

SUBMISSION BY EMPIRICAL CAPITAL TO THE AGRICULTURAL COMPETITIVENESS ISSUES PAPER

To Mr Barnaby Joyce Minister for Agriculture
(via Agricultural.Competitiveness@pmc.gov.au)

Agricultural Competitiveness Taskforce
Department of the Prime Minister and Cabinet
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Submitted: Thursday, 17 April 2014

A handwritten signature in black ink, appearing to read 'Ian Joseph', written in a cursive style.

Ian Joseph –
Director - Empirical Capital Pty Ltd



1	Contents	
2	Introduction to Empirical Capital and Recent Activities and Highlights	2
2	Executive Summary	4
3	TOR – Initial “Online” response on 20 th Dec 2013 to Scoping Issues Identified	5
4	Further Responses to The Issues “Snapshot”	7
4.1	Issue One - Ensuring food security in Australia and globally	7
4.2	Issue Two - Farmer decisions for improving farm gate returns	7
4.3	Issue Three - Enhancing access to finance	8
4.4	Issue Four - Increasing the competitiveness of the agriculture sector and its value chains	8
4.5	Issue Five - Enhancing agriculture’s contribution to regional communities	8
4.6	Issue Six - Improving the competitiveness of inputs to the supply chain	9
4.7	Issue Seven - Reducing ineffective regulations	9
4.8	Issue Eight - Enhancing agricultural exports	9
4.9	Issue Nine - Assessing the effectiveness of incentives for investment and job creation	10
5	Conclusion	11
6	Contact Us	12





2 INTRODUCTION TO EMPIRICAL CAPITAL AND RECENT ACTIVITIES AND HIGHLIGHTS

Empirical Capital was born out of the need for agreed strategies to be actioned in a timely way following the launch of the Agribusiness Council of Australia. The launch, held in the “Main Committee Room” of Parliament House Canberra on the 20th March 2013 was attended by 19 countries from the G20 and APEC nations, our political leaders and 36 key influential industry segments. Primarily to hear about a proposal for the future and to discuss ways to build a sustainable national collaborative and coordinated approach and solution for the future of the Australian agribusiness industry and beyond.

There was an acknowledgement that if solutions were to be found, then the participation and contribution of farming, agricultural and agribusiness (both domestic and internationally) needed to become better organised and coordinated. Only then would all nations be able to benefit from the wonderful opportunities that the future would bring.

Recent Activities and highlights aimed at informing the issues, identifying industry concerns and then finding sustainable solutions for the farming, agricultural and agribusiness industries include:

- Invited speaker (2014) (at request of Director General), Food and Agriculture Organisation, launch of 2014 International Year of Family Farming (IYFF) Global Forum – BUDAPEST, HUNGARY
- Invited speaker (2014) Expo on Family Farming: *“Family farming and the three dimensions of sustainability – harmonizing the social, environmental and economic aspects”* and the *“Role of Science, Research, Innovation and Education”* in sustainability – BUDAPEST, HUNGARY
- Invited industry representative, National Agricultural Statistical Review Stakeholder Forum, Australian Bureau of Statistics and the Australian Bureau of Agricultural and Resource Economics and Sciences
- Keynote speaker (2013) (at the request of the High Commissioner of India), Regional Pravasi Bharatiya Divas Convention, Sydney Convention and Exhibition Centre: *“Bilateral Business Opportunities in Primary commodities - Australia’s experience in developing the agri-business sector”*
- Invited industry representative (at request of Chair of the Parliamentary Joint Committee on Corporations and Financial Services), *“Inquiry Into The Operation Of Australia’s Family Business Sector”*
- Invited speaker, Waite Research Institute, *“Every Australian child should be taught agriculture at school”*.
- Invited industry representative (at request of Chair of the Education, Employment and Workplace Relations References Committee), *“Inquiry into Higher education and skills training to support agriculture and agribusiness in Australia.”*



- Invited industry representative (at request of the Chair of the Education and Training Committee), *“Inquiry into Agricultural Education and Training in Victoria”*
- Invited industry representative (at request of the NSW Department of Education and Communities) on the industry roundtable *“Independent Review into Agricultural Education and Training in New South Wales”*.
- Invited as a keynote speaker to present at the 7th annual Skilling Australia and Workforce Participation Summit (NSW) on *“Graduate recruitment – overview of current graduate recruitments as an indicator of skills availability”* as well as a delegate to the roundtable panel discussion at the 2nd Regional Tertiary Education Conference (QLD) on *“Agricultural and Agribusiness skilling and the role of the regional tertiary sector”*
- Invited industry representative (at request of the former Minister of Agriculture) *“Agricultural Finance Forum”* by the Department of Agriculture
- Invited to establish and to be the inaugural Chair for the peak industry body the *“Agribusiness Council of Australia”* at an *“Agribusiness Leaders Convocation”*, Parliament House in my then capacity as Head of Strategy, Regional and Agribusiness Banking, Business and Private Banking at the Commonwealth Bank of Australia.





2 EXECUTIVE SUMMARY

In the “Agricultural Competitiveness Issues Paper”, competitiveness is defined 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. .

Whilst we are well positioned geographically, before we as a nation can compete, we must be sustainable. There is little benefit to compete in the short to medium term, if we as a nation are not here for “the long haul.” It achieves little if our agricultural industry is continually fighting to survive because the sustainable dimensions of agriculture have failed to be addressed.

To ensure Australia and Australian’s can compete in the years, decades and centuries to come we must first ensure that our farmers, our agricultural industries and agribusinesses are supported, so that the dimensions of sustainability are incorporated into all government policy decisions and industry objectives.

Whilst sustainability means different things to different people around the world, it can be generally accepted that there are three dimensions which will ensure a sustainable future - **harmonizing the social, environmental and economic aspects**. Government, industry and those farming families who produce the food we eat all do it to varying degrees of success. (For the purpose of this paper, agriculture also refers to farming and agribusiness)

The nine issues identified will require an industry wide approach with industry solutions, solutions wrapped in government support (recommendations regarding the TOR will be addressed in the body of this report)

The very fact that we are again having another enquiry, another paper, another request to provide ideas and solutions shows just how clearly past policies and actions have failed to future-proof this great nation to changing circumstances and worldwide issues.

I am convinced that what the people of Australia want (and need) is leadership. Leaders who have an aspirational vision of what the future could look like. Australian’s want partisanship and multi-faceted coordination and cooperation between government and industry, they want pragmatic solutions which transcend politics and the political cycle and finally they want leaders to work across regions, across states and across generations. Working together collaboratively to address the real issues today, tomorrow and into the future. Those issues are education, access to finance, industry attractiveness, diversity and sustainability. It is these issues that have, for generations, failed to be addressed. This means that unless we do they will continue to impact and affect our ability to be sustainable and therefore compete and grow.

Respectful solutions will require an intergenerational perspective, looking outside the traditional, the easy, the obvious and the most politically correct. Australia is a vast dry land, our first Australian’s have known this fact for 60,000 years and since settlement some 226 years ago we too have known.

Let us all finally, in this the 2014 International Year of Family Farming do something about it.

We are all well aware that “market failure” exists and that if we continue to do the things we have done in the past we will be left behind and we will not be able to take advantage of the wonderful opportunities that the future will bring not only in the Asia Pacific region, but around the world.



3 TOR – INITIAL “ONLINE” RESPONSE ON 20TH DEC 2013 TO SCOPING ISSUES IDENTIFIED

Issue 1: Ensuring food security in Australia and globally

- **Food security in Australia and the world through the creation of a stronger and more competitive agriculture sector will be achieved when there is an “holistic approach” to decisions and policy and must include all those agribusinesses who benefit from and contribute to farming and agricultural success**

Issue 2: Farmer decisions for improving farm gate returns

- **Means of improving market returns at the farm gate, including through better drought management; Drought management must have a national perspective whilst understanding all points on the demand and supply chain will ensure understanding of where and by whom the leakages are occurring which affect returns.**

Issue 3: Enhancing access to finance

- **Access to investment finance, farm debt levels and debt sustainability; A thorough understanding of all elements which make up the banking and finance equation must be known as a top priority only then can an individual analysis be done. The recently announced Government's financial services inquiry headed by David Murray should inform the solution.**

Issue 4: Increasing the competitiveness of the agriculture sector and its value chains

- **The competitiveness of the Australian agriculture sector and its relationship to food and fibre processing and related value chains, including achieving fair returns; Competitiveness domestically and internationally must be understood in terms of inputs and leakages.**

Issue 5: Enhancing agriculture’s contribution to regional communities

- **The contribution of agriculture to regional centres and communities, including ways to boost investment and jobs growth in the sector and associated regional areas; The impact of the past 30 years of steady decline in farmer numbers (down 106,000) must be known and understood at the a regional and community level across all businesses which benefit from and contribute to the agribusiness industry and Australia’s economic growth and wellbeing.**

Issue 6: Improving the competitiveness of inputs to the supply chain

- **The efficiency and competitiveness of inputs to the agriculture value chain — such as skills, training, education and human capital; research and development; and critical infrastructure; An immediate positive response to the 2012 federal inquiry into Higher education and skills training to support future demand in agriculture and agribusiness in Australia would focus attention on the right pragmatic things to do immediately.**



Issue 7: Reducing ineffective regulations

- **The effectiveness of regulations affecting the agriculture sector, including the extent to which regulations promote or retard competition, investment and private sector-led growth; The recent Australian Government Productivity Commission Red Tape Review provides an excellent starting point. There is no need to reinvent the wheel but to use the knowledge and resources we already have.**

Issue 8: Enhancing agricultural exports

- **Opportunities for enhancing agricultural exports and new market access; In partnership with governments and the WTO. 28% of Australia's total trade can be linked to the current seven FTA's, eight including Korea. With a further 45% of trade encompassed in the negotiations with another nine countries (five bilateral and four plurilateral FTA negotiations). There must be a mechanism put in place for government and industry to partner with initial as well as ongoing negotiations.**

Issue 9: Assessing the effectiveness of incentives for investment and job creation

- **The effectiveness and economic benefits of existing incentives for investment and jobs creation in the agriculture sector. Benefits will occur with a national planned solution rather than an ad hoc piecemeal approach.**





4 FURTHER RESPONSES TO THE ISSUES “SNAPSHOT”

4.1 Issue One - Ensuring food security in Australia and globally

- **Expanding agricultural production** - What opportunities exist to expand agricultural production in Australia and how can we take advantage of them?
- **Australia’s food security** - How can farm businesses, food manufacturers and the retail sector be more responsive to domestic and global food demand and better integrate into domestic and global supply chains?
- **The importance of trade** - Do farmers have access to timely, relevant and accurate information to fully inform production decisions to meet domestic and global food demands?
- **Challenges to global food production** - What opportunities exist for exporting Australian agricultural technology, marketing skills and expertise to improve global food security outcomes?

Food security (as well as food quality) is a global issue and one, if the Australian government and business adequately prepares for, will be in a position to participate in. Our proximity to markets is not sufficient to automatically grant us the “right” to be a participant in the Asian Century. We need to develop clear strategies to ensure we can compete.

4.2 Issue Two - Farmer decisions for improving farm gate returns

- **Learning from top performing farms**
- **Managing risks** - What alternative actions or measures by governments, farmers or others would result in improved financial performance at the farm gate?
- **Business structure and management** - What tools, skills and advice do farmers need to effectively adapt and respond to the risks they face?
- **Scale and diversity of production/Productivity Growth** - What are the drivers and constraints to farmers adopting alternative business structures, innovations or practices that will assist them in improving farm-gate returns?
- **Succession planning** - How can new farmers be attracted to agriculture and how can they succeed?
- **Marketing**
- **Drought, flood and fire management** - What approaches could be used to encourage improved drought preparedness?
- **Social and environmental pressures**
- **On-farm non-agricultural income** - During drought, what measures are most effective in supporting long term resilience?

“Cradle to Grave” education and setting up ways to share “best practice” needs to become part of the “way we do thing”. It is no long a solution to be part of the “lucky” country we have to be part of the “smart, educated and innovative” country. The current divisions within the industry, with over 4000 industry groups, has affected our ability to find timely solutions to compete. We must take the necessary steps, which address the consequences of industry fragmentation.





4.3 Issue Three - Enhancing access to finance

- **Business structures** - What alternative business structures could be developed for farming that also retain ownership with farm families?
- **Alternative financing models** - What would encourage uptake of new financing models?
- **Institutional and corporate investment/Debt** - What examples are there of innovative financing models that could be used across the industry?
- **Foreign investment** - How can foreign investment best contribute to the financing and productivity growth of Australian agriculture?
- **Access to finance** - How do we better attract private capital into farm investment?

Educating our farmers and agricultural businesses about how they are perceived by the providers of liquidity is just one way to address access to liquidity. There are many solutions which can be implemented which can provide “better” financial solutions.

4.4 Issue Four - Increasing the competitiveness of the agriculture sector and its value chains

- **Concentration in the supply chain/Supermarket power**- How might existing laws and regulations be changed to address any market power imbalances in the agricultural supply chain, without limiting prospects for global-scale firms developing in Australia?
- **Food processing competitiveness** - How can the agriculture sector improve its competitiveness relative to other sectors in the economy?
- **Farmers’ proportion of final sale returns**
- **Competition with other sectors/Competition with other countries** - Which examples of overseas approaches to improving agricultural competitiveness have relevance for Australia?

Externalities play an important role in determining Australia’s ability to compete. Monopoly/Duopoly/Oligopoly power exists and is being exercised. Agriculture needs to really understand their relative negotiating position as the suppliers of productive output.

4.5 Issue Five - Enhancing agriculture’s contribution to regional communities

- **Contribution of agriculture to regional communities** -
- **Changing population patterns** - What impact does the growth of populations in regional centres and the decline in more rural or remote townships have on farming businesses and the agriculture sector?
- **Indigenous community linkages** - How can the agriculture sector best contribute to growth in jobs and boost investment in regional communities, including indigenous communities?
- **Pressure on regional communities** - How do we attract the next generation of farmers?

A strong and vibrant regional and rural Australia will begin when we “rewrite the agricultural narrative” to give our farmers, their families and those in cities and in rural communities the capability and capacity to get on and stay on the land. Addressing issue three will go a long way to addressing this.



4.6 Issue Six - Improving the competitiveness of inputs to the supply chain

- **Skills, training, education and human capital** - What skills including specialised skills and training, will be required in the future and how can these be delivered and uptake encouraged and how can we promote career pathways for the agriculture sector, including models to enable younger farm workers to gain broader industry experience?
- **Research and development** - How can rural industries and governments better identify, prioritise and fund research, development and extension?
- **Infrastructure to assist development** - What irrigation, transport, storage and distribution infrastructure are required to support the food and fibre production systems of the future and how should this be funded?
- **Competition for workers** - How can we attract workers to agriculture – particularly in remote areas?
- **Agricultural and veterinary chemicals/Energy/Water resources/Land resources/Fertiliser** - How can land, water and other farm inputs be more effectively deployed to better drive agriculture sector productivity, while maintaining or enhancing the natural resource base?

Before we can compete in the medium to long term, we need to ensure all industries (especially agriculture) are sustainable. There are three key dimensions to building a sustainable economy, (the social, environmental and economic) as well as four core focuses to improving competitiveness and therefore sustainability: education, investment/liquidity, industry attractiveness and diversity.

4.7 Issue Seven - Reducing ineffective regulations

- **Efficiency and effectiveness of regulations, including environmental regulations** - How well do regulations affecting the industry meet their policy objectives and what opportunities are there to reduce ineffective or inefficient regulation?
- **Priorities for reform** - Which regulations are disproportionate to the risks they are supposed to address?
- **Efficacy of consumer laws** - How do we coordinate across governments to reduce regulations whose costs exceed their benefits?

A national (non-political) approach (across election cycles) will provide a national solution. To build sustainability into our future we do need structure and regulations, especially when it comes to the protection of our bio security, but both red and green tape need to have the national interest at heart and be “enhancers” and not “handbrakes” to national sustainability and competitiveness. The first step should be a “regulations” audit.

4.8 Issue Eight - Enhancing agricultural exports

- **Market access and returns** - How can industries and government respond to the key challenges and opportunities to increase or enhance exports?
- **Role of the biosecurity system** -
- **Trade negotiations** - How can engagement between industry and government on market access priorities for Australian agricultural products be improved, including information on FTA negotiations ?





- **Competition from imports** - *What changes could be made to biosecurity arrangements, both in Australia and in other countries, to enhance global trade in agricultural products?*
- **Market information** - How do we provide the appropriate biosecurity controls at minimum cost?

The world's governments and economies are well aware of the importance of food quality and food security. Australia is ideally placed in our region to take advantage of the increasing demand for our goods and services. The recent trade delegation shows the world just how important trade is to Australia's agricultural future.

4.9 Issue Nine - Assessing the effectiveness of incentives for investment and job creation

- **Government programmes** - How well is the current set of government programmes and incentives directed at the agriculture sector meeting their objectives, in terms of both effectiveness and efficiency?
- **Labour Market Programmes** - Are government visa arrangements and programmes like relocation assistance, the Seasonal Worker Programme and Harvest Labour Services effective at channelling workers into the agriculture sector and what other approaches should be considered?
- **Tax concessions** - What has Australia done in the past that has had best effect?

To compete in a sustainable way there must be mechanisms in place to address the seasonal variability aspects of the agricultural industry (in the short term and just over the horizon) as well as concurrently addressing the longer term factors which if tackled, will future-proof Australia. There are some initiatives, which currently address the seasonal issues, and both industry and government can and must find more sustainable solutions.



5 CONCLUSION

When all is stripped and laid bare, the wider agribusiness industry (of which family businesses account for the vast majority) means that anything other than full government and industry leadership support is fraught with danger. Our Agricultural industries contribute to local and global food security far in excess of their relative size and must not be underestimated. Their ability to compete on the world stage, despite our lack of an industry vision, has been nothing short of spectacular. Future competitiveness (and therefore sustainability) will be directly related to how the social, environmental and economic dimensions are addressed from a policy perspective by all levels of government as well as from industry.

In this the 2014 International Year of Family Farming, it is timely that Agriculture is being given the highest priority. It is the world's largest industry (with more than 600 million family farms globally) and many more businesses indirectly supporting them and their productive capacity. So whilst the make-up of agriculture in Australia consists of a wide variety of individuals, industries and organisational types, if quantified correctly then agriculture would not be just the 135,000 farm businesses (as defined by ABS/ABARES) but would include agribusiness as well because those individuals and businesses exist to contribute to and benefit from a robust and sustainable agricultural sector.

Even the "Issues Paper" fails to fully quantify the absolute size and importance of all elements that make up the industry. Conservative estimates on the size of the wider agricultural industry put its influence and contribution to Australia's GDP and competitiveness at close to a third of the economy. (GDP is edging towards \$1.7Tr) If this is extrapolated out, then ABS "active or trading business numbers" of 2.1M tell us that a great proportion of these businesses exist to contribute directly and indirectly to agriculture. This then affects our national growth, personal wealth and most importantly the very fabric of our community, our culture and our society. Every dollar generated on Australian farms generates a further \$5 of activity in the community and the economy. Australian agribusinesses have 1.3 million people working in various capacities. Out of a total of 11½ million people employed in Australia, that represents 11 per cent—and don't they deserve industry and government support? The ABS tells us also that there are over 100,000 less farm businesses today than there were 30 years ago. This means 10 less farmers (and their families) each week for the past 30 years. So, to build a vibrant regional and rural Australia this needs to be addressed.

Structural reform has been taking place over an extended period of time. We are also aware of the social, environmental and economic impacts to the businesses which exist to support agriculture in regional and rural Australia.

What we now is a focus on building "sustainability" into all policy decisions. Australia needs a national vision, a different approach and a dynamic strategic plan and solution for agriculture. Governments can and do support agriculture in times of seasonal extremes of drought, flood fire as well as through the good years through the taxation system (Farm Management Deposits – FMD's) but there is more that needs to be done.

The solution to our transitioning economy will be found when government policy and business objectives work hand in hand to reduce impediments to our competitiveness domestically as well as internationally, when our society does not underestimate the value of agriculture to our economic well being through the entire demand and supply chain and when all elements begin to work cooperatively and collaboratively to find sustainable solutions for a sustainable future, for all Australians.



6 CONTACT US



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