Agricultural Competitiveness White Paper Submission - IP223
Bruce Collins
Submitted 9 April 2014

# Submission to Agricultural Competitiveness White Paper

## Cost of Business

By international standards Australia has high off-farm costs and, in many cases, higher than its competitors.

The cost of slaughtering cattle in Australia, for example, is double that in the United States, costing around $300 per head here versus $150 per head in the USA. Higher labour, electricity, fuel and regulatory imposts all contribute to the higher cost of production. The differential is such that we are fast losing the opportunity to value add to agricultural produce and if the trend is not reversed, Australia could slip into the role of a supplier of raw agricultural produce.

As an example, VietNam is very keen to purchase Australian cattle, slaughter in that country and then export the beef to China. They are well aware that Australia's uncompetitive processing costs open a window of opportunity for them to do the value-adding.

What will be response to this issue in Australia? Will our public funded broadcaster, the ABC, band with Animals Australia, the Greens and AMIEU to manufacture welfare issues and whip up public opposition? Most likely, and the Minister for Communications may well look the other way. But the issue is that publicly funded bodies should be instructed to put their shoulders to the wheel for the common good rather than to erect road blocks.

Transport and shipping costs are also substantially greater in Australia than in the US and other competitor countries. This becomes a much more significant issue for agriculture because such a high percentage of all produce is exported.

The growing trend to have only a limited number of ports in Australia exporting any given commodity makes our transport and shipping costs even more critical in terms of maintaining international competitiveness.

**Interest rates** in Australia are traditionally higher than those experienced in many of our competitor nations. Why is this the case? Why does Australia's RBA seem to rely almost solely on interests rates to regulate the economy? With a floating currency and the capacity for funds to readily move between countries, our higher rates of interest tend to produce a higher A$, which in turn makes our export industries less competitive. This has a major impact across all major agricultural commodities produced in this country.

At the present time approximately 90% of all trades in the A$ are speculative rather than business related. Such a situation leaves agriculture, being so reliant on exports, in a very vulnerable position.

What is wrong with regulating Money Supply partly through the use of varying the level of **statutory deposits** that banks need to place with the RBA**?** It is then up to individual banks to set their interest rates and not just hide behind the RBA's settings. Government and

Treasury need to have a serious look at this issue and not just accept the comfortable status quo.

High interest rates also impact on manufacturing (as recently evidenced by a succession of business closures in Australia in that industry) and tourism, which struggles to attract significant numbers of international visitors.

## Taxation

Australia has had a long history of taxing business. In recent years company income tax rates have been brought down considerably, but that is not a major consideration for Agriculture as many family businesses operate as sole traders or **partnerships,** still subject **to high marginal rates** at the top end. Some businesses can become trapped in that business model because a transfer to an incorporated entity is subject to State taxes, such as **stamp duty** levied on the capital value of the business.

However, the insidious taxes are those such as the **fuel excise** levy which is effectively a tax on business at the rate of 38c per litre. Politicians and their advisors often cite the fact that other OECD countries (often small European countries) have similar fuel excise charges and, presumably, therefore, such a system in Australia is justified. With its large land mass and great distances between centres, Australia is a classic example of the type of country that should not have a fuel excise nor any other tax on transport. Fuel excise in the USA for example varies (because of differing state tax levels) from 7c to 16c per litre.

Another classic tax on business is the **carbon tax** that raises power costs and if it is not repealed will add significantly to the cost of transport across Australia when it becomes fully operational.

## Regulations

Regulations on agriculture through transport become a business cost. Efforts to make road travel safer can result in over regulation. National Road Transport regulations which have been trumpeted as reforms have become impediments. For example, we now have identical fatigue management requirements in areas with very high traffic volume as we have on remote highways; yet the nervous energy expended driving a heavy vehicle on the Hume or Bruce H'ways or on outer metropolitan arterials (with their extreme traffic densities) as compared to the Landsborough Highway Longreach/ Winton, which could have as few as 10 vehicles per hour.

The politicians and bureaucrats involved in this area seem to take for granted that in the case of an accident involving a heavy vehicle and a car the former is almost always at fault. However, according to the National Transport Insurance Company, in 80% of accidents involving a car and a truck the car is at fault. Therefore, the imposition of more and more regulation and associated penalties for transgression on the transport industry is unlikely to produce the desired results. Consequently, people involved in formulating these regulations need to get out of their existing paradigms and take a different approach.

## Environmental policy

Different policies in the name of protecting the environment have been introduced by both state and federal governments over the years. Some of these have had a debilitating impact on the cost of doing business and on our competitive advantage. From a national point of view **Renewable Energy Targets** have done little more than to raise power prices and cancel out the competitive advantage that Australia once held with the rest of the world.

For every Gw of wind or solar power generated an equivalent capacity of backup must be funded because both solar and wind are unreliable. Because it is commercially impractical to raise or lower, at short notice, output of a large base-load power station, many power generators just continue to over supply when renewables are making a contribution because they are compelled to purchase at high cost all renewable energy generated, but are unable to predict the inputs.

Power prices are crucial to irrigators and all processors of agricultural produce – meat, vegetables, fruit, etc. RET must go if Australian agriculture is to become competitive internationally.

## State Policies

Vegetation Management legislation, is a major impediment in much of the Qld pastoral zone to maintaining productivity and improving profitability. While these are state laws designed to preserve sustainability, they often actually threaten sustainability. Australian tree species for the past forty thousand years or more have evolved under a regime of regular fire. In the Pastoral zone, settlement over time has reduced the incidence of fire. The artesian bore/bore drain development 100 years ago had a major impact on native macropod populations. In their native environment, water and feed were the limiting factors on these population numbers.

With the reduction of fire in the landscape, fire susceptible species began to increase in numbers, such that grass species declined due to competition for water and overgrazing. Eventually, in many areas monocultures of Gidyea or Mulga, for example became established. There is very good evidence of this recorded in the diaries of explorers and early settlers.

That is still true today and the vegetation thickening and encroachment continues unabated in some areas because legislation driven by environmental blindness prevents these once productive grasslands from being rehabilitated in an economically viable manner.

## Farm Debt

Farm debt has increased steadily over time and more rapidly in northern Australia in recent years. This cannot be sheeted down directly to government policy, but good policy initiatives could assist in managing the problem. It could be argued that the financial problems facing many producers are largely of their own making and in some instances this is certainly the case, having borrowed too heavily in attempts to fund expansion and then suffered adverse market or seasonal conditions leading to default, penalty interest rates and a downward spiral.

The current high debt levels among northern Australian beef producers has, however, a large component of poor government policy involved. I refer in particular to the decision in 2012 by the previous government to suspend live cattle exports to Indonesia without adequate consultation with either the Indonesians or with the northern beef industry.

This decision resulted in a total dislocation in the trade which left many northern producers with high cattle numbers and a rising debt going into 2013, a year which delivered major rainfall deficiencies across the north before spreading south as the year progressed. An oversupply of cattle resulted in a collapse in cattle prices to compound the difficulties already being experienced by many northern producers.

**Farm management deposits** can be a very useful tool in managing debt by helping to take the peaks and troughs out of the income stream from one year to the next. However, the scheme is in need of a major review. The contribution limits need to be lifted substantially as they no longer have any relevance to the overhead costs associated with running a commercially focused, family operated, farming enterprise. Interest and redemption on loans, leasing payments on plant or land, shire rates, land rental (for leasehold land) all have to be met whether there is a drought or not.

In addition, education and family medical expenses continue and in remote and isolated areas these are both a far greater load on the family budget than in more closely settled areas where access to schools and medical services is only an hour away. Bear in mind that drought conditions often last more than one year and can sometimes persist in isolated pockets for several years at a time.

A family farming enterprise should be allowed higher levels of off-farm income as it is surely prudent to have some such diversification if a family is in a position to do so. It would be more appropriate to treat off-farm income as a barrier to accessing drought assistance or other emergency measures than to use it as a bar to the qualification for FMDs.

## Generational Renewal

A major challenge for Australia's agricultural sector is the issue of generational renewal and succession in farming families. There is a great deal of practical knowledge resident in farming families across this country and this is often lost to the industry when families face the reality that the next generation is unable to continue in the business because it cannot support more than one family and its financial strength does not allow the business to be passed on and at the same time allow the older generation to retire with a quality of life ahead of them.

Under such circumstances the practical knowledge is lost and some of the capacity for production is lost with it.

Some commentators and politicians like to portray the family farm as an endangered entity and even look forward to the day because they theorise that the commercial agribusiness, because of its scale, is a more efficient producer of agricultural commodities. Over the years many well financed and supposedly well managed commercial agribusinesses have sold up. Why did Clyde Agriculture and Prime Ag, for example, virtually disappear from the scene if corporate farming enterprises are superior to family-owned and operated ones?

Today's consumer clearly wants to be able to purchase a product about which they know as much as possible, including how it was produced. They want to be certain that is healthy and safe for their families to eat. They want a product and not a commodity.

The family farming unit, especially if it has sufficient mass, has proven over time to be a more active innovator and is generally more efficient in terms of productivity for most given inputs. The pioneers of Australia's feedlot industry, for example, were families, whose direction was later followed by the meat processing sector.

Family agribusinesses pioneered the production and marketing of organic beef. Families have also been very visible in supply chains such as MSA beef to Woolworths, organic produce generally, branded fruit and vegetables and often look to produce and market a product rather than a commodity.

Having said that, many family farming enterprises have been unable to grow and develop the critical mass to allow them to achieve the assurance of financial sustainability.

A possible solution is for government to actively encourage farming families to make provision for self-employed superannuation. This needs to be a long term strategy that is not subject to repeated tinkering by politicians or Treasury officials every time the budget gets tight. People must have confidence in such an initiative if they are to utilise it.

There will need to be incentives and suitable accessible advice for the principles of the business to make regular contributions to superannuation from an early stage. During times of drought or poor market conditions the family farm budget is often under pressure, so there will need to be very attractive incentives if such a scheme was to achieve its goals. This way the family farm could be passed on to those who have the drive and enthusiasm to continue in the business.

**Extension**

Agricultural extension was a service provided for many years by state departments of agriculture to producers in all facets of the industry. It helped to keep producers informed of the latest scientific and technical advances in their particular industry and made recommendations on implementing such information.

Over the last twenty or more years extension programmes emanating from the Queensland Department of Agriculture (and its various pseudonyms under different regimes) have contracted significantly. I have no firsthand knowledge of the situation in other states, but if Queensland is a reliable guide I believe that governments need to do some hard thinking.

Are governments partly responsible for the debt spiral that some producers have found themselves in today? Do producers today have access to the latest developments and technology related to their industries? Should financial counselling, drought funding and other financial assistance require the recipient to undertake stipulated short courses relevant to better financial management, more focused herd or crop management?

In the beef industry, MLA and to some extent Agforce (in Qld) have picked up some of that demand and provided very useful short courses on a range of topics, but Australia is a big place and more resources would be required to produce a more comprehensive geographic coverage.  If, for example, a two or three day short course is geographically accessible the timing may still be unsuitable for a number of would-be attendees. Therefore the frequency needs to be increased and the locations should spread to the smaller centres.

**<u>Summary</u>**

Governments need to ensure that the cost of doing business in Australia becomes competitive with the rest of the world.

Governments need to get macro-economic settings right and ensure labour rates are competitive with the rest of the world.

Governments need to ensure efficient transport and power generation and reticulation sectors.

Governments need to repeal unnecessary legislation that restricts efficiency in rural industry.

SB Collins B.Rur.Sc