down to the private sector – similar to the Telstra model.

D. Corporate Structuring of Infrastructure and Marketing for Agriculture:

1. Governments in Australia seem to have limited understanding of the law and application of cooperative structures which have highly relevant qualities to serve agriculture. The best success story, which sharply contrasts to the structures applied in the eastern states, is that of Western Australia's CBH Group. Comparisons of like with like between CBH Group's costs for storage and handling of grain demonstrate how superior the CBH Group is.
2. Cooperatives rarely fail in serious economic downturns, whereas corporate failures are common. Notwithstanding, cooperative law is deficient in not having a body undertaking an independent audit to insulate cooperatives from becoming inbred. This can easily occur where members of a cooperative each have an equal vote regardless of the size of the business which each member might undertake.
3. Cooperatives, in my view, is the best structure for giving the small business player in any segment of the agricultural sector the scale with which countervailing power becomes more balanced between the producer and the large commercial players taking their product. The cooperative structure can add materially to the commercial competitiveness of the agricultural producer, as the CBH Group has, and is still trying to do, for the grain industry.

E. Research Priorities:

1. Lift the priority of finding, and breeding plants that can meet different land use requirements and accommodate the unfolding climate change, in particular that resulting from global warming, at least so that Australian agriculture is not fully exposed to the risk of serious, man induced climatic change.

F. Practical Employment of Lesser Skilled Persons:

1. The CDEP program which prevailed for some years should have some form of this program re-introduced to encourage agricultural businesses to employ aboriginal people. We have made considerable effort employing aboriginals in our agricultural business, in preference to the backpackers. However, it generally requires significantly more time of the employer to supervise aboriginal workers, yet this intense supervision is the only way that aboriginals can learn skills and techniques. I request consideration of a simplified monetary compensation to these employers, on the basis that the outcome leads to genuine enhanced skills, and the prospect of new job prospects.

G. The \$A Exchange Rate:

1. Australia's exchange rate is determined primarily by the extent of primary industry exports, and secondarily by the extent of capital investment in Australia as result of the positives of

the Australian economy. Under the regulated system, this was determined by the amount of foreign exchange reserves held by the Reserve Bank. There is no similar measure under the deregulated system and when the \$A is strong, especially against the \$US, requests from exporters, the tourist industry and import competing industries are made of the Australian Government to weaken it. Unless there are institutional changes, there will be no change. However, other heavy exporting countries have measures which strongly protect their exchange rates. For example, Norway's sovereign fund, which has control over much of Norway's investment in its oil and gas reserves and consequent exports, insulates the Norwegian economy from a strengthening Kroner by ensuring that figuratively for every unit of foreign currency entering Norway from its investments, there is an investment out of the Kroner. The effect on the Kroner is neutral. New thinking needs to take place which slows the amount of non-resident flows from mining, and/or agriculture should there ever be a price boom so that earnings are more spread, thereby reducing the financial forces having the capacity to strengthen the \$A.

H. Regional Socio-economic Implications:

1. Agricultural policy cannot be considered in the absence of its socio-economic consequences in regional Australia and looking at the impact on people. Agriculture alone is unable to sustain regional towns at a level which can effectively provide the services and quality of life to regional social and business communities.
2. The Farm Management Deposit Scheme needs to be considered for application to regional town small businesses. Non-farm businesses are similarly impacted by the vagaries which apply to the agricultural industry which surrounds them.
3. Funding from government regional funding accounts such as Western Australia's R4R fund needs to be applied to projects such as the prospective Oakajee port in Western Australia's Mid West; the major regional science project, the Gravity Wave Observatory at Gingin in conjunction with overseas research bodies and funders; and the lifting to a productive level, the standard of the Tier3 rail network so that regional towns and centres are competitive with the service they provide to regional communities.
4. Finally, by revolutionising the delivery of generational social infrastructure to a bottoms up approach under the direction of local government authorities with a funder, provider, service delivery direction structure, the quality of regional communities and reduction of social dysfunction will both benefit agricultural communities and provide a much stronger, productive and focussed delivery of social expenditure.

I look forward to elucidating any of the points which I have made.

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