Agricultural Competitiveness White Paper Submission - IP433
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Submission in response to Agricultural Competitiveness Issues Paper

Contents

Overview of Submissions:

The issues raised in the drafting of the Agricultural Competitiveness White Paper were challenging and covered well the major issues being faced by the industry and I hope it is the start of a new era with open dialog in the industry. With 50% of the industry operating with uneconomic returns the need for urgent action is very evident which is why I believe that is the most important issue to address. I support the adoption of Primary Production Pricing "PPP" regulations perhaps drawing on the experiences in USA with similar legislation. This PPP legislation can then be the foundation stone upon which a whole range of other new market development and changes to the long term environment of the industry covered in the submissions below.

The biggest challenge in the longer term for the industry is infrastructure, both water and transport. The suggestion is to merge the infrastructure needs of the Agriculture Industry with the Mining industry initially concentrating on the Coal in NSW and QLD. An Australian Infrastructure Fund and policy is already in development should address these challenges which I support if it merges the interests of Mining with Agriculture and includes Water as a key element. Ideas on funding and development of infrastructure are covered in the responses to key questions.

Marketing of Australian Agricultural output has developed into a concentration of control of Foreign owned global conglomerates and a small number of local large conglomerates which is unprecedented in any other country. I liken the plight of the Australian Agricultural Industry to the domination for decades of the Oil Industry by the "Seven Sisters". The stranglehold the Conglomerates have on the farmers at the production end of the Agricultural supply chain will need careful policy change to not upset the existing supply chains, but open and foster new marketing methods with closer ties between farmer and end user and joint investment in processing. Using the Oil Industry as the example it may take decades to wrestle a fair balance of control back with the supply side of the Agricultural Industry. Several suggestions are covered in the submissions on how this important change may be started and encouraged.

As part of the new era of Australian Agriculture we need to change the way we regard challenges such as droughts and weather events. Weather is something we cannot change, but we can manage the outcomes. Drought currently is considered akin to a health event, take action when it occurs and after it passes go back to all the old bad habits until it again reoccurs. What is needed is prevention of the causes of drought, water and fodder storage. Just because solutions are difficult or involve major investment should not stop the preventative actions being taken of creating an East Coast Water storage and reticulation project. I suspect the Fodder storage issue is related to paucity of financial returns and lack of monetary resources to fund good farming practices of having on farm fodder stored reserves. It seems the industry may have strayed from old fashioned good farming practices.

Australia should see itself as the food bowl of Asia, similar to what Spain is for the EU in selective Agricultural products. Brand Australian Agriculture should stand for high quality, low chemical residues, biosecurity, the equivalent of what Germany is to engineering excellence. The opportunity for Agricultural export is in food, (horticulture, grains, meat, and dairy in that order) which accounts for over 80% of the market opportunities. Add water and infrastructure and Australia is well poised supply these markets. However there are challenges in our agricultural methods, I call these bad health habits, the overuse of chemicals. It all started quite innocently in Fibre cropping where it had little downstream effect, and crossed over into our food crops encouraged by the Global Conglomerates who stood to gain most from creating a dependence on imported chemicals. In simple terms we need to return back to the past using more diesel (Cultivation) less chemicals. In the longer term reducing chemicals and improving natural farming methods will add to the marketability of Australian Agriculture and provide a point of differentiation compared to our biggest competitors.

A Improving Farm Gate returns "Yields" by enacting "PPP" regulations, (Issue 2)

The introduction of Primary Production Pricing Regulations "PPP" is the foundation that will commence a change in the balance of returns and underscore all other solutions to the Agriculture Competitive issues.

Overview of PPP suggested regulations:

Through an involvement in the development of a Beef Export project I met Rob Moore of "Grassmere Station", Mitchell in mid-western Queensland. Rob Moore explained to me why his suggestion of "PPP" regulations were needed and how they would impact the beef market. I believe his idea has great merit and broader application than just to beef and with more research could potentially be applied in broader Agricultural markets. At the core of PPP is the issue that the small holder beef farmer is at the mercy of the major processors and retailers which over time grew in size and ultimately dominated the market. Page 17 of the issues paper identifies this clearly. There is a good precedence for the PPP regulation in the USA "Packers and Stockyards Act" of 1921. More research needs to be done on how to interface the proposed PPP regulations with the ACCC in Australia and other regulations.

Benchmarks to develop the PPP regulation

Using the tables on page 11 Box 3 of the issues paper clearly identifies high performing broadacre and dairy farms have experienced a serious downward trend in farming returns which is consistent with my own investigations and knowledge. As an example if the Farm returns outlined in box 3 were compared to say Aged Care property returns the extent of the Return problem in Agriculture are very evident. Aged Care is a well regulated industry and with growing levels of Government support including bond guarantees. The Aged care Industry is progressing from small holder investment to major well-funded and managed groups which attract debt and fresh capital including Foreign Capital. It is the underlying return on the Aged Care investment that drives the new capital and growth prospects of the industry. It is my suggestion that the PPP style of regulation may also have precedence in other industries such as Aged Care which could be used as benchmarks for the Agricultural industry.

Factors not covered in the White Paper that add to the alarm of Low Agricultural Returns.

Through a recent involvement with Grain Growers in a sorghum project, I became aware that the majority of their members across all of Australian broadacre farmers were now over the age of 65. To add to this problem I reviewed several large scale farms, Value between A$10-50Million, sold or for sale in Northern NSW and Southern Queensland and realised the method of valuation used was not related to Yield but comparative sale price akin to the method of valuing a domestic property. The underlying issue behind the adoption of the methodology was returns were as described in box 3 around 1-2%, which is unsustainable for yield based valuation. In reality the figures disclosed in box 3 indicate a whole section of the Agricultural industry is on the verge of bankruptcy. Even the top 25% of farms could only reach 5.9% return which remains marginal compared to other industries.

The result of decades of declining financial yields has now stalled the marketability of Agriculture investments, preventing access to finance as the risks are too high for both borrower and lender combined. Page 14 of the white paper is alarming comparing the level of debt growth to drops in Yield making Debt clearly not a solution until the primary issue of Yield, and marketability of the underlying Land is resolved.

(A) PPP regulation continued

Even more alarming is the suggestions that the solution may be to market the underlying Agricultural land to offshore investors at a time of the lowest returns and land value of Rural Property. This would only add to the problems of the Agriculture industry and possibly generate less than half the real value of the Agricultural properties.

Of the 6 questions raised in Issue 2 of the White paper, perhaps only one is relevant "What alternative actions or measures by government, farmers or others would result in improved financial performance at the farm gate". My suggestion is Farmers Yields overall need to be improved by as much as 5%-7% as the first stage before any other actions or considerations can even be considered. From my personal research of the farmers whom I have met and discussed their structures and practices including drought preparedness and resilience they all have the answers but need the capital and underlying returns to implement strategies. The yield issues also drive attracting youth and attracting new farmers, as even farmer's sons and daughters cannot see the future of running a farm for a 1-2% return even if it were given to them. What worries me more with the age issue we may lose the whole next generation of farmers and need to start again if the yield issues are not resolved in a timely manner.

To me Yield and Age are ticking time bombs about to explode on the whole Agricultural industry driving down values further so the solutions need to be fast and if not executed will have a further detrimental effect on Food Security covered later making farm Yield the number one urgent issue in my opinion. Government Regulation as suggested by PPP is the only quick solution, and best of all regulation does not need to cost the taxpayer or the budget money, in fact it will have a positive effect on both through increased tax revenues. Farmers in my opinion are not asking for a handout or support other than to balance out the impacts Globalization and large scale conglomerates have had on their diminishing returns. The proposed PPP legislation will be the start of the turnaround that can then open up solutions to perhaps all the other issues identified in the Issues paper.

A sleeping issue that needs to be considered with the proposed PPP regulation is apart from farmers themselves resistance can be expected from almost all other aspects of the industry who are well funded, connected, and resourceful enough to lobby against all regulation changes that may negatively impact the returns they currently enjoy from their investment in the food and agriculture supply chain .Multinational advisors including Accountants, Bankers, and Lawyers who benefit more from the larger scale conglomerates and Foreign investors are likely to not support regulation nor will the "Free Market" economists and theorists. The PPP concept will be a hard sell to the broader markets and need to be very well funded initially to ensure that it is "sold" effectively to the key upstream stakeholders. Traditionally farmers are not well organised in documenting their upstream needs and as a group do not always have access to an effective lobby and may need assistance to document and sell the concept effectively.

(B) Ensuring Food Security for Australia now and into the future (Issue 1)

Overview of Food Security suggestions:

Reduce high chemical and water use crops, replacing these with more food crops for export initially to underscore maintaining our current position of a high level of food security. Partnering with countries that have already identified future needs for food security such as China who also have the financial resources to invest in developing the Agricultural supply Chain. This approach is focussed not on selling existing Agriculture but developing new projects such as is contemplated in Northern Queensland. This is similar to the approach of the mining industry. It takes the focus of foreign investment to encourage new developments not unlike the approach the foreign ownership rules in the housing market.

(B) Ensuring Food Security for Australia continued

A great example of partnering is the NZ Dairy industry on the Canterbury Plains outside Christchurch. China invested in the processing plant, providing access to the market, whilst leaving farm ownership in a flexible structure of contracted private ownership or a NZ based public company.

Australia is a high quality food producer, akin to the image of Germans with Engineering, and we need to sell this more effectively. Austrade and other semi government bodies and the production group bodies like Grain growers are perhaps not as effective as they could be in developing new markets. NZ has achieved better results in Dairy and fresh lamb, and really there is no reason that Australia cannot do as well but changes will need to be made. Australia's problem is well explained on page 17 of the issues paper, the industry is far too reliant on a small number of upstream Global processors and marketers who sell based on Fair Average Quality FAQ. The growth is in new markets and Niche Agriculture products requiring closer relationships between markets and producers. The real passion of all the existing marketing conglomerates is maximising their returns, fulfilling the needs of management based outside Australia, paying little tax, whilst treating all agriculture as Commodities.

It has been my experience, given the option, Asian based markets really do not want to own the land in foreign countries, but need to have access to the output and the processing. This was explained clearly at a high level in Japan recently and confirmed in discussions in Australia with a different group looking for access to specific grains. Vertical integration is the solution but the current structure of smaller private farming ownership needs consolidation, if not of ownership then a cooperative of several regional groups whom could provide the same opportunities to new export markets as larger regionally diversified corporates. The challenge is to have these structures funded by an additional margin in the supply chain added to the Export price.

We are currently experimenting with this approach in new market development in speciality Grains and Prime Beef supply to China. Growing this to access more markets may need initial seed funding similar to Export Market Development Grants but project and market funded in Advance based on a business plan. Our experience to date is it takes about 12 months or one season, possibly 2 and about A$150,000 to develop each project. The benchmark project size fully operational are opening new markets of A$100,000 million with potential to grow much larger within 3 to 5 years. Perhaps the closest benchmark is the NZ Dairy but with lower initial investments and lower processing investment as we are using existing capacities where possible.

Australia has a fast growing population and as stated on page 8 of the issues paper it is currently able to feed 60 million people which is about 3 times our current population and as a target perhaps good future reference and benchmarking. If our population growth were to be say 10% per annum on average our Agriculture needs to grow by 10% pa to maintain our position with an adequate buffer. The increase can come from new development of farming land in Northern Australia and by productivity improvements. Using the example of the Ord River Development in the 1960's, possibly the last large scale new land water development, we have significant challenges in maintaining our current level of food security apart from the increasing farming and financial yields to attract new capital.

Concentrating on the biggest markets and production groups Meat, Grain, Horticulture/Fruit & vegetables and Dairy 74% which represent 81% of processing and 66% of exports (ref figure 1 page 9 of Issues paper) Imports do not as yet appear to be an issue to food security. Fruit and vegetables need to be monitored as the recent issues at SPC and its ownership structure was concerning. Disregarding Imports the issue is more about growing farming Yields and opening up new lands.

(B) Ensuring Food Security for Australia continued

My experience with the Sugar industry in the 1980's has shown a resilience of farmers with irrigation to find and adapt to new markets such as vegetables and nuts replacing sugar as a higher yielding crops.

What is concerning is the fibre crops predominately Cotton which has taken over valuable food producing land and water licences. A decision at Government levels may be needed influence decisions in the short term until adequate water is available for any future fibre cropping development. Whilst this was not required to encourage the reduction in sugar as a proportion of our total agriculture, perhaps cotton should also be a casualty at least in the short term. Cotton has two problems, firstly it has a higher water usage than most food crops by as much as 2 to 3 times, and it uses much higher pesticides and weed control chemicals which can impact adjoining food crops. It is my personal opinion from knowledge of the Darling Downs that Cotton production has created some lazy farming practices which go under the guise of "Zero Till" which is really high use of toxic chemicals replacing traditional tillage control using diesel energy as the main cost input. The question which is more important and the better use of our valuable land and water resources, Cotton/fibre or Food. It is my opinion it should always be food.

(C) Access to Capital is more important than debt in the longer term (Issue 3)

Overview:

The Capital and debt issue is directly related to (A) above, improving farmers financial Yield, and can only be effective once the yields across all forms of Agriculture return to above the modest 5-8% financial yield targets set in (A) above. Once these Yields are achieved a range of alternatives are opened up including capital and debt support models similar to that used Aged Care Funding and structures where the Management and operational control is separated from Land ownership as used in Retail Property Trusts such as Westfield as examples. All these structures have at their core Yield thresholds must be achievable.

Retaining Agriculture ownership within family structures as a core objective is in my opinion ultimately unsustainable and wrong. That is not to say that some ownership can be retained within family structures, it should not necessarily be a core objective. New market strategies will likely favour the corporate model with flexibility such as explained in (B) above with NZ dairy and China market development. More debt is not a solution, but applying a modern ownership structures to Agriculture investment that address the 2 key elements below that hold back agriculture investment and returns, could provide the solution with little or no additional financial support from the government.

- **Issue 1**, Single farming family enterprise do not have Regional diversity and in most cases lack cropping or livestock diversity as well being dependent on one market for the farm output.
- **Issue 2,** the ownership structure of farms needs to change to dislocate the 3 key elements of a farming enterprise.
    1. The farm property and improvements including water access ,(the physical real estate)
    2. The farm management and operational decision making.
    3. The Stock, Farming Equipment, (including irrigation) and livestock and grains and storage.

The issue of "Farming Lifestyle" is not relevant to a modern farming Enterprise, it is a business that produces food and it has to be competitive with food production on the Global market. Farmers need to come to terms with the global markets and decide if they wish to be Hobby Farmers who are farming as a lifestyle. If that is their decision then it follows that perhaps there is no place for government support for their chosen farming hobby. The next generation, the children of current farmers, have already voted on this issue and left the farm which underscores the ageing issue of farm ownership.

(C) Access to Capital is more important than debt continued

Farming enterprises need to move forward into new larger Corporate Structures that can minimise the key risks faced by all Global Agricultural enterprises. Other industries globally have over time gravitated into larger corporate structures where the elements of the investment have been separated and all value is based on a return on investment Yield.

The key benefits that are delivered by Corporate Agriculture Enterprises

If we study history of Australian Agriculture, it is always the larger corporates with diverse locations of their properties and professional management that have always provided more consistent returns. Kidman and Australian Agricultural Company are two examples but there are more large scale private companies that have also done well. I suspect that output diversity has not been as successful as may be possible as most have concentrated on one output Beef, Cotton, or Wheat. This is consistent with Box 3 page 11 of the issues paper.

Using the example of Retail, Retail property investment is separated from the retail operations. I think this is a good example for Agriculture to follow. If you separate the land in an Agricultural Property Trust (APT) with minimal debt, the property is leased to the Agricultural Operations Entity (AEO) which supplies all the working capital and equipment and employs the labour.

The existing farmers can become the initial employees of the AEO and can reside in the existing homes whilst they have a minimum stake in the APT. The AEO can have short term debt for working capital and machinery, and possibly have regional subsidiaries to manage the farms. Over time as the older generation of farmers retire the employees would lose their emotional and financial engagement with any particular property and be motivated more by returns of the group in the region and supported by the overall objectives of the livestock or grain that produced the best return in the market at the particular time.

Current Financial Stakeholders transitions:

Currently the key financial stakeholders are the Farmers and Banks. Their investment would be replaced by a mixture of units in the APT and redeemable shares in the AEO. As the entity grew gradually new investors would be introduced into the APT from superannuation funds.

Whilst the initial investors in the AEO would be existing farmers, the entity would encourage management classes of shares as well as end market investors such as niche Grains exporters, and beef exporters including investors from outside Australia who are importers who bring to the table new markets.

The key issue for the AEO is to improve on farm processing of farm output, based on regional hubs to provide as much vertical integration of the produce and reduce the logistics costs and provide additional revenue streams throughout the year.

Perhaps the drought in Southern Queensland is the catalyst that will commence the process of modernising farming capital structures. The challenge is not to just concentrate on one distressed region or one market, but using the example as a solution to other regions before they have their next drought. To be successful the strategy needs support from the banks as well as successful farmers and be seen as a solution to the problem facing all farmers an exit from their investment and market liquidity.

I think it will be easy to locate the first farms to fold into the new structures, but we need to build the key outside stakeholders and management into a team. Initially it is not an exit strategy, but a reducing risk strategy and improving returns by allocating resources over a larger base than one farm. Economies of scale with equipment, labour, logistics, can be achieved in the shorter term, with the vertical integration and new market development being longer term objectives.

(D) Logistics and Improvements in the Supply and Value Chains of Agriculture (Issues 4 & 6)

Overview :

The concentration of Agriculture into a small number of upstream processors and retailers has worsened over the past few decades as outlined on page 17 of the issues paper and is a key reason for the depressed returns of the farmers. It is a situation not dissimilar to the reasons Trade Unions were developed to ensure workers received a fair wage and proportion of the economic return of enterprises that employed labour. We are not advocating a Trade Union approach, but a need to provide more balance and more upstream processing investment, where possible on the farm, with access to Logistics at competitive rates and access to new markets. Over time the growth in Agriculture will be in vertically integrated farming enterprises either as Cooperative or Corporate. Evidence of this approach is already occurring with the AA&Co investment in an Abattoir in Northern Territory.

The Issues paper correctly identified the new export markets in Asia, and access to the retail markets are not supported by any of the current Australian Retailers. China has their own quickly developing Retail food chains and using Sugar as the example it is clear that China wishes to own the upstream processing plants with the Acquisition of CSR mills as an example. Chinese NZ dairy Investment has followed the same pathway. Sadly Australia has fallen behind NZ in accessing the emerging China Dairy market and it may have missed the opportunity. The real challenges and opportunities are in the Grains and Livestock, where the access to logistics is essential and our cost of logistics is well above our major global competitors in the Americas. The current system of marketing passes all the problems of supply chain cost down to the producer as reductions in his returns. Whilst this may have some relevance with export markets, it is not correct for the domestic market for the farmer to wear these supply chain cost issues.

The tyranny of distance, density, and water are the three elements that impact logistics competitiveness and the growth in Agriculture in Australia the only Island/Continent in the World. Perhaps the answer is a closer partnership with the Mining Industry which has similar logistic challenges and Water can be a bi product as was recently experienced in the Pilbara in WA.

I am not suggesting tackling the more remote opportunities in WA first, but the East Coast regions of NSW and QLD where coal mining is developing fast and logistics rail and port facilities are currently in planning or under construction. Future rail and port facilities being available at the same competitive tonnage rates as provided to Coal would go a long way to fixing the export logistics competitive issue. Sadly to date the Agriculture Industry has not had a chance to be involved in any partnership with Mining infrastructure. It will need federal Government support to become involved and possibly the creation of a new Agricultural Water and Logistics Infrastructure body to work with the effective mining lobby and key well developed Mining Services Companies.

Water is the other key element in developing yields, new markets and opening up new agricultural hectares. It is the most challenging issue and will provide the most long term effects. Australia has a long history with innovation as can be seen by the recent development of Wave Power generation and water desalination being developed by Carnegie in WA with Government Support. Australia's most accessible reliable rainfall water resources are in Northern Queensland, the challenge is the remoteness of the region and the enormous civil engineering cost of the project. The problem is not just the debate on the engineering challenges but the funding of the dams and downstream reticulation development. Australia's East coast water development is perhaps a challenge as big as the Nile and or the Yangtze dams particularly if the new dams in Northern Queensland could be linked to Fairbairn and Macintyre and into the Darling River head waters. I know this sounds fanciful, but it is an example that with water the need is to think big and very long term.

(D) Logistics and Improvements in the Supply and Value Chains continued

There is no way the Agriculture industry can fund the logistics of transport or water from current earnings, it is a National issue for the whole of Australia and possibly the most urgent issue to be addressed in the next 10 years. For solutions we need to turn to the most recent and largest Infrastructure developer of the last decade China. How did China fast track both the engineering and finance necessary to implement their infrastructure development, with a very determined Government support knowing their food security depended on its outcome. It is my opinion that this project is 10 times more important than the NBN and deserves to have a separate ministry which works closely with both the Mining and Agriculture Industries seeking to satisfy both their needs.

I suspect the funding issues will be the easiest of the problems to solve if innovation and long term thinking is applied. Funding can be from a variety of sources including:

- Long term Federal Government Infrastructure Bonds, the longest term possibly 15+ years
- Superannuation Funds required to hold say 20% of investment in Infrastructure Bonds. It is an ideal source of funding considering the workers under 30 will not need access to their superannuation for 30-40 years.
- Require all Foreign Investment in Mining and Agriculture to make say 20% of their investment in Infrastructure Bonds as term of their investment to ensure they make a contribution as we all know taxation of profits of global companies is voluntary at best and close to zero. Business immigration can follow the same pathway need to hold Infrastructure Bonds for the term of the bond.
- A proportion of Royalties from Coal mining in particular be set aside to be reinvested in Water and logistics infrastructure if possible in the same State as the royalties were earned and in regions close to the mines.

Innovation in all aspects of the Water and Rail infrastructure is needed from the outset. The below may at first seem wild and impossible thoughts, but consider the Carnegie project 10 years ago would have seemed an impossible dream.

- Australia is surrounded by sea water, why not use solar or wave power to convert this to fresh water and pipe it inland to flood the arid country.
- If you can economically pipe gas and oil to the coast, why cannot water be pumped inland
- Every rail and power grid corridor has available land access with low gradients ideal for pipelines why not use these corridors for water
- Coal trains travel one way empty, consider the benefits of back freight of water and agricultural fertilizers and diesel.

All the above seem impossible dreams, but one or two with innovation may become realities. Australia has built its Power Grid, the NBN communication grid, Water and Rail freight are the next two infrastructure challenges that in my opinion need to be done in unison. If the figures on the global need for food are correct in page 8 of the issues paper and 75% growth is required, if water and logistics are all that is holding Australia back the infrastructure payback will be almost immediate from increased Agricultural production.

The Agriculture industry does not necessarily need incentives or budgetary support, it just needs access to reliable efficient water and logistics, and the results to Australia and the economy will come as they have in the past. As a % of GDP Agriculture has slumped to a low point where it needs outside funding of infrastructure to restart its engine and provide growth.

(E) Development and rebuilding of Regional Communities (Issue 5)

Overview of the solution:

Regional townships appear to develop if there is agricultural processing and or high density Agriculture using irrigation. The solution for regional communities is threefold:

- **Irrigation and high density farming encourages townships to grow. Examples are Emerald and Bundaberg where horticulture cropping is sustaining higher employment. Add water and intensify the agriculture and towns will grow.**
- **On farm or near farm processing is slowly becoming a new phase encouraging employment in regional centres. Examples are Abattoirs, feedlots, milling, and sugar. More needs to be done to perhaps encourage the regional processing of Meat, Grains and Dairy. This upstream processing should be owned by the Foreign/Investors whom also bring the market to the Far. NZ has good examples of this with Dairy on farm processing again on irrigated pastures.**
- **Mining industry engineering support is currently located at the end of the supply chain on the coast and it should be in the regional centres which closer to the mine head and existing Agriculture. Mining mechanical engineering support can and should coexist with Agriculture equipment support. Some of the suppliers are the same Caterpillar as an example. The challenge will be to merge the cultures of FIFO mining which is expensive and the regional living of Farming communities.**

My Relevant Background:

I grew up in Dalby on the Darling Downs I the 1960's at the beginning of the phase of the consolidation of the smaller soldier's settlement farms before Cotton. My father (he was trained as an agricultural design engineer) was CEO of a public Agricultural manufacturing company which was an exporter of agricultural equipment and had manufacturing facilities in South America. By 1970's the beginning of the end of agricultural manufacturing in Australia was evident and my father and family including myself moved to Albury where he ran an Import/manufacturing company. By 1980's Australia had become net importer of farm machinery and both my father and myself saw an opportunity in the sugar industry in Bundaberg manufacturing cane harvesters. By the end of the 1980's this was sold and the factory moved to South America. All the relevant towns above were in decline as Agricultural manufacturing disappeared.

I think the dislocate between mining and Agriculture will need a push from the Government to resolve and the suggestion of merging infrastructure needs may provide the catalyst as suggested in (D) above. The new developments planned around the new central Queensland coal fields and to some extent the mines currently supported in Gladstone from Blackwater route are possibilities as are the NSW mines supported from Newcastle rather than the more inland regional centres.

If the freight logistics issues are resolved there is no impediment to moving all new processing into regional centres closer to the Agriculture production. Perhaps the question that needs to be addressed by Issue 5 is not "what will attract the next generation of farmers", but "what will attract the next generation of Miners and/or Farmers and engineering support and services to the regional centres". I think the cheaper lifestyle of country living, good transport access, and selling the benefits of living in the country for young families which includes access to education. There may need to be tax incentives added for regional developments or disincentives to existing cities, perhaps even a levy or higher contribution to the Infrastructure fund for foreign investors for cities. Marketing and selling the benefits to the current generation like my children who have never experienced regional living will not be easy, but employment prospects should assist.

(E) Development and rebuilding of Regional Communities continued

Government and Agricultural Industry bodies should lead by example. Any Agricultural support bodies residing in Sydney or indeed any capital city and being managed with close ties to an Agricultural Services conglomerates are not really good examples of Regional Development and forging closer ties with farmers. To its credit the Governments have moved departments into regional centres and this trend should continue as it will hopefully be the next generation of these workers who will also reside and take up Agriculture employment in regional centres.

(F) Reducing Regulation and support existing and necessary regulation (Issue 7)

It is my opinion regulations should support the following:

- **Brand Australia Agriculture and what that brand stands for in grains, livestock or dairy.**
- **Allow differentiation with other countries with perhaps lower standards**
- **Allow compliance with global standards if they are relevant and robust**
- **Protect the consumer allowing choice with the knowledge of what the standards of the food product**

I have personally had experience with poorly drafted and confusing standards in other industries and I support the current government direction of reduction of regulation and red tape. Care needs to be exercised when dealing with Global conglomerates and standards of other countries if indeed some of these standards are not fit for purpose in Australia. As an example in some cases Australian Agriculture should stand for meeting a higher set of standards compared to say USA where doubt exists of the integrity between the regulator FDA and chemical companies. Generally I have found EU standards set better benchmarks but I am not an expert in Agricultural regulations or the regulations on table 3 page 29.

(G) Enhancing Agricultural Exports Issue 8

Overview:

Figure 6 projection of demand in ASEAN countries agrifood products is very interesting and it shows the growth favours Horticultural meats and Grains which suits Australian Agriculture.

- **Australia needs to be open to new market segments as they emerge and address the issues they raise in a timely manner.**
- **I think what could be added to the Agricultural Exports is Australia's world class Broadacre farming knowledge both with growing crops and the machinery necessary to improve yields and lower labour costs. I will explain this in more detail below.**
- **I am not a great believer in the advantage of Free Trade Agreements as for some reason some segments of Australian Agriculture is left behind competing against high tariffs protecting home Agriculture. I will explain below the alternatives and ways to perhaps negotiate access for more limited markets and achieve the results for Australian Agriculture.**

Sorghum is an example of how FAQ , Global marketing conglomerates, current industry bodies and current standards used to categorize grains, do not assist in the development of new Grain markets as for some reason the creating of a standard to meet the new market needs falls well behind demand. I often wonder if this is deliberate or just the relevant bodies not being motivated. I am sure all farmers have read of the growing market in China for Sorghum to be used for Alcohol Baju distillation. Demand is said to be in the order of 400,000 metric tonnes perhaps more. When questioned in detail about the need the information from the market in China said it required a higher or different grade of Sorghum 1 which is predominately used for Fodder.

(G) Enhancing Agricultural Exports continued

Further investigation revealed that the intended use was to supplement China local sorghum which has poor standards of consistency. What the export market then revealed was a need to define a new standard for alcohol distillation which for the purpose of this paper I will call Sorghum 1A.

There is no doubt Australia can supply this market, but the standard needs to be defined and we have precedence of this with Barley for beer. So what are all the bodies receiving levies and supporting Grain farmers doing about this new market, sadly the answer is nothing. What is Austrade doing to determine the stage of the local China sorghum market and how we can fit in and support their market and supply the required tonnage form Australia, same answer, nothing. Farmers cannot leave the farm and conduct this research as the market is well beyond the size of one farm. Sadly at present there is no solution to develop and prove the new emerging markets. If we wait and see possibly USA, Canada, or Brazil will cease the opportunity as NZ did with dairy. I think the government can encourage Austrade to better support new and emerging markets and encourage the bodies charged with maintaining standards and supporting growers to get out of their walled city offices and get into the real markets and provide the support.

As the ASEAN agriculture demand grows it will place pressure on their high labour and small lot farming methods. Australia is already an exporter of Education so why not add our broadacre farming and machinery knowledge and assist in the development of Asia's internal agricultural. Perhaps the greatest opportunity is to win back some of the benefits of our strong local agricultural machinery knowledge by partnering our intellectual property and knowhow and assist the Chinese farm manufacturers to build broadacre machinery to our designs and create special trade deals that assist our farmers with lower cost machinery used in development in Australia. China is clearly at an advantage globally with engineering manufacturing looking to compete with the conglomerates in USA and Europe in all industries, why not partner with Australia in developing Farm machinery.

FTA's suit well defined global markets and not new emerging markets, and favour FAQ standards. Australian agriculture does not only need to operate in the FAQ market, it can afford to specialize and negotiate positions such as is suggested with sorghum where we work in harmony with local agriculture and be a specialized high end Niche market Agricultural supplier. To me FTA's are very blunt instruments where a more refined approach is required. There will be trade-offs in the negotiations but as always knowledge of each other's market both domestically and export aspirations are needed.

In my opinion the recent FTA negotiations with Japan, Korea, and China appear too shallow or rushed and did not address emerging agricultural supply problems in each country. I have over my career negotiated agricultural and other related trade deals with Japan and China, both are difficult but require a deep knowledge if the target market is perhaps the key. If the need is great then the terms can be favourable and any sign of weakness will be exploited. For China Food security and protecting their own agriculture is a key issue and is nonnegotiable. It was explained to me in very simple terms at the highest level. It is the policy that China must at all times retain the ability to feed with basic foods its whole population as their population is so large if they ran out of food likely no country could fill the void and people would starve. The niche perhaps is what foods do not fit into the basic food security needs, and I suspect it is high end foods for the emerging middle class, alcohol related, or foods that have smaller volumes. The other aspect is to encourage investment in the food supply chain providing a level of food security outside China that can be counted as part of the part of their essential food supply chain. Perhaps this is a trust aspect more than a written agreement.

(G) Enhancing Agricultural Exports continued

Because our food exports and supply chain is so dominated by USA conglomerates, I suspect Australia may be perceived by Asia as too close to USA. The world economic balance is changing and perhaps Australian agriculture needs to be seen as part of the Asian food chain in the same way as perhaps China perceives say Thailand and their relationship with rice supply. The new emerging and vertically integrated marketing and partnering with Asian investment will perhaps address these issues and allow better access than just a FTA. Exchange of knowledge and getting much closer to China's own food supply chain challenges and ways improving it I think will create enormous opportunities for Australia. Germany is a master of partnering technology and benefiting from trade with China and it is their methods perhaps Australia needs to emulate.

The issues paper asked for the issue of Bio Security to be considered as a way of enhancing our exports and perhaps are there dangers of too much trade that is sensitive to bio security protection. I agree Australia needs to protect its bio security at all costs, and we should not need to import foods such as poultry and pork and really most meats which carry bio security risks. Australia being an island/continent like NZ but much larger should allow us favoured status as low risk to real threats of Bio security. We have to market our bio security advantages and to do this effectively perhaps we need to monitor more closely some of the negative aspects of Imports by large supermarket chains.

I am surprised that horticulture imports have grown to over 2billion and the unallocated other at close to 5 billion needs further investigation ref page 9 figure 9 in the issues paper. I suspect and would need to do more research to prove the suspicions, that increasing some foods into Australia in fact may do more damage to our bio security than the market paying a little more for the item in the supermarket. It is an area where perhaps the purist free market believers need to be slowed down a little to ensure our Bio security remains intact for our export market. Well explained these issues should not impact our free trade credentials but I agree it is a complex issue needing constant attention if our exports are to grow. Perhaps NZ is in a better place to achieve this and we could follow some of their initiatives.

(H) As Agriculture returns and access to water are improved it will do far more than incentives. (Issue 9)

Overview:

If you liken Agriculture to Health, prevention is always better than the cure and in the long run less expensive. The problem we have with Australian Agriculture is possibly up to 50% is a very sick patient and possibly incentives will be needed in the short term until the patient is well. In the longer term what the Australian Agriculture patient needs is prevention measures of more secure returns, new export market access, and water infrastructure. The government should concentrate on providing these through regulation, investment both direct and encouraged by regulation, and foreign investment on terms that suit both the investor and Australia. I suspect tariff assistance will continue to be needed until the world is really one free market if this ever will be achieved. Strategies that will deliver the solutions have been set out in the responses above.

Figure 7 page 33 has some worrying signs of changes in Government industry assistance with agriculture falling by 44% from 27% to 15%, with the big winner being Services presumably Health and education. On exports and GDP potential growth I suspect the Services support will not deliver what Agriculture can. With Australian agriculture starting from a low base compared to other developed economies I suspect adjusting the balance trend was wrong which is supported by the worrying budget trends. The position with a future drop in Manufacturing and therefore support to the growth in services will be even greater possibly now attracting greater than 50% of support. Australia is now placing all its economic support on the back of one solution Services, which I believe will not deliver the export potential of Agriculture.

(H) As Agriculture returns and access to water are improved it will do far more than incentives continued

Personally I believe mining does not deserve any increase in government support as it has the hidden support inherent by gaining access to reserves at a very small upfront cost , with pay as you extract royalties compared to Agriculture which has to purchase Agricultural land up front and pay for access to water infrastructure.

On the issue of tax incentives as the 50% sick proportion of the Agricultural industry is on life support with returns of 1% on capital, tax incentives are at best academic. What other countries have done in my experience is to continually protect their Agricultural industry with support far greater than Australia before the last 5 years of decimation of support. I can't think of another country that has taken the actions of Australia and reduced Agriculture support by 44% whether it be for at home food security support or export. Australian agriculture is indeed very distressed at present and it is at a new all-time low point and looking backward to what may have worked in the past I believe is not the solution. We need to start from our poor current position which has no precedent in our history and develop strategies based on what we see as the ASEAN future growth in food and thereby Agriculture needs. We simply cannot inspire investment if the return is 1-2% that is insanity. If we look at other countries I think we will find they did not sell off their Agriculture marketing to Global conglomerates and concentrate market control in so few companies as we have done in Australia.

Perhaps the only close analogy for our predicament is the well documented Oil industry domination by the Seven Sisters for close to 100 years. It was a complete economic disaster for the supply countries in Africa and even Russia. The solution was the gradual take back by Governments of the control of reserves including by Russia where the Governments have now wrestled control back of their oil reserves reducing the control by the Seven Sisters cartel which is finally being broken down. In Australia we have a similar worrying trend of losing control over our Agriculture reserves resulting in the economic returns being downgraded to junk status. As outlined in the suggestions above there are solutions to wrestle control back of our Agriculture, increase the number of participants marketing exports and increase farmers domestic market share of the retail price.

Perhaps there is precedence for the decimation of Agricultural returns from the early stages of the EU. As countries took time to adjust to the one market economy they put into place pricing and other mechanisms to increase or protect farmer's returns. The big winners were Spain, and France was possibly the most successful in protecting their own farmers.

The problem with the sick Agricultural patient in the last 5 years it had its treatment reduced by 44% which worsened the illness. To quickly reverse the trend I would recommend quickly doubling possibly trebling the incentive medicines to arrest the decline and reverse the current trend to terminal bankruptcy and death. I can imagine asking for perhaps 2.4 billion additional assistance would not go well in budget discussions even if it were the correct answer. I think the 2.4 billion may have to come in other ways from a reallocation of superannuation investments into Agricultural infrastructure projects, increase in water for agriculture until new water resources come on stream, and logistics support farmer rebates until the new logistics policy can be implemented. Perhaps the "super pill" is the hope that a quick fast tracked PPP will deliver immediate returns back to the farmer allowing him to reinvest and restructure. Imagine the effect of an increase of on farm returns to 50% of farmers from 1% to 6%, and the follow on effects it will have on rural communities perhaps this is the golden pill that will provide the most short term effects. But the party should not start with celebrations as the overall challenges remain, Water, logistics, and markets and wrestling control of Agriculture back from the Seven Sisters that contributed so much to the decline of the Australian Agricultural industry.