

Agricultural Competitiveness Issues Submission

Note: This submission reflects the discussions held by a group of rural participants during the preparation of the Hume Regional Plan in Victoria in 2010. The brief was “Key initiatives for farming sustainability”

Theme

As markets for agricultural products become increasingly global and as the looming World food shortages progress there will be real opportunity for Australian producers to compete for a share of those markets.

But “competitive” it will be as Australian farmers compete with lower cost producers offshore.

Many production cost components, particularly labour and energy are unlikely to fall behind inflation.

One opportunity to reduce “unit cost of production” is to pursue the economies available through increased scale of farm operations (economy of scale).

Discussion

Many countries of the World have undernourished populations while others are becoming more affluent and seek better and wider choices of food. Populations are expected to continue to grow. All this suggest that, over time, there will be windows of opportunity for growth in sales for Australian farm produce.

However, all the farmers of the World will be competing for a share of those markets and most have cost structures where products can be produced more cheaply than in Australia.

Australian farmers have been highly innovative in adopting new technologies and techniques to remain successful in keeping unit costs down, but further significant opportunities are becoming hard to find. It is highly unlikely that labour and energy cost increases will fall behind the rate of inflation. Energy cost in particular as Australia grapples with its responsibilities in reducing carbon emissions in a high per capita energy use situation.

One efficiency mechanism has been to increase the size of farms to achieve “economy of scale” e.g. the grain industries of western Victoria and the dairy industry. Clearly, even the car manufacturing in Australia does not have the scale to remain internationally competitive and this situation is reflected across manufacturing generally. Farming is under similar pressures.

Conversely, farm units still have the possibility of growth efficiency gains through aggregation of land parcels. This process has been relatively straight forward in grain growing areas where a monoculture exists and there is little fragmentation of land ownership due to lifestyle mini farms. It is high impossible to acquire contiguous parcels of land in many “lifestyle intensive” localities to create more efficient production bases.

Rural land use planning continues to favour further subdivision resulting in land parcels that cannot be used for cost efficient agricultural production. Prime agricultural land is the preferred location for subdivision. When lots are offered for sale they are rarely contiguous and suited to broad acre farming.

Cases of this practice became very apparent in the wine industry of France and Germany where vineyards were passed down the generations by each of the children being granted equal shares of each of the farms' activities. This led to highly fragmented ownership of vineyards where it became difficult, if not impossible to implement mechanisation. For example, a row of grapes having two owners who supply different wineries could not, for practical reasons, get the cost benefits of mechanical harvesting.

In Australia, and particularly Victoria, some of the most suitable agricultural land is being removed from productive agricultural use and replaced by lifestyle farms development where agricultural pest and disease management is often lacking.

Continuation of farming at the current scale can only become less profitable over time resulting in reduced financial resources to maintain soil conditions, invest in maintenance and respond to sustainability issues.

Benefits of larger farming enterprises

Larger farming enterprises typically lend themselves to more commercial, business oriented management models. This includes the hiring of specialist advisors, better appreciation of marketing circumstances, better utilisation of capital resources and equipment and which are better able to attract capital investment when opportunity arises. Operational overheads are thus reduced on a unit cost of production basis.

These enterprises will be much better able to feed the World at less cost than any number of lifestyle farms.

Recommendation: "That large tracts of potentially highly productive land are identified and rural land use rules applied that result in aggregation of lots rather than continuing subdivision."

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