

Submission from the Northern Territory Government to the Federal Government Agricultural Competitiveness Issues Paper

The Northern Territory (NT) Government welcomes the opportunity to provide its written submission to the Agricultural Competitiveness Issues Paper. The development of the White Paper is very timely for the NT and northern Australia following the release of the Developing Northern Australia White Paper, the Northern Australia Sustainable Futures Program, and the Asian White Paper.

Expanding agricultural development is one of the key pillars for economic development in the Territory.

Northern Australia is undergoing an economic and demographic transformation, underpinned by major resource developments totalling tens of billions of dollars. Larger population centres have grown faster than other national and state populations, with new infrastructure demands and a more dynamic economy developing as a consequence. By 2050, over half of the population will be Indigenous, with a large proportion living in remote communities. Northern regions are the frontline to Australia's Asian neighbours, and these changes are for the long-term.

There is potential to establish new agricultural precincts across the NT and northern Australia, where good soil and water resources co-exist. With changes to the Pastoral Land Act in the Territory, significant areas of good agricultural land with water are now available. Lessons for the past – too big too quickly – has changed the focus of development across northern Australia. A sustainable agricultural precinct approach is being developed on the back of lessons learned in the Kimberley (Ord), Katherine and Douglas Daly regions.

The Queensland, Western Australian and NT Governments, with a consortium of research, education and commercial partners, have joined forces to bid for a new Northern Agriculture Cooperative Research Centre (CRC). If this bid is successful, from July 2015 this CRC will undertake the research and innovation, technology development and capacity building to transform 'doing agribusiness' in the north.

The CRC's private and public sector partners will collaborate in a process of 'entrepreneurial discovery', to identify opportunities for profitable and sustainable new enterprises, and to concentrate public investments in areas where economic activity can potentially succeed. Many of the questions and issues raised in this draft Issues Paper are proposed to be addressed in the planned five programs of the CRC.

There are a couple of key issues in your Issues paper that we felt were not clearly defined and the document confuses 'Supply Chains' and 'Value Chains' but provides a definition for a food and fibre supply chain as the integrated processes and activities that transform food and fibre at the farm-gate into processed products and eventually into consumer-ready products. This is not reflective of all commodities e.g. fresh fruit and vegetables. A simplistic definition that we have used for each is:

- a. Supply Chain considers the product and the logistics in moving the product to the consumer.*

- b. *Value Chain considers the financial implication in moving the product to the consumer.*

An important issue that is not adequately addressed is the Effect of Enterprise Scale on Competitiveness. This may be worth presenting as a separate issue as it does not easily fit under any of the other headings. In many commodities there has been a natural process for production to be consolidated into large, corporate units often to the detriment of the smaller family farm and other social impacts. This could be an unavoidable consequence of the drive for increased efficiency but it is also a major social change that may not be welcomed by the community or government. There are a number of policies and processes such as tenure, water licenses, taxation and other financial arrangements, that influence the speed of this change. There are also possible marketing arrangements that the government could influence that may assist the viability of smaller enterprises. A related issue is the current age profile of the farmers and the implementation of succession planning.

Specific NT comments, additional to those already discussed, are presented against each key Issue.

Issue 1. Ensuring food security in Australia and globally

Reference is made to Australia as a net exporter; however, this is predominately of low value/unit (e.g. wheat) commodities or with commodities where we currently have a competitiveness advantage (e.g. beef). Australia is a net importer of high value/unit (e.g. fruit) commodities. It is also a net importer of the majority of farm inputs. These base-line commodity products will always have a solid place within the export trade and these industries need to continually address the issue of competitiveness; however, as is explained in Issue 8, the potential for further expansion is based around the intensive production systems products.

Australia's capacity in exporting our technology and know-how was strong 15 years ago; however, this is no longer the case in comparison to some of the Asian countries e.g. China/Japan/India/Korea and the majority of Europe and north and south Americas. The decline in investment in agricultural sciences and research, development and extension (RD&E) in Australia has placed us outside of this market.

Australia needs to focus on what the markets/consumers want and not assuming we know what they want. For those low value per unit commodities, where the markets are generally stable, but economic margins are narrow, focus needs to be made on reducing the costs in the value chain by ensuring the appropriate infrastructure is optimised, market access and terms of trade are transparent, and there are clear communication channels.

For high value per unit commodities, the emphasis needs to be highly focused on what and when the customers are demanding; then ensuring the supply chains are delivering that product through tight control on quality, logistics and communication.

There are significant areas of northern Australia that are underutilised for increased agricultural production within the context of environmental sustainability. The focus on agricultural precincts,

where soil, water, climate and potential infrastructure could be developed to meet the demand for a range of specific markets, would significantly enhance Australia's agricultural production. This focus needs to be strongly market driven, working with agribusiness (family or corporate), investors (government or private sector) and customers within the domestic or export markets, to build a resilient agricultural sector.

To remain competitive, we need to be building the scientific and business capacity back into Australian agriculture, to increase profitability through advanced technologies, and ensuring all sectors within the supply and value chains are highly skilled and continuously improving.

Issue 2. Farmer decisions for improving farm-gate returns

With regard to productivity, across the intensive industries (predominately horticulture) labour costs, availability and retention remain a major constraint in being competitive. Additionally, into the future, exposing workers to working in the heat will be increasingly restrictive under Workplace Health and Safety regulations. The investment into re-designing current production systems to increase productivity per unit and introducing mechanisation, automation, robotics and remote sensing, to minimise the reliance on labour, and more efficiently utilise inputs, needs to be a clear focus to meet these challenges. This will also build scientific and technical capacity to support these technologies in regional centres.

As the frequency of extreme weather events increases, have we seriously looked at where and how we should be farming into the future?

Current and new precincts need to be based on a range of diverse commodities. As a risk management strategy around significant climatic events such as drought, floods and cyclones, as well as biosecurity threats and single commodity over-supply, diversification of commodities, within a business enterprise and within an agricultural precinct, provides economic resilience into regional communities. In building these integrated production systems, profitability and sustainability needs to be the key focus through strong linkage to market demands.

Governments and peak industry bodies need to be more proactive in responding market signals, benchmarking agribusiness performance against competitors and negotiating flexibility in Farm Management Deposits to be proportional to property and enterprise size. This will improve decision making and the capacity to make structural change to address changing markets and conditions. Additionally, the two groups need to be fully engaged in insuring the skills capacities of all participants within the chain are above those of our competitors.

Thriving regional communities attract investors, either domestic or foreign, and provide an environment to allow new participants to enter agricultural production.

Issue 3. Enhancing access to finance

Foreign investment that targets family-run pastoral and other agricultural enterprises who are seeking to take on an equity partner, have the potential to benefit those family or small businesses who seek to retain a 51% or 50% ownership stake in the business and remain on the land whilst receiving a much needed cash contribution. It also benefits the investor in that it has the potential to assist in maintaining guarantee supply to their markets and they retain the local experience and expertise of northern specialists. It is predicted that this type of investment will increase and have a positive impact on competitiveness.

Leasing new agricultural land to foreign investors has many benefits. Long-term development leases provide the investor with the necessary land tenure to underpin their financing arrangements, while providing milestones and targets to progress the farm development.

Engaging with Indigenous communities to assist them to move into commercial development is a more recent alternative avenue of accessing finance. These communities have access to land and water, as well as range of funding sources, but lack the agricultural expertise and market development skills to successfully move into commercial development.

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

Which industries have successfully implemented value chain analysis to improve competitiveness; and what learnings or principles can be applied to other industries or commodities? Similarly, how are other nations with middle-sized economies managing the issue of reduced competition in their domestic food retail sector? For different commodities and regions, what are the costs along the value chain; where are the principal inefficiencies?

Issue 5. Enhancing agriculture's contribution to regional communities

As indicated earlier, regions or precincts that have a diversity of commodities and markets have a greater capacity to manage risk. These communities that have productive enterprises act as a draw card for further development resulting in high employment and greater regional benefits. However, the impact of the resources boom has significantly increased the cost of living in regional communities. This reduces the capacity of agriculturally-based enterprises to attract and retain staff who are generally paid at considerably lower rates than those in the resources sector.

As regional communities grow, the inevitable urban development then impacts on rural land, so sound, municipal planning is needed at an early stage to ensure rural land is protected for future agriculture and food production.

Regional areas have, for a number of years, been reliant on backpackers and 457 visa-holders to fill their labour needs, especially in the agricultural sector. This provides limited opportunity for increasing the skills capacity of the workforce. A long-term effort needs to be made to encourage greater mobility of the Australian workforce from areas with fewer job opportunities, and to

encourage Indigenous participation in the agricultural industries. There may be lessons to be learnt by the agricultural sector from other industries (notably mining and defence) that have a better success rate in recruiting and retaining Indigenous employees.

While remote areas have a significant disadvantage due to high operating cost, their isolation has a major advantage such as area freedom (natural buffers) from many pests and diseases providing opportunities for market access.

Issue 6. Improving the competitiveness of inputs in the supply chain

This section appears to cover off on all of the critical issues that are impacting on the competitiveness of the supply chain, but is not asking the questions as to what the supply chain would be in 10 or 20 years' time, and how the current critical factors would need to change to achieve the desired level of competitiveness. So, in the context of Issue 2 which discusses profitability and the need for intensification of the on-farm production system, many of those strategies are applicable to the full supply chain.

Implicit in both these issues is the need for focused strategic research, coupled with the investors and entrepreneurs to provide rapid adoption, this requires rural industries and governments to better structure the RD&E agencies in agricultural innovation systems to improve sustainability of the institutional capital in Australian agriculture. In the context of northern Australia, and utilising the 'Smart Specialisation Approach' developed in Europe to increase innovation, there is no suitable university providing the appropriate capacity within northern Australia. This would potentially be an outcome of the proposed Northern Agriculture CRC.

Outside of building the scientific capacity, there is the critical need to build basic skills for farm workers up to farm managers, logistic operators and in-country marketing agents, i.e. all skills within the supply chain.

Issue 7. Reducing ineffective legislation

There is a fine line between over-regulation and reducing regulation. Tight regulation does have significant market access benefits and opportunities, especially in the Asian, European and USA markets. Identification and removal of ineffective legislation may be politically wise, but due caution needs to be conducted in each process to ensure product integrity is maintained.

Regulatory requirements around bringing land into agricultural production are very convoluted and this can lead to significant economic loss as a result in these time delays. Pathways to development need to be significantly improved, especially when wishing to attract foreign investment.

Effective and sustained industry leadership is critical when regulations are handed from government to industry control. Many industries have been very successful in this area, especially with biosecurity and product quality regulations and standards. However, when leadership falters, there

are always players in the supply chain who will want to cut corners. Governments need to continue to supply support to the maintenance of good governance and leadership within peak industry bodies.

Issue 8. Enhancing Agricultural Exports

As mentioned in Issue 1, it is imperative that the market signals are fully understood. Currently, there are large number of market opportunities coming out of a wide range of markets and not all from Asia. Robust analysis on which are the most appropriate markets for particular growers or agents needs to be conducted. The lines of communication between each participant in the chain have to be consistent and understood by all. Because the meaning of critical terms can be lost in translation, a common language manual can be a successful tool.

Once these clear signals are understood, production systems and precincts can be developed to provide continuous supply chains. It is clear that government institutions have a role in assisting in the development of precincts and land availability and any potential infrastructure and processes around the supply chain, but it is not clear what role government has in assisting the development of the enterprise. The numerous tiers of government, very often are not providing a consistent approach, retarding any development opportunity.

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

A new infrastructure fund, support by government and private enterprise could assist in triggering new agriculture projects, would stimulate investment. This would provide a dedicated fund for governments to de-risk new agricultural precincts by providing infrastructure such as new roads and water storage and supply systems.