COTTON AUSTRALIA
Advancing Australian Cotton

Agricultural Competitiveness Taskforce
Department of the Prime Minister and Cabinet
PO Box 6500
Canberra ACT 2600
By email: agricultural.competitiveness@pmc.gov.au

17 April 2014

Dear Agricultural Competitiveness Taskforce

Cotton Australia welcomes the opportunity to comment on the Agricultural Competiveness Issues Paper. Cotton Australia is the key representative body for Australia's cotton growing industry. The cotton industry is an integral part of the Australian economy, worth over $2 billion in export earnings. The industry is made up of approximately 1 200 cotton farms and employs over 10 000 people.

The industry's vision is: Australian cotton, carefully grown, naturally world's best. Cotton Australia works with industry to achieve this vision by providing a policy and advocacy role, research direction, stewardship and building our farmer's capacity in their own communities. We are proud of our efforts to ensure an efficient and sustainable cotton industry. Our 'myBMP' is a voluntary farm and environmental management system which provides self-assessment mechanisms, practical tools and auditing processes to ensure that Australian cotton is produced with in line with best practice.

We have limited our comments to the areas of the Issues Paper that are of most relevance to our growers:

- Increasing the competiveness of agricultural sector and its value chains
- Improving the competiveness of agricultural inputs to the supply chain
- Enhancing agriculture's contribution to regional communities (including workforce development)
- Enhancing agricultural exports
- Improving farm gate returns
- Reducing ineffective regulations

In addition to our submission, Cotton Australia supports the submissions to this process made by the Cotton Research and Development Corporation (CRDC), the National Farmers' Federation (NFF), NSW Irrigators' Council and the Queensland Farmers' Federation (QFF).

Increasing the competitiveness of the agricultural sector and its value chains

Agricultural and rural research and development funding

Research by the CRDC is critical to the success of the Australian cotton industry. As a result of CRDC's research, development and extension the industry has made significant improvements in efficiency, sustainability and profitability. In the past 10 to 15 years the Australian cotton industry has:

- improved water use efficiency by 40%
- decreased pesticide use by 95%
- delivered the highest yielding cotton crop in the world.

Cotton Australia is increasingly concerned about the unwinding of research infrastructure in state based organizations. There is some evidence that recent State funding cuts to the NSW Department of Primary Industry (300 staff) and Queensland's Department of Agriculture (450 staff) have had a detrimental impact on the ability of researchers to access laboratories and equipment.

Recommendation: The Government should consider:

i. retaining its commitment to jointly funding agricultural and rural research and development and extension under the *Primary Industries and Energy Research and Development Act 1989*
ii. enhancing taxation policy settings to encourage private and philanthropic investment in research and development
iii. options for the $100 million in agricultural research and development election promise that encourage collaboration between the Research and Development Corporations on priority areas such as soil health and water
iv. seeking agreement through COAG to ensure agricultural research, development and extension infrastructure continues to be resourced.

Improving the competiveness of inputs to the supply chain

Input price rises: electricity, water and biotechnology

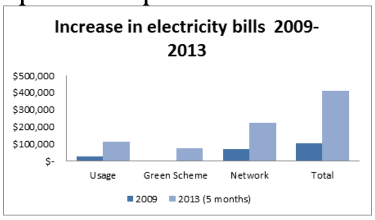
Like most Australian agricultural products, the price of cotton is set by global trade. As such, cotton growers are price takers and rising input costs lower the returns to the farm gate.

Last year, 95% of the Australian crop was irrigated cotton, which means the input costs of most concern to our growers are electricity (price) and water (price and availability).

COTTON AUSTRALIA LIMITED – A.B.N 24 054 122 879
HEAD OFFICE: SUITE 4.01, 247 COWARD ST, MASCOT NSW 2020 P (02) 9669 5222 F (02) 9669 5511
TOOWOOMBA OFFICE: 115 CAMPBELL ST, TOOWOOMBA QLD 4350
NARRABRI OFFICE: LEVEL 2, 2 LLOYD ST, NARRABRI NSW 2390
www.cottonaustralia.com.au

Electricity

Irrigators have faced electricity bill price rises of up to 300% since 2009 and we are very concerned about the impact of increasing electricity prices on farm profitability. In order to achieve water savings many cotton growers have changed their irrigation methods and installed drip and lateral movement systems. These systems are more energy intensive, which when coupled with relatively inelastic demand for electricity (because of the needs of the crop, or to comply with water licence conditions on timing of extractions) means that cotton farmers are highly exposed to price rises.



The recent electricity price rises are largely due to increases in network costs, which comprise 55–65% of a cotton grower's electricity bill (over $100,000 per year). The network charge is so significant that some growers have placed locks over their irrigation pump switches to prevent accidental usage. The network tariffs that are currently available do not suit farm businesses. Tariffs must be designed to provide flexibility (peak versus non-peak and shoulder charges) and offer a reduction in the network demand charge.

Recommendation: The Government should consider:

i. introducing an energy efficiency education campaign targeted at the agricultural sector, including rebates for on farm energy efficiency audits, upgrades to equipment and online farm energy use calculators
ii. working through the Standing Council on Energy and Resources to introduce 'food and fibre tariffs' to address the specific electricity needs and requirements of the agricultural sector
iii. encouraging energy networks to research and deploy demand management tools, including tablet and smart phone applications that provide up to date electricity usage and cost information that will help growers manage their electricity demand.

Water

In addition to the rising price of electricity for irrigated cotton, the cost of water has also risen in recent years. While we acknowledge that bulk water charges are state issue, we understand that most of the costs embedded in an irrigator's bulk water bill reflect charges from the Murray Darling Basin Authority (MDBA).

Water availability has a direct impact on agricultural production. At the peak of the most recent drought, the water inflow to the Murray Darling Basin was 6 740 GL (2006), the following year the amount of cotton produced was the lowest in over 30 years (601, 840 bales). Access to additional water infrastructure such as dams and irrigation schemes would assist growers to manage through low rainfall years.

Recommendation: The Government should consider:

i. reviewing the MDBA's efficiency to ensure the efficient cost of operations flow through to bulk water charges
ii. releasing a discussion paper on the 'detailed planning' being undertaken by the Dams and Water Taskforce on dam capacity across Australia.

Biotechnology pricing

Over 98% of Australian cotton is grown using Office of the Gene Technology Regulator (OGTR) and Australian Pesticides and Veterinary Medicines Authority (APVMA) approved and licenced genetically modified crops. The use of these crops has reduced pesticide use by around 95% over that last 15 years. We are very concerned that Australian cotton growers face higher prices for biotechnology than our global competitors because of the concentrated and monopolistic-like nature of the Australian biotechnology market. Cotton growers in the USA are already heavily supported by their Government (up to $US820 million in the past decade), in addition to having access to cheaper input prices.

Recommendation: The Government should consider asking the Productivity Commission to conduct a review of the cost drivers of agricultural inputs, particularly biotechnology and machinery.

Coal seam gas and coal mining operations

The coal seam gas (CSG) industry is rapidly expanding and its operations overlap with cotton production in many areas of Central and Southern Queensland, the Riverina and north-western regions of NSW. Cotton Australia, NSW Farmers and NSWIC recently signed an agreement to secure landholder rights with gas companies AGL and Santos. Under the agreement, AGL and Santos must respect a NSW landholder's right to say 'yes' or 'no' to conduct CSG drilling operations on their land. The companies have agreed not to take farmers to court in order to gain access to properties.

We are proud of this agreement, nevertheless we are concerned about the impact on the water resources and production cycles from mining and gas extraction activities.

The production of cotton relies on access to water, and we are particularly concerned that not enough effort has been made to understand the impacts of CSG and mining operations on water balance and quality of both ground and surface water.

Recommendation: The Government should consider:

i. establishing a federal repository of environmental, health and safety monitoring data for mining and gas projects be established
ii. ensuring that the impacts of CSG and large mining proposals are systematically assessed at the national level, by retaining environmental approval of CSG projects under the federal *Environment Protection and Biodiversity Conservation Act 1999* 'water trigger'
iii. working through COAG to promote a nationally consistent framework that supports coexistence, while including safeguards that will protect the productive value of agricultural land
iv. options to use a proportion of gas extracted in regional areas for those regions, including power and the use of gas as an input to fertilizer manufacture.

Enhancing agriculture's contribution to regional communities

Attracting and retaining a skilled agricultural workforce

The cotton industry employs around 10 000 people, or eight to ten people per farm. The highly mechanized nature of a cotton farm means that workers are required to be semi-skilled or skilled in order to operate cotton pickers, GPS and irrigation systems. However, securing reliable access to quality, skilled and semi-skilled labour has often proved difficult for the agricultural sector. Competition from the resources sector (where wages are typically higher) is one source of the labour supply problem, but other issues are more readily addressed by government.

In the cotton industry there are labour shortages ranging between 10 and 50% across the seven production valleys in NSW and Queensland. Many cotton growers employ workarounds (that is, temporary solutions) such as working longer hours (often six to seven days per week for seven months of the year), or employing relatively lower skilled or backpacker labour.

There is currently no pathway for promising, but unqualified backpacker workers on 417 visas to transition to a 457 visa. Without an agriculture-related degree, backpackers on a 417 do not meet the requirements to be sponsored by a farm employer. This is despite these backpackers holding engineering, project management, electrical and business qualifications. Further, the skilled occupation list and consolidated skilled occupation list exclude key agricultural occupations, such as farm overseer or farm manager. In 2012–13, only 2% of 457 visas granted were granted to the agricultural sector.

Encouraging the next generation of agricultural workers is vital to the sustainability of regional Australia. Cotton Australia believes this starts in the classroom and we dedicate significant resources to educating primary, secondary and tertiary students on the cotton industry. We offer scholarships, education resources and actively participate in school-based initiatives such as MooBaa Munch and Art4Agriculture (the ArchiBull Prize). Improving community awareness and knowledge of the career opportunities available in agriculture, as well as developing the education pathways are fundamental to encourage and support a career choice in agriculture. Likewise ensuring social infrastructure, such as education and health services, is appropriately resourced in regional Australia will help attract and retain new workers to the agriculture sector.

Initiatives such as the National Workforce Development Fund (NWDF) have enabled the up-skilling of the existing agricultural workforce. Funded through the NWDF, the Cotton Industry Skills Development program will provide Certificate III to Diploma level training for over 60 cotton industry workers in Narrabri, Goondiwindi and the Riverina. State-based training initiatives, such as Smart and Skilled NSW, likewise provide supported training for agricultural employees. We would encourage national and state governments to work collaboratively to leverage workforce development funding and avoid duplication and overlap within programs. We would also encourage governments to work with the agricultural sector and Registered Training Organisations (RTOs) to develop and deliver training programs that are tailored to suit the sector and delivered to suit business needs.

Recommendation: The Government should consider:

i. providing pathways for agricultural employees on 417 visas to transition to 457 visas, including expanding the skilled occupation and consolidated skilled occupation lists for 457 visas to include more agricultural occupations
ii. expanding the Seasonal Worker Program to the broader agricultural sector (including cotton gins)
iii. encouraging people from outside regional areas to take up a career in agriculture, especially young Australians and the Indigenous community
iv. options for collecting accurate data on labour and skills shortages in agricultural sector (by industry)
v. working through COAG to coordinate workforce training campaigns and funding.

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Enhancing agricultural exports

'Cotton to Market' strategy and the China Free Trade Agreement

China is Australia's most important cotton trading partner. Almost 99% of raw Australian cotton is exported, of which approximately 70% is exported to China (which represents approximately 15% of Chinese imports). As such, the China Free Trade Agreement (FTA) is crucially important to the long term sustainability of our industry. Cotton exports to China face a range of quotas and tariffs, the highest being 40%. Cotton Australia is keen to work with Government to facilitate better trade arrangements for Australian cotton into China.

We are proud of the Australian cotton industry's recent efforts to significantly improve our environmental stewardship and we have recently embarked on our 'Cotton to Market' strategy. 'Cotton to Market' tells the Australian cotton story: responsibly and sustainably produced, high quality cotton from the farm to the port. The strategy comprises our involvement in Cotton LEADS, the Better Cotton Initiative (BCI) as well as a proposed trade mission to China in late 2014. Both Cotton LEADS and BCI provide manufacturers, brands and retailers a reliable cotton supply chain and confidence that their raw material is responsibly produced and identified.

Recommendation: The Government should consider:

i. ensuring the China FTA negotiating team continues to be appropriately resourced despite the current fiscal environment
ii. ensuring the cotton industry is represented in negotiations to facilitate an improvement to the current quota and tariff structure (of up to 40%) on Australian cotton imported into China
iii. supporting the Cotton Australia: China trade mission grant application under the Australia-China Agricultural Cooperation Agreement to:
    a) promote high quality sustainably produced Australian cotton to the Chinese market
    b) share our skills and expertise in sustainable cotton production techniques with Chinese cotton producers
iv. supporting the NFF's recommendation to promote Team Australia Agriculture.

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Infrastructure: freight

Almost 99% of Australian cotton is exported via the ports in Brisbane (44%), Sydney (34%) and Melbourne (22%). Cotton is the number one containerized commodity leaving both the Port of Brisbane and Port Botany (Sydney). Getting the cotton to port via rail and road is becoming increasingly difficult for growers. Investment in infrastructure is required to alleviate the transport bottlenecks which occur across every commodity, in every region and every mode of agricultural freight (road, rail and port).

Recommendation: The Government should consider:

i. fast tracking the election commitment to prepare an agricultural infrastructure audit, in particular:
   a) investigate the reliability of rail freight to agricultural centres, such as Griffith, Narrabri, Goondiwindi, Dalby and Toowoomba

ii. options for accelerating the WestConnex, Northconnex and the intermodal freight hub developments in Sydney.

Infrastructure: remote energy supply

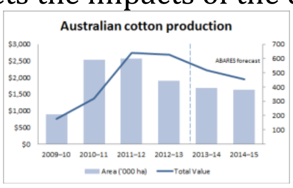
Lack of access to reliable energy sources in regional remote Australia can dampen investment. Yet supplying grid electricity to regional and remote towns can be inefficient and expensive. These regions can be readily supplied with renewable energy, particularly solar and wind which while having large land-mass footprints, have little impact on the productive capacity of farms.

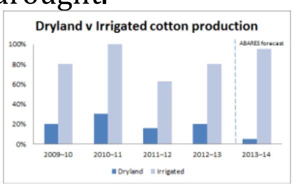
Recommendation: The Government should consider preparing demand and transmission line modelling of the regional National Electricity Market (NEM) network that considers options for investing in renewables, rather than grid supplied electricity.

Improving farm gate returns

Drought preparedness and access to farm specific financial advice

Cotton growers are feeling the effects of the drought. We expect total cotton production to fall by around 12% from last year (4.4 million bales and 425 786 hectares in 2012–13 down to 3.8 million bales to 392 000 hectares in 2013–14 (ABARES projection)). The proportion of our dryland production has fallen from 20% to 5% in the last year and while this partially reflects increases in sorghum prices, it also reflects the impacts of the drought.





Source: ABARES, Crop Forecast, February 2014.

We support the use of income assistance to assist farmers with preparedness and planning and welcome proposed changes to the Farm Deposits Management Scheme (FMDS) to increase the non-farm income threshold to $100 000 and permit consolidation of existing accounts.

We are concerned about the impact of taxes on agricultural insurance products. Stamp duty taxes, while a state tax, act as a disincentive for growers to prepare for hard times by investing in crop and hail insurance.

Recommendation: The Government should consider:

i. introducing a farm finance education package to build capacity of farmers to make informed business decisions to improve farm-gate returns. Such a package would provide farmers with access to business development and support package with access to such as financial, taxation and risk management advice
ii. reviewing the distortionary effects of taxation on agricultural insurance products.

Enhancing access to finance

The average cotton farm is a highly successful family owned and operated business. Access to capital to expand operations or invest in new and improved production technologies can nevertheless be hamstrung by the volatile nature of agricultural income.

Foreign investment is critical to the future of Australian farming. We support the NFF's view that certainty, flexibility and transparency are necessary to attract foreign investment to Australian agribusiness, but that safeguards are required to ensure that investment does not negatively impact on the sector.

Recommendation: The Government should consider innovative options for attracting and raising capital, such as:

i. exploring ways to link successful growers with investors
ii. working with the financial services industry to establish an agricultural superannuation fund that reinvests in agricultural and regional infrastructure
iii. policy settings that encourage foreign investment, while ensuring it continues to provide a positive impact on the agriculture sector.

Reducing ineffective regulations

Cotton growers, like all farmers, want to get on with the business of farming. While effective regulation safeguards businesses, the environment and our communities, poorly designed regulation, acts like a tax on business, raising costs and stifling innovations.

Cotton Australia, with the NFF commissioned a report to quantify the regulatory burden imposed on farmers. Holmes and Sackett analyzed the financial, taxation and compliance costs associated with a sample of farm operations and found the cost to be between $24,000 and $43,000 per year, depending on the type of business farmers are operating. Farmers spend a total of 20.6 days consumed in tasks associated with red tape, which equates to 8.6% of the working year. In total, for the average farm, red tape equated to:

- 3.9% of income
- 4.5% of total expenses
- 13.9% of net farm profit

We support the Government's recent repeal of unnecessary and redundant regulation and the efficiency improvements imbedded in the *Agricultural and Veterinary Chemicals Legislation Amendment Act 2013* (due to commence 1 July 2014), but suggest more could be done in relation to transport and environmental regulation.

Recommendation: The Government should consider:

i. devoting resources to further analyzing and quantifying the impact of red tape on farmers and identifying ways to relieve pressure on growers
ii. introducing an agricultural impact statement for new regulations which tests the benefits of regulation in terms of improvements to sustainability and profitability of Australian agriculture.

Cotton Australia looks forward to the release of the Green Paper in mid-2014. We also welcome ongoing discussions with the Taskforce, please do not hesitate to contact me on 02 9669 5222 or leahr@cotton.org.au to discuss our submission in more detail.

Yours faithfully

Leah Ross
Policy officer