

Friday 11th April 2014

Agricultural Competitiveness Issues Paper Submission from Australian Land Management Group

This submission is made on behalf of the Australian Land Management Group (ALMG)¹ by the Chief Executive Officer, Tony Gleeson².

ALMG is a not-for-profit organisation established by landholders in 2003 to improve environmental and animal welfare outcomes in ways that deliver benefits to land managers and the community more broadly (www.almg.org.au).

Recommendation-Multiple objectives

- 1. The White Paper should give balanced attention to the need for profitability, ecological sustainability and social resilience***

The Issues Paper leaves open the extent to which the White Paper will consider ecological sustainability.

To discount the importance of ecological sustainability would be to undervalue one of the most critical determinants of the competitiveness of the agricultural sector. Additionally it would be out of step with medium and longer term trends in community values and in the expectations of consumers in higher priced domestic and export markets.

The Issues Paper defines competitiveness as *the ability to efficiently use our nation's land, water, human and other resources to achieve sustainable improvement in the standard of living for all Australians and growth in profit for our businesses' and further it states that the White Paper 'will provide a platform for enhancing the contribution of agriculture to economic growth, employment creation and national prosperity, through increased innovation, productivity, investment and trade' and that the paper 'will outline directions for increasing farm profitability and strengthening our rural and regional communities'.*

None of these statements explicitly acknowledges the importance of protecting and enhancing the natural resource base.

¹ ALMG has designed and supports the adoption of the Certified Land Management (CLM) system (www.almg.org.au). CLM is a whole-of-property externally audited system enabling verification of improving environmental and animal welfare management. CLM has been designed for Australian land managers by Australian landholders assisted by specialists in ecology, agribusiness, marketing, public policy, software and behavioral science. CLM complies with internationally recognized environmental management standards and meets the requirements of the Australian Competition and Consumer Corporation (ACCC) for registration as a certification trade mark.

² Tony Gleeson played a key role in the development and management of the Certified Land Management (CLM) system with his earlier studies on motivation and creativity having a major influence on the design of the system. From the late 1960s Tony worked in the NSW Department of Agriculture, CSIRO, and the NSW Overseas Trade Authority and, in the 1980s, as Chief of Staff for the Australian Minister for Primary Industries and Energy. In 1990 he established a contract research business completing over 120 major agricultural and natural resource projects, including the land assessment paper for the 2006 Australian State of the Environment Report. He has owned grazing properties in Queensland and NSW since the mid 1970s. Tony is Adjunct Associate Professor, Faculty of Agriculture and Law, University of New England. He was an inaugural Director of the Rural Industries Research and Development Corporation, Board Member of the Queensland Abattoir Corporation, member of the Advisory Board to the Centre for Rural and Regional Innovation, University of Queensland and Coordinator of the Northern Australia Beef Research Program.

The need for balance across the economic and environmental domains is not one based on some ideological position. Rather it is an approach based on pragmatism.

There are several practical reasons why the White Paper should address the need for ecological sustainability, not the least of which are:

- Agriculture is responsible for substantial land degradation and loss of biodiversity
- The dependency of the agricultural sector on strongly functioning ecosystems
- The community broadly is concerned about the deteriorating state of rural landscapes, about the capacity of landholders and about the effectiveness of government policies to arrest further decline³
- Australia is well placed to differentiate its agricultural products on the basis of robust environmental credentials, and
- That there is significant market failure and hence need for government intervention to protect and improve ecological resilience.

The White Paper should fully and forensically critique the contention held by many agricultural and other political leaders that improving environmental management conflicts with improving profitability. In fact there is strong evidence that profitability and improving environmental management go hand in hand⁴. Additionally there are evolving marketing opportunities arising from growing environmental appreciation particularly in those demographics driving purchasing decisions in the higher priced discriminating markets that Australia needs to target⁵.

Recommendations-Government intervention and regulation

2. *The White Paper should state the principles guiding decisions on whether or not government intervention is necessary and on the choice of intervention/s.*

3. *The examination of regulations should begin with a consideration of the need or otherwise for intervention followed by a consideration of what are the best mixes of interventions to achieve the purpose for which an intervention is otherwise justified. A sound and practical regulatory framework, linked to complementary instruments, is a critical determinant of the competitiveness and ecological sustainability of the agricultural sector.*

In a mixed economy as is Australia's the principles guiding government intervention are well established. These are articulated generally in relation to market failure that is when the market alone might otherwise lead to sub-optimal outcomes.

It is generally accepted that intervention is warranted only when:

- The goods or services provided are wholly or partly public goods⁶

³ See for instance work by Dr Brad Witt, University of Queensland.

⁴ See for instance work by Dr Nancy Schellhorn, CSIRO.

⁵ See work by Mobium Group, Melbourne

⁶ Public good: A public good or service is one which when produced provides benefits that are non-excludable, that is one cannot stop a person obtaining those benefits, and are non-rival, that is the benefit to one person need not distract from another's benefit.

- Externalities prevent benefits and costs being effectively assigned
- The intervention is likely to lead to a better outcome

Whilst we agree these should be the dominant considerations there are additional considerations where, for instance:

- Application of the precautionary principle is important, including for reasons to do with loss of future options, for instance in relation to irreversible loss of land for agricultural production or in relation to an over allocation of land and water resources for a particular monocultural agricultural development
- Cultural factors (beliefs/values/aspirations), particularly when past interventions have led to understandings and/or expectations that do not align with those more broadly operating in the community, for instance reluctance to engage commercial advisory services because of the long-term free provision of publically funded services delivering private benefits
- The need to avoid commodification (pricing) subduing intrinsic motivation. In other words markets are potent but not the only drivers of behavior.

The White Paper will recommend in relation to a wide suite of issues. Consistency of objectives of intervention across issues is absolutely critical. For instance if as generally accepted Australia's competitive advantage in global markets, and particularly in Asia, is in the higher priced market sectors the involvement of government in building infrastructure in northern Australia and elsewhere should be such as to favour production of highly differentiated products rather than undifferentiated commodities whose use of limited resources might well constrain the production of more valuable products.

The selection of the preferred instrument/s should be influenced by the desirability of:

- Instruments being complementary, that is where the outcome is enhanced by using more than one instrument, for instance linking regulation with education and training.
- Instruments being used in varying combinations best suited to varying circumstances

The fiscal constraints on government intervention and the legitimate need to avoid unnecessary and/or ineffective regulation are well publicized. Additionally skill shortages and excessive work burdens in the public sector need to be considered for, unless rectified, these have substantial impacts on the effectiveness of interventions.

Innovation is critically affected by the application of the contestability and competitive neutrality provisions of competition policy and by government procurement policies and mechanisms.

Recommendation-Past performance

- 4. The White Paper should reflect insights derived from past productivity gains and increases in agricultural production and world trade***

Australian agriculture is facing a diverse set of opportunities and challenges.

Increasing demand for food and fibre, more sophisticated consumer requirements, changing demographics in the farm sector and exponential growth in technological capacity present exciting opportunities for innovation in agriculture, including in natural resource management policies and programs.

Challenges come from competition for resources, prolonged growth in the mining sector contributing to a high exchange rate, climate change, increased price-based competition in the retail sector, predictions of global food shortages and related concerns about food security.

The dominant response to this bundle of issues is a broadly based consensus that Australia should increase agricultural production. However experience over the past four decades or so should lead to a deep questioning of the adequacy of this response.

Over the past forty years or so Australian agricultural production and world agricultural trade increased about the same as that being predicted as being necessary for the next forty years. Additionally there were substantial on-farm productivity gains. Nevertheless there was only a minimal increase in the real gross value of production and falls in real farm income and environmental and social resilience.

The Issues Paper states that strong productivity growth⁷ is a key factor in improved farm gate returns. This is correct but our recent history also points to productivity growth of the like that we have experienced, essentially more production from the same inputs, is not sufficient to arrest declines in farm profitability and environmental and social resilience. We need a fundamental examination to identify the medium to long term desirable directions for productivity growth so as to identify, for instance, ways to reduce dependency on externally sourced energy.

In addition to on-farm productivity growth there is a need to improve productivity through product chains and to respond to the evolving needs of consumers in higher priced markets.

Recommendations-Inputs to the supply chain, production, market returns and profitability

- 5. *The White Paper should emphasize the need for improved profitability and ecological sustainability and it should avoid recommending interventions primarily for the purpose of increasing production***
- 6. *The White Paper should support innovation that aims to capture synergies between improving profitability and ecological sustainability***

There is an acute need and great potential for transformational innovation in Australian agricultural and natural resource management policies and programs. Many of the building blocks are available. However new mindsets and leadership are required to realise the potential gains in profitability and environmental and social resilience.

Demand and supply balances affect the distribution of profits along supply chains but improved prices and improved productivity are the primary drivers of sustained profitability. Past productivity gains have been substantial but not sufficient to sustain or improve profitability. We need efficient production, processing and marketing of highly differentiated products servicing consumers in higher priced markets.

For Australian products convenient access in domestic markets, food safety, value and consistent supply and are virtual givens with differentiation increasingly being based on personal and co-investment relationships and credence⁸ attributes including location, environmental sustainability and animal welfare.

⁷ See work by Dr John Mullen, Orange NSW.

⁸ Credence features: features of a product or service which are not evident in the product or service or from the consumption, use or receipt of same but which are of perceived value-for instance, the production system within which the product is produced.

Notwithstanding considerable past and current efforts by landholders and governments the need for innovation is acute given:

- Constrained profitability in the farm sector
- Continuing deterioration in the environmental and biodiversity status of rural landscapes
- Increasing pressure to expand food and fibre production
- Reducing public sector and private landholder fiscal and human capacities

This need for innovation⁹ is widely recognised as illustrated by:

- Statements from industry, community, academic and public sector leaders
- The increasing attention being paid by corporations within food and fibre product chains to anticipate and respond to community and consumer aspirations
- Efforts by industry organisations to defend existing practices, policies and programs

There is no shortage of public calls for increased agricultural production to feed a hungry world over the next forty years or so and there is a continuing focus on productivity. However there is less focus on how to improve profitability. This is somewhat ironic given that the primary driver of production must surely be profitability.

We need to better service customer requirements in existing and emerging high-end markets and we need to more effectively support improving natural resource management through ecological integrity payments and through related measures to improve on-farm productivity. One way to do this is to use public procurement of environmental outcomes in ways that help kick start market-based drivers such as could develop on the back of verified superior environmental and animal welfare outcomes.

(For more detail see <http://www.almg.org.au/resources/current-documents>).

Over the past forty years there have been major changes in the regulatory, organizational and program architecture affecting natural resource management (NRM)¹⁰.

As a whole these regulatory, organizational and program changes have developed and strengthened a Landcare culture, helped to protect native vegetation and biodiversity and strengthened local and regional foci.

However there have also been unintended adverse impacts.

Regulatory changes, by their nature and by the way they have been introduced, have often prompted push-back from landholders.

The wisdom of dramatic increases in dependency on project based funding is seemingly never questioned. Reviews of project based programs invariably recommend on measures to improve prioritisation, accountability and the monitoring of outcomes rather than on the efficacy of the project funding model. Incremental initiatives such as extending project duration from, for instance, one to three

⁹ Innovation is the process through which new and valuable ideas are put into practice leading to systems-wide adjustments. Innovation embraces organisational and managerial improvements as well as the introduction of new products and devices. Research and development contribute to innovation but not exclusively so with much innovation arising from experience, organisational learning, accident and intuition.

¹⁰ Natural resource management (NRM) is taken here to include environmental and biodiversity outcomes as well as, when appropriate, improvements in such as animal welfare.

years, are no solution to the structural deficiencies inherent in supporting long term landscape based continuous improvement in environmental management. They do not provide recognition and reward for superior management. They do not significantly reduce the ecological fragmentation which is a common consequence of project based funding. They do not encourage long term co-funding from the primary investor, the landholder. They do not significantly lessen the very great fiscal and motivational transactional costs inherent in project funding.

Alternative mechanisms for procuring environmental outcomes need to be investigated including, for instance, landholder payments for demonstrated outcomes. Some would argue that this has been adopted through various introductions of Market Based Instruments (MBIs), including for instance the Environmental Stewardship program. However because of poor design and excessive fragmentation major public investment in the design and implementation of MBIs has not led to the establishment of effective markets for environmental outcomes. At a minimum markets for environmental outcomes should be designed to enable multiple purchasers and sellers to enter the market, they should in so far as is possible avoid ecological fragmentation [sometimes referred to as 'bio-perversity'¹¹] and they should not be as spatially constrained as have been the Environmental Stewardship Program¹² and MBIs created by individual Catchment Management Authorities/NRM Boards. All these problems can be overcome and well designed MBI programs will be efficient in delivering multiple benefits to multiple players.

Progress to capture synergies between improved NRM and farm profitability is hampered by a continued reliance on institutional arrangements (organizations, policies, programs, markets) ill-suited to achieve that objective. For good reasons many influential organisations have open broadly based membership, for instance State wide organisations, or legislatively determined constituencies, for instance the Statutory Marketing /Research & Development Corporations. However these organisations span the broad spectrum of attitudes to sustainability hence constraining innovation that would lead to the necessary transformational innovations at the interface between NRM and improved profitability. We need to counter the false perception of conflict between profitability and sustainability¹³ which often has its genesis in a narrow 'lock it up' view of what is needed to improve ecological sustainability. Additionally, in relation to capturing some of the potential synergies between improved NRM and farm profitability, there is excessive fragmentation across charters, the agricultural industries and regionally¹⁴.

Many of these institutional obstacles can be overcome through public leadership and the provision of incentives targeted directly at landholders delivering superior outcomes. Public sector procurement of environmental outcomes through use of systems/pathways that deliver on-farm productivity and market recognition would enable the activation of existing market drivers and the evolution of others. Improved/easier access by landholders and landholder support programs to extensive biophysical data bases would substantially improve on-farm decision making.

¹¹ <https://researchers.anu.edu.au/publications/76058>

¹² <http://www.nrm.gov.au/projects/stewardship/index.html>. Our broad assessment of this publically funded program delivering conservation covenants for on average about 15 years is that taxpayers without additional costs could have actually purchased the land for less than half the cost of the program.

¹³ See Editorial Queensland Country Life. 20th March 2014 Page 11.

¹⁴ The establishment of the Local Land Service agencies in New South Wales in an interesting organization innovation in this space. This development if combined with integrating tools, access to NRM databases and nationally effective market mechanisms could have a transformational impact on how public support for improved NRM and profitability is delivered.

Recommendation-Food security

- 7. Australia's contribution to world food security will be best served by improving the profitability and ecological sustainability of Australian farming and by assisting to overcome lack of food security in other countries by improving food production and related activities in those countries.***

Global concern about food security is no reason for increasing food production in Australia unless such production is profitable and ecologically sustainable.

Recommendation-Drought

- 8. The inter-governmental arrangements for drought should be embedded in the Natural Disaster Relief Arrangements (NDRA) and the objective of Australia's drought policy should be restricted to protecting the environment, animal welfare and the wellbeing of rural communities, including that of farm families.***

However they might be defined drought, fire and flood are unavoidable features of our environment. There is no particular justification to exclude any one of these features from the financial Natural Disaster Relief Arrangements (NDRA) that operate between governments.

The critical decision is what interventions should be affected through NDRA for drought. Businesses should be encouraged and supported if necessary to manage the impacts of droughts, fires and flood along with the other risks that affect businesses. However interventions aimed at maintaining the commercial viability of individual businesses are not warranted before, during or after droughts.

We recognize that the trigger for drought declarations remains problematic.

Recommendation-Agricultural exports

- 9. The achievement of free trade agreements (FTAs) should be accompanied with an examination of and removal if possible of constraints on co-investment along product chains.***

Although this is beyond our area of expertise we submit measures are required to ensure capture of the potential benefits of multilateral and bilateral trade agreements. Work¹⁵ in the 1990s indicated that trade opportunities were being constrained by a lack of co-investment in product chains between Australia and trading partners. This observation is supported by my own limited experience in attempting to develop agribusiness links between Indonesia and Australia.

¹⁵ See for instance work by Heilbron, Larkin and Oxley.