

Business
Council of
Australia



submission

Submission to the Department
of the Prime Minister and Cabinet
on the Agricultural Competitiveness
Issues Paper

APRIL 2014

*Working to achieve
economic, social
and environmental
goals that will benefit
Australians now and
into the future*

The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia's leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

About this submission

This is a submission to the Department of the Prime Minister and Cabinet regarding the issues paper released by the Agricultural Competitiveness Taskforce. The issues paper is part of the process for the government developing a white paper on the competitiveness of the agriculture sector.

The BCA is making a submission to the issues paper because the agriculture sector represents a sector that has been, and continues to be, a source of comparative advantage for Australia. This comparative advantage in turn contributes strongly to our national prosperity.

If we want to continue to benefit from the sector, and for it to continue to contribute positively to raising our national prosperity, then we should seek to put in place policies that will support Australia to have the most competitive agricultural sector in the world.

Key points

- The agriculture sector is, and should continue to be, a source of comparative advantage for Australia.
- International economic development, in Asia in particular, means that there will be a considerable increase in demand for agricultural products going forward.
- Australia should position itself to meet this growing demand, but it faces stiff competition from other international producers.
- Improving the competitiveness of the Australian agriculture sector is the best means of ensuring that Australian industry – including farmers – and all Australians benefit from this opportunity.
- Key issues that need to be addressed to improve our competitiveness include:
 - lifting the scale of operations
 - continued focus on the production of high-quality products that meet the demands of overseas consumers
 - accessing foreign markets
 - having a high-performing and more flexible labour market
 - attracting investment, including foreign investment, in the sector.

Key recommendations

- The subsequent green and white paper processes should:
 - place a greater emphasis on identifying what will be necessary to meet the demands of customers in export markets and adopting a global perspective in considering the future role of the Australian agriculture sector
 - clearly map out the size of the opportunity available to the Australian agriculture sector
 - identify the level of investment required to position the Australian agriculture sector to realise this opportunity
 - seek to identify the key issues that will be critical to improving the overall competitiveness of the Australian agriculture sector, for example, industry structure and how trade agreements can be better implemented.
- Farmgate returns are an outcome of a competitive agriculture sector, rather than an input to a competitive agriculture sector, and should be reflected as such going forward.

Emphasis of the Agricultural Competitiveness White Paper

The terms of reference for the Agricultural Competitiveness White Paper are very broad and this risks diluting the emphasis on what we believe to be the critical issues for the agriculture sector.

Greater emphasis should be placed on the customers of the agriculture sector, both domestically and internationally. This focus should then be used to determine the implications and key issues to be addressed for producers in the sector.

As currently presented, the terms of reference and issues paper identify farmgate returns as a key issue to be considered. The creation of the most competitive agriculture sector in the world is the best means of maximising the benefits to the Australian agriculture industry and all Australians more generally. Improved farmgate returns should be seen as an outcome of a competitive agriculture sector, not as an issue that can be pursued in isolation.

The starting point of the Agricultural Competitiveness White Paper should therefore be to put in place a policy framework that will assist in making our agriculture sector the most competitive in the world.

We define competitiveness as a country's capacity to capture global market share in tradable sectors. This can largely be achieved by two means: expanding our access to consumer markets and making our producers more productive.

The success of our agriculture sector is built upon our significant natural endowments and our longstanding history of delivering quality products.

Expanding access to consumer markets means giving explicit consideration to international markets and considering what policies and processes will then be necessary in order to best facilitate the ability of our domestic producers to meet the needs of these consumers.

Rapidly increasing international demand for agricultural products represents a considerable opportunity to the Australian agriculture industry. This demand will be driven significantly by rising incomes in Asia and the associated increase in the demand for sources of protein and increased expectations around the quality of products consumed.

However, this growth in demand will not automatically flow through in terms of increased demand for Australian products. We are not alone in realising the opportunity that is forthcoming. Agriculture is a heavily trade-exposed and competitive sector and other countries are also seeking to benefit from this growth by striving to become a supplier to meet this rapidly increasing demand. It is these countries that Australia must compete with to gain an increased share of the international market for agricultural products.

In general, the agriculture sector is a high-volume, low-margin industry sector. This heightens the importance of our sector being internationally competitive. Minor differences in input costs and/or tariffs can make all the difference in determining whether or not Australian produce is competitive in the global marketplace. This highlights the critical importance of continuously working to lift the productivity of the Australian agriculture sector.

BCA work on comparative advantage

The BCA is currently undertaking a major study into comparative advantage in the Australian economy.

The study will examine the competitiveness of the Australian economy as a whole as well as of individual industry sectors, such as agriculture.

The study will seek to benchmark the international competitiveness of each industry, and to identify the key drivers of, and barriers to, competitiveness for each industry sector.

Making our agriculture sector the most competitive in the world

The BCA study on comparative advantage is still underway, but the preliminary analysis suggests a number of issues will be critical in determining the competitiveness of our agriculture sector. These are discussed below.

Scale

As noted earlier, the agriculture sector is a high-volume, low-margin industry sector. This means that scale is critical to its ability to compete with other international agriculture sectors.

Scale can be encouraged through increasing our orientation towards the global market and by focusing on the significant, and increasing, market represented in Asia in particular, rather than focusing on our much smaller domestic market.

In addition to this, it will be critical to put in place policy and regulatory frameworks that support – rather than inhibit – the development of scale in agriculture.

Scale may also be enhanced through consolidation in some parts of the supply chain.

Quality

While encouraging scale is important, ultimately Australia's competitiveness in agriculture is fundamentally underpinned by the quality of our products.

In a competitive international market for agricultural products it will be critical for overseas consumers to perceive Australian produce as being of premium quality.

For Australia to be successful we need to gear our policies and focus towards the production of high-quality products that can meet the demands of overseas consumers.

Access to foreign markets

Growing our agriculture sector can be assisted through improving our access to foreign markets. This can be achieved through the removal of barriers to the export of Australian products, for example through the signing of free trade agreements.

Accessing these markets will also require having a clear focus on the end-customers and having a clear understanding of the implications of this for Australian producers in terms of the type of products produced, the quality of these products, and the cost associated with producing these products.

The success of the New Zealand dairy industry is an example of how the adoption of a global orientation has been a catalyst for domestic growth. New Zealand have actively pursued the signing of free trade agreements with many countries across Asia. As a result, New Zealand dairy exports into China are not subject to the 5 per cent tariff levied on competing Australian dairy exports, creating a material difference in the competitiveness of the two products.

High-performing and flexible labour market

Feedback from BCA member companies suggests that Australia's labour costs are high when compared to our international competitors.

It will be critical to ensure that Australia's labour market and workplace relations arrangements allow businesses flexibility to grow, innovate, and manage their workforce and capital effectively.

For example remuneration, and therefore labour costs, needs to be clearly linked to product demand and output.

Attracting skills and talent to the industry will also be critical to our ability to lift the productivity of our domestic producers going forward.

There is a significant demographic challenge looming in the agriculture sector. The National Farmers Federation, in its *NFF Farm Facts: 2012* publication, has noted that the average age of farmers (52) is almost 12 years above the average age (40) of the rest of the workforce.

We need therefore to work to attract new and younger workers to the sector and to ensure that there is alignment between the skills of our workforce and the needs of our industry going forward.

Attracting investment

The subsequent papers should clearly map out the size of the opportunity available to the agriculture sector as well as identifying the level of investment required to position the Australian agriculture sector to realise this opportunity. The papers should also clearly identify the policies and actions that will be required in order to unleash this investment.

In order to invest in new capital, in our capacity to innovate, and to grow, individuals and firms will require access to finance and capital. This need is unlikely to be able to be adequately met through domestic investment alone and the encouragement of foreign investment would assist greatly in delivering this influx of capital.

Australia should aim to become a world leader in attracting foreign direct investment. One means of assisting this would be to extend the higher investment screening threshold that applies to the United States and New Zealand – currently set at around \$1.1 billion – to private sector investors from all other countries.

Australia should also revisit and further clarify the foreign investment policy for investment by sovereign wealth funds and state-owned enterprises.

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