

Shire of Campaspe

Submission to Agricultural Competitiveness

Issues Paper

April 2014



INTRODUCTION

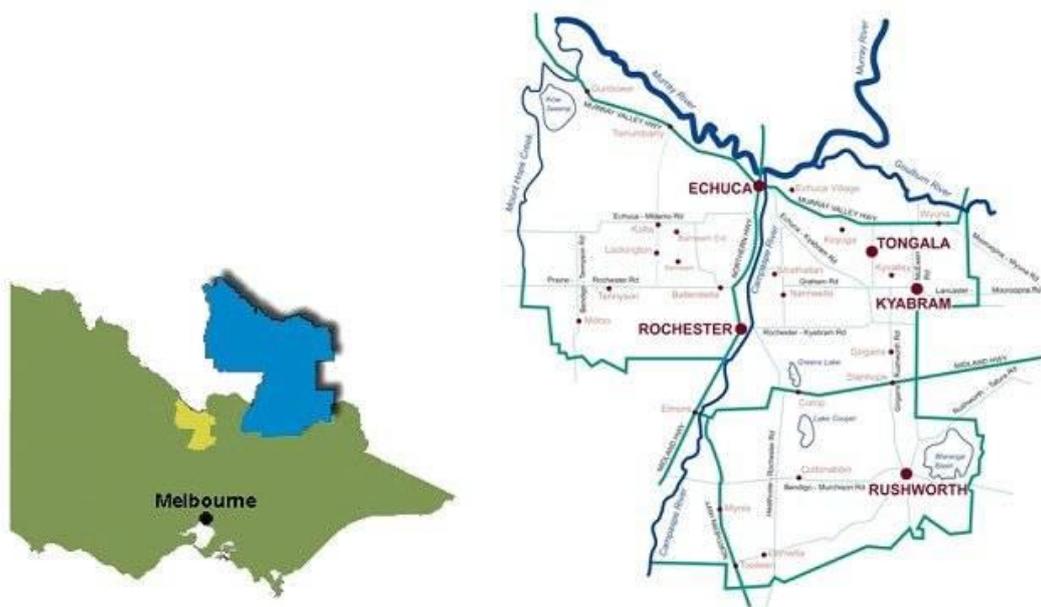
The Shire of Campaspe welcomes the review being undertaken by the Federal Government into issues affecting competitiveness within the agricultural sector. The Shire of Campaspe holds a particular interest in this issue, given the importance of agricultural production and processing to the local and regional economy.

Council has been an active participant in advocating on issues that affect the local agricultural industry. Council's focus in recent years has been the area of water reform in the Murray Darling Basin, given the deep-seated connection between local agricultural output and the availability of water for irrigation. Council has also more recently provided submissions to the *National Food Plan* (Sept 2012), the Victorian Government's *Parliamentary Inquiry into Local Economic Development Initiatives in Victoria* (Sept 2012) and the Productivity Commission's *Processed Tomato Safeguards Inquiry* (July 2013). Council has also assisted regional advocacy efforts to support the retention of SPC Ardmona and its suppliers in the Goulburn Valley.

This submission to the Agricultural Competitiveness Issues Paper will commence with an overview of the Shire of Campaspe and its key influences, and will continue on to provide a discussion on the key themes raised by the Issues Paper and issues of particular local importance.

Overview

The Shire of Campaspe is a large rural municipality located in northern Victoria, approximately 180 kilometres north of Melbourne with the Murray River forming its northern boundary. The Shire encompasses a total land area of approximately 4,200 square kilometres with generally flat terrain used for a variety of agricultural and rural pursuits, and contains a diverse environment including RAMSAR listed wetlands. It has a residential population of approximately 37,000, with the main towns being Echuca (approx. population 13,000), Kyabram (6,000), Rochester (3,000), Tongala (1,500) and Rushworth (1,000). Overall, the Shire continues to enjoy positive population growth, although growth is centred on the larger towns with some smaller towns and rural communities experiencing a level of population decline. One third of the population – approximately 12,000 people - live in non-urban areas.



The Agricultural Competitiveness review being undertaken by the Federal Government is of significant interest to Council and its agricultural businesses. Located in the heart of one of the richest and most diverse agriculture and food processing areas in Victoria, agricultural production and its associated processing and servicing industry remain the municipality's single largest area of economic output and source of local jobs. This diversity is seen through dryland grazing and cropping taking place in the west and south of the Shire complemented by irrigated farming in the north and east, with water sourced through the extensive Goulburn Murray Irrigation District (GMID).

Key agricultural industries include dairy farming, cereal and grain production and sheep, with continued growth observed in traditionally smaller-scale industries such as viticulture and – increasingly - tomato production.

Key municipal statistics illustrate an area immersed in the production of food and fibre. Some examples include:

- Gross value of agricultural production (GVAP) is approximately \$0.5 billion with agriculture providing 13% of all employment.
- A further 25% of economic output is attributable to a manufacturing sector principally associated with the processing of agricultural products and provision of agriculture-related services. This sector provides 15% of all employment.
- Dairy remains the single-greatest influence on the agricultural sector, with dairy production and processing accounting for 43% of all agricultural jobs and 10% of all jobs in the area.¹

Campaspe is host to a sizeable number of national and international food producers, including Murray Goulburn (Rochester), Nestle (Tongala), SPC Ardmona (Kyabram), Kagome (Echuca), Fonterra (Echuca and Stanhope) and Heinz (Echuca).

¹ Exploring the relationship between community resilience & irrigated agriculture in the Murray Darling Basin: Social and economic impacts of reduced irrigation water - Appendix 3 Campaspe Case Study (Judith Stubbs & Associates, 2010)

DISCUSSION

Consultation

While Council is in a position to comment broadly on many of the issues raised by the Issues Paper, it is also recognised that many of the topics covered are specific areas of interest to local producers and processors. Given the expertise and detailed sector knowledge available locally, Council conducted a round-table discussion in March 2014 to explore the Issues Paper and highlight those matters of particular local importance. The round-table discussion was attended by a select group of local growers and producers, processors, and peak-body representatives, and was of particular value to Council to affirm understanding of local opportunities and concerns around competitiveness within the sector.

Through these discussions a number of headline issues have become apparent, and these will substantively inform the discussion that follows. Council will also reflect upon previous submissions it has made to other inquiries along with other local information to guide the key points of concern in Campaspe and surrounding region.

Appendix 1 to this submission recasts these key issues as a snap-shot summary, along with supplementary issues, in the format of the nine themes of the Issues Paper so as to facilitate review and collation by the Taskforce.

Shire of Campaspe – key issues affecting competitiveness

The following headline issues are presented as discussion points, in no particular order of importance.

The need for a 'level playing field'

The lack of a 'level playing field' with international producers has been noted by stakeholders as a key issue affecting Australia's competitiveness. A number of particular examples have been highlighted:

- Labelling - Food labelling is a prime example of where opportunities exist to better promote local products to the domestic market. Existing labelling is perceived as confusing to the consumer, in particular with respect to 'country of origin' labels. For example, labelling laws that allow 'Made from local and/or imported ingredients' gives no certainty as to whether the product contains any local component at all. Council notes the recent announcement of a review of country of origin food labelling by the House of Representatives Agriculture and Industry Committee², and welcomes any reviews or modifications to existing laws that help to improve outcomes for local growers and producers. Council believes that many consumers have a desire to support Australian businesses – as evidenced by the public support recently given to SPC Ardmona – however are let down by confusing country of origin labelling.
- Inequity of standards - This concern also extends to the inconsistent application of standards. Council understands that existing laws often allow the importation of food products that do not comply with the standards to which local producers are exacted. The term 'organic' is one example cited, where imported products may retain their 'organic' labelling despite not complying with the Australian standard for organic. This gives the

² <http://www.weeklytimesnow.com.au/news/politics/federal-mps-set-to-examine-country-of-origin-food-labelling-laws/story-fnkerdda-1226867868713>

imported product an unfair advantage, potentially misleads the consumer, and impacts on the competitiveness of the Australian producer.

- Product dumping - Council has also previously participated in inquiries on ‘dumping’, which is a practice that can have considerable consequences on many local products such as stone fruits, citrus and tomatoes. In 2013, Council lodged a submission³ to the Productivity Commission’s *Processed Tomato Safeguard Inquiry*, observing that Council “believes that the prevalence of imported processed tomato products is one of the factors causing or threatening to cause serious injury to the domestic tomato growing and processing industry”, with some growers “choosing to plant alternative crops due to the uncertainty about the future of local processing facilities and exacerbated by unreasonable dominance of imported processed tomatoes”. Council has heard through its discussions with stakeholders that there is a low level of confidence in the capacity of authorities to properly enforce anti-dumping laws, whether through lack of resources, legal-recourse, or willingness. It is therefore of concern to Council that this perceived lack of rigour has direct impact on grower confidence to the extent that growers may pursue alternative crop production.
- High speed broadband – Council is a committed advocate of improved telecommunications infrastructure for this region, and seeks to draw attention to the impact of inadequate telecommunications for many local communities and businesses. With increasing computerisation, automation and data-intensive operations taking place in the agricultural sector, high speed broadband must be recognised as ‘essential’ telecommunications infrastructure for rural areas. The rollout of the National Broadband Network (NBN) in regional Australia must continue apace for rural business to remain competitive, in particular recognising that Australia already lags most other developed nations for speed and bandwidth.

Costs of inputs

There is a strong view amongst local stakeholders that costs of inputs have risen to the extent that they pose a major impediment to competitiveness. Key local examples cited include water, energy and wages (especially penalty rates), which will be further discussed below.

- Water - Access to a reliable and affordable water supply for irrigation is critical to agricultural production in northern Victoria. As identified earlier, Council has been particularly active in advocating on the Murray Darling Basin Plan and associated water reform initiatives to ensure a balanced outcome is achieved for local irrigators as well as the environment.

The unbundling of water from land that occurred in Victoria in 2007, has combined with drought conditions and water reform to create a high level of uncertainty for producers. In particular, costs have risen substantially for water users in connection with water storage, channel works and administration, on top of the variable price for water itself. While it is recognised that water management is in a state of refinement as knowledge expands, there is a common view that additional improvements could be made in the area of water trading between the environment and irrigators so as to allow certain forms of agricultural production to continue through dry periods.

³ <http://www.pc.gov.au/projects/inquiry/tomato-safeguards/submissions>

As an example, permanent plantings must be kept alive through dry periods without incurring unsustainable costs. Council has made specific submissions on these issues previously (eg. *Discussion Paper – Commonwealth Environmental Water Trading Arrangements* (April 2012)) and would be pleased to provide further information to the Taskforce if deemed valuable.

- Energy costs - Participants observed that sustained increases in energy costs were having an impact on competitiveness, with energy costs increasing well above CPI. Broad-access funding to implement energy efficiency initiatives is one approach that may assist competitiveness in the industry.
- Wages and penalties - Participants observed that the high costs associated with penalty rates for workers were becoming increasingly difficult to absorb, in particular in view of many agricultural activities (both producers and processors) operating outside of normal working hours by necessity. There was a common view that this needs to be re-examined, but also in the context of the industry needing to attract appropriately skilled workers.

Access to finance

- It is roundly acknowledged that agriculture is a very capital-intensive industry, for growers and processors alike. This is recognised as a stand-out barrier for new entrants to the industry, more-so than in previous generations when operations were significantly smaller and industries more protected. It was suggested that new entrants could be assisted into the sector through start-up loans (including low interest loans) or similar, and that this could be further explored by the Taskforce.
- Discussions with stakeholders suggested that lending institutions and products required greater flexibility to respond to the variability experienced by agriculture in Australia, especially climate. More adaptive finance models could be examined that take these conditions into account.
- Further to the above, it has been suggested to Council that the cost of borrowing in Australia is too high, with offshore capital cheaper in many cases.
- The role of superannuation funds was also raised as a point for further investigation, and in particular how to encourage investment by that industry. Council notes recent estimates that Australian super funds invest only .01% in agriculture, with overseas investors more likely to identify agriculture as an attractive, long term investment.⁴

Access to skilled labour

- Access to skilled labour can be a particular challenge for the sector, in particular given the competition for skilled labour from other major sectors (such as mining) and the need to keep costs associated with labour in check. Participants recounted administrative difficulties when seeking alternative labour, such as overseas workers on 457 visas, observing the process as protracted and resource-intensive.
- Increased emphasis and investment in regional skills development is vital for maintaining the competitiveness of the agriculture sector. The provision of local tertiary and apprenticeship-based education opportunities allows for

⁴<http://www.abc.net.au/news/2013-09-13/nswch-super-funds-ag-1109/4954162>

targeted skills development, supports growth through community value-adding, and strengthens education outcomes in regional Australia as a whole.

Research and development

- Research and development (R&D) was identified by participants as critical to improving competitiveness in the sector. This is set against a propensity amongst governments to curtail R&D funding when challenged by budgetary constraints. In this regard, a common-held regard for the value of R&D must be engendered within governments and across industry to encourage investment. This may require further consideration of incentives, such as a review of existing taxation laws as well as grant availability.
- It was also agreed that R&D needed to be better targeted, and that the benefits of R&D did not always flow through the sector. Council notes with interest the disparities between the top 25 per cent and bottom 25 per cent of farms as observed by the Issues Paper (p.11), and the opportunities that might be yielded through improved dissemination of information arising from R&D.
- An increased focus on R&D would also assist diversification within the market through realising new opportunities. Aside from encouraging new entrants into the sector, diversification of the agricultural base would leave the Australian market less vulnerable to global crises affecting single commodities. While particular economies of scale are required to ensure competitiveness on the world stage, Australia would also be prudent not to rely too heavily on a narrow range of commodities.

Value-adding and vertical integration

- Discussions with stakeholders revealed a concern that the Australian marketplace did not adequately support businesses, or indeed sectors, to vertically integrate production. It was observed by stakeholders that Australia was “good at producing the raw product, which we send overseas along with the energy supply” for processing and reproduction. Often Australia will later import the processed product with other countries benefitting from the added value.
- Considerable opportunity therefore exists in this space, and it is recommended that the Taskforce look into reasons that vertical integration is an apparent challenge to Australian business and what changes might be put into effect to encourage industry expansion and transformation.

Other regulatory impacts

- A number of examples of regulatory impacts have been provided through this report, however Council would like to draw attention to the particular issue of cross-border impacts. While competitiveness in Australia is affected generally by misalignment of state laws and regulations, this is particularly apparent to the Shire of Campaspe being located on a border with New South Wales. Further, the regional centre of Echuca Moama is intersected by the Murray River and cross-border issues are readily identifiable to local businesses. Participants in the

discussions with Council cited a number of examples of where this has impact, with transportation issues being particularly pronounced. This can result in:

- Multiple permits being required for products taken from one side of the river to the other, hence additional administrative and statutory costs;
- Transport vehicles having to make multiple trips due to disparities in freight regulations.

Cumulatively, these types of issues can impact considerably on the competitiveness of agricultural enterprises in this region, with greater standardisation undoubtedly able to assist other regions also. Council has welcomed the appointment of a Cross Border Commissioner in New South Wales to investigate such anomalies, however as yet there is no equivalent in Victoria.

CONCLUSION

Council affirms that the Issues Paper has broadly identified many of the issues that are relevant to this region in terms of competitiveness. Through conversations held with key stakeholders at the local level, Council's submission has sought to draw from the Issues Paper those matters that most impact the competitiveness of agricultural businesses in the Shire of Campaspe. It is clear to Council that much can be done at the Federal and State Government level to improve the capacity for producers, processors and related businesses to remain competitive with their international counterparts.

Council does not wish to make any particular suggestions as to policy modifications at this point, noting that many peak bodies and major industries will be separately making individual submissions and are better placed to be able to provide advice on specific legislative or regulatory impediments to competitiveness.

Council and industry in our region believe that the opportunities for agriculture in this region are considerable and jointly remain committed to agriculture underpinning the future regional economy.

The Shire of Campaspe wishes to convey its appreciation for the opportunity to provide its input to the Issues Paper, and looks forward to the release of the Green Paper shortly.

Recognising the broad scope of matters involved in this review, Council would additionally make the recommendation that an extended period for public consultation be given to the Green Paper as well as wider advertising and notice. Council encourages the Taskforce to undertake open discussion with the wider agricultural community on any recommendations of the Green Paper so as to ensure that the final recommendations have the general support of the sector and properly take into account the views of producers, processors, peak-bodies and related industries alike.

Could the Taskforce please direct any enquiries on this submission in the first instance to Daniel Strachan, Strategic Initiatives Manager at the Shire of Campaspe at d.strachan@campaspe.vic.gov.au or ph. 5481 2200.

APPENDIX 1

Summary issues re-presented under Issues Paper headings

The following summary provides a 'snapshot' of issues identified at the local level that impact on the competitiveness of the agricultural sector. This has been set out in the format of the headings within the Issues Paper, and includes supplementary issues not discussed in full in the main body of Council's submission.

1. Ensuring food security in Australia and globally

- As well being an opportunity, Australia has a 'moral obligation' to contribute to the global food task over the coming decades and is well placed to respond. However, the key inputs of water and cost overheads are critical to future success.
- Australia is at the forefront of innovations. It is important to recognise that the Australian farming sector has been able to compete globally, in the absence of direct subsidies, almost entirely through efficiency improvements and application of smart technologies.
- There is a great deal of opportunity to on-sell Australia's expertise and technology overseas - eg. Dryland farming and water technology are particular skill-sets of this region.

2. Farmer decisions for improving farm gate returns

- The development of appropriate business structures – in particular in relation to succession planning at the producer level – can sometimes be difficult to effect. Access to information and incentives for pursuing more competitive business models should be examined.
- Improved drought preparedness is imperative. In particular for this region is management of irrigation water by farmers and water authorities alike in ways that recognise seasonal variability. At the government level, this may extend to the adoption of water trading policies that interact favourably with agriculture – eg. water availability in dry seasons is particularly an issue for permanent plantings.

3. Enhancing access to finance

- Lending institutions and products need to be more flexible and responsive to the variability experienced by the sector.
- Australian lending institutions are sometimes too expensive compared to overseas capital.
- Further investigation is needed of ways to attract and assist new farmers through start-up loans.
- Need to examine ways of attracting investment by superannuation funds.

4. Increasing the competitiveness of the agricultural sector and its value chains

- Need to encourage vertically integrated business models that avoid the export of raw products for overseas refining or processing.
- Reinforcing local value chains through greater transparency in country-of-origin labelling.
- Stronger enforcement of anti-dumping laws needed – impacts on whole of value chain (producers through to processors).

5. Enhancing agriculture's contribution to regional communities

- Agriculture underpins the economy in many if not most regional communities. Needs to be whole-of-government refocus towards agriculture and recognition that without a stable and profitable agriculture centre, many small communities will cease to exist.
- Next generation of farmers will be attracted in two key ways: firstly a change in the common (negative) perception of farming, and secondly through creating an economic environment in which a reasonable living can be made.

6. Improving the competitiveness of inputs to the supply chain

- Water is a particular driver in this region – irrigation is critical to allow most forms of local agriculture to exist. It is essential that there is access to an affordable, reliable and administratively uncomplicated water supply.
- Energy costs are an ongoing impost on business, and costs have risen dramatically in recent years.
- Key transport routes must be supported by government with prioritised funding.
- Need to promote career pathways for the agriculture sector, with formal recognition of skills.
- R&D funding must be prioritised and actively incentivised by government. It is counterproductive to cut R&D when it is so critical to driving efficiency and competitiveness.

7. Reducing ineffective regulations

- Wage costs – 'flattening out' of wage structures is needed (eg. penalty rates.) Many agricultural industries must operate outside normal hours by necessity and should not be penalised for this.
- Statutory fees and charges are perceived as increasing well beyond CPI.
- Labelling laws need to be reviewed so as to give consumers greater transparency.
- Transport and logistics – access to rail and port facilities is identified as a barrier.
- Regulatory anomalies across state borders pose considerable constraints, in particular to border communities.

8. Enhancing agricultural exports

- Australian food has a clean and green image, which needs to be better marketed abroad.
- The sector in general needs a better understanding of the roles of state and federal agencies in facilitating international trade.
- The sector needs to acquire a better understanding of emerging markets and opportunities (eg. MINT economies).

9. Assessing the effectiveness of incentives for investment and job creation

- There are often difficulties in attracting skilled workers to particular industries.
- For SME's in particular, dealing with the administration of overseas workers can provide complex - eg. 457 Visas.
- Succession planning and attracting new generation of farmers is a common issue across the sector.
- New Zealand is seen as superior to Australia in terms of its general approach to and respect for the agricultural sector, as well as enticing international trade.
- Investing in re-tooling so as to remain competitive is often a cost barrier. Producers need assistance in terms of R&D as well as other financial incentives to diversify product.