



Submission on the Agricultural Competitiveness Issues Paper

April 2014

AUSTRALIAN LOT FEEDERS' ASSOCIATION (ALFA)

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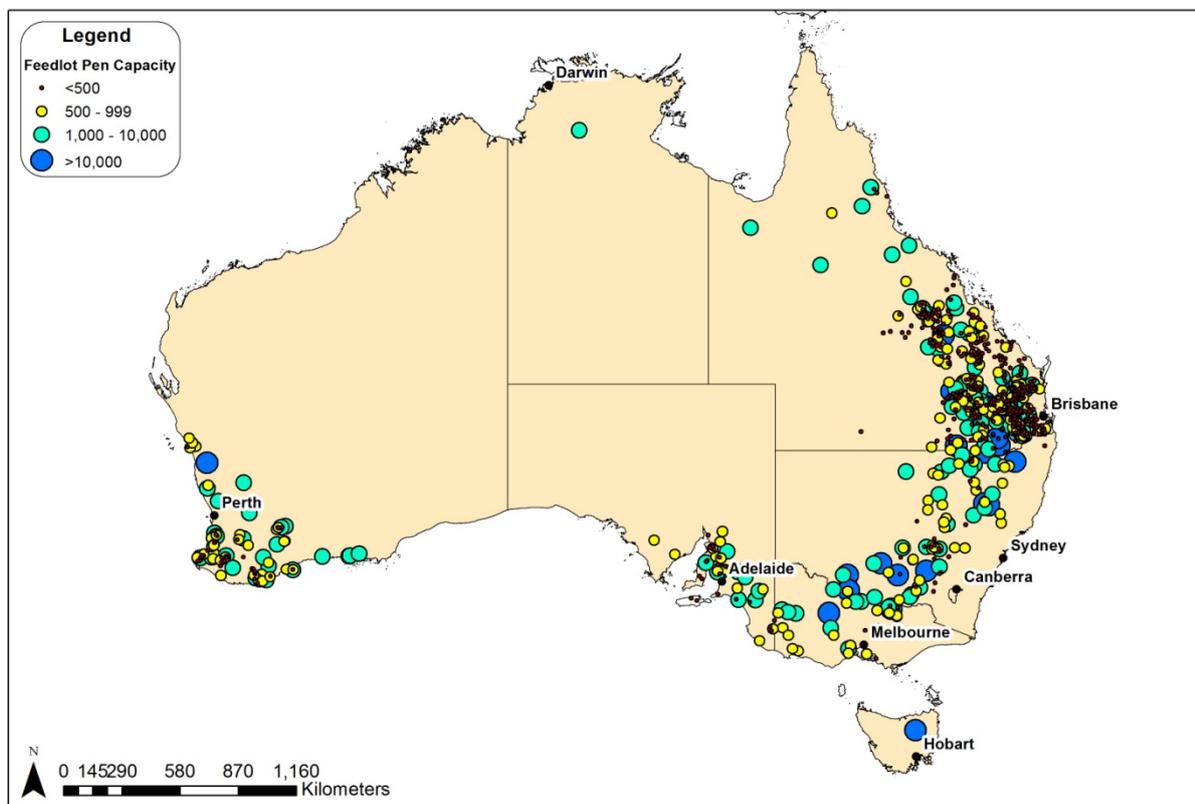
Background

The Australian Lot Feeders' Association (ALFA), the peak representative body for the cattle feedlot industry, appreciates the opportunity to contribute to the Federal Government's Agricultural Competitiveness Issues Paper.

The grain fed cattle industry has a value of production of approximately \$2.7 billion and employs some 9000 people directly and indirectly. Approximately 40% of Australia's total beef supply, 80% of beef sold in domestic supermarkets and the majority of beef industry growth over the last 15 years has been due to the expanding feedlot sector.

There are approximately 400 accredited feedlots in Australia located in areas that are in close proximity to cattle, grain, water and beef processing facilities. The majority of feedlots are located in Queensland followed by NSW, WA and then Victoria and South Australia.

Graph 1. The location, number and size of feedlots throughout Australia



The Australian cattle feedlot sector exports around 66% of its production to over 100 countries around the world. Accordingly, the need to be internationally competitive is imperative, particularly in less developed countries where price is the main driver of demand. In other markets, Australia has relied extensively on its systems and programs that enable it maintain a reputation as a supplier of 'clean, green, disease free' beef.

Around 98% of feedlots are owned by Australian farming families with the remaining 2% owned by vertically integrated processors.

It is important to note that if Australian agricultural competitiveness is to improve, the issue needs to be addressed through a 'whole of Government' approach at both a state and federal level.

RESPONSE TO ISSUES

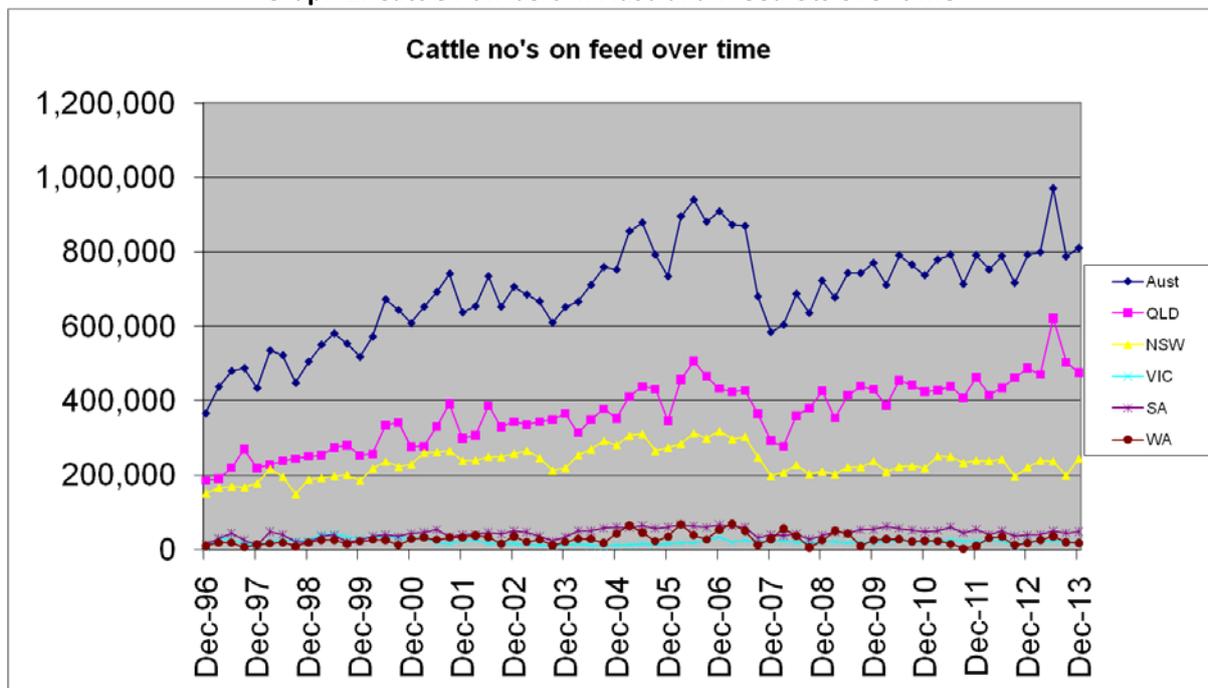
1. Ensuring food security in Australia and globally

What opportunities exist to expand agricultural production in Australian and how can we take advantage of them?

The extremely dry conditions across much of north-eastern Australia has reinforced the importance of the feedlot sector in being able to provide a consistent quantity and quality of beef for our customers, irrespective of Australia's variable weather conditions.

The feedlot industry in Australia has grown significantly over time as demonstrated by the following graph¹. The expansion of the industry is due to the demand for Australian grain fed beef both domestically and internationally, its ability to consistently meet marketable specifications regardless of weather, and the efficiencies gained from being able to finish cattle more quickly. Around 40% of all grain fed beef produced in Australia is exported into international markets². The majority of beef industry growth over the last 15 years has been due to the expanding feedlot sector with approximately 25% of Australia's total beef supply and 80% of beef sold in domestic supermarkets derived from the industry.

Graph 2. Cattle numbers in Australian feedlots over time



In order to take advantage of opportunities to expand the production of grain fed beef there are a number of issues that need addressing:

- Access to a sustained supply of good quality water. This is particularly relevant given the expansion of the mining and Coal Seam Gas (CSG) sectors and potential cumulative impacts particularly on ground water quantity and quality. Federal and state Government's need to ensure that such activity is sustainably managed and does not negatively impact upon this vital resource;
- Supply of reliable skilled and unskilled labour. Competition for labour with the more profitable and higher wage earning potential of the mining and CSG sectors is also relevant with this issue. Given

¹ ALFA/ MLA quarterly feedlot survey (June 2013), <http://www.feedlots.com.au/images/MR/mrjun13.pdf>

² ALFA analysis

this competitive disadvantage, the feedlot sector needs to be able to continue to access 457 visas for staff over time;

- Research, Development and & Extension (R, D & E) investment in nutrient management and reuse to address increasing environmental regulation problems and lead to reduced input costs and increased crop production;
- Improved model for weather predictability. Given global climate change predictions indicate that Australia will experience more variable weather patterns into the future, the need to secure more accurate weather forecasting tools will become more important into the future. The cattle feedlot industry is particularly susceptible to heat stress conditions which are manageable if sufficient advanced warning is obtained;
- Investment in R, D & E to enable industry to adapt and respond to predicted increases in weather variability including addressing consistent access to affordable high quality fodder and improved management of excessive heat load events in order to mitigate heat stress;
- On-going development of drought mitigation strategies including investment into grain research and development to develop more drought tolerant grain varieties along with varieties that more specifically deliver requirements for various market needs;
- Access to grain. Australia's conservative approach to quarantine means that access to international parity priced grain is impossible during low domestic production years. This places our beef exports at a competitive disadvantage;
- The removal of Government support and protection for grain derived ethanol production. The current fuel excise subsidy for ethanol manufacturers along with mandates of ethanol demand in NSW is highly distortionary whilst leading to inflationary impacts on grain prices, particularly during low grain production years. Other countries such as the US, have commenced removing this 'infant industry' type assistance given the costs outweigh the benefits and the sector has not improved its efficiency and international competitiveness.
- Improved access to data (including particularly that related to grain stocks);
- Reduction in the administrative burden including through addressing state based inconsistencies in legislation and regulations, particularly with respect to environmental management;
- Addressing the disconnect between urban consumers and the bush by highlighting the positives of a career in agriculture;
- Improved access to financial capital. Currently access to capital for feedlots is constrained by conservative lending principles adopted by banks and other lenders. Direct foreign investment is supported by the cattle feedlot sector as an option to obtain access to otherwise unavailable capital.

Do farmers have access to timely, relevant and accurate information to fully inform production decisions to meet domestic and global food demands?

No. Unfortunately there is market failure with respect to the provision of grain stock data with current data lacking and/ or piecemeal, imprecise and untimely. Overall, it is ALFA's view that this has led to market imperfections, information asymmetries and a lack of effective price discovery.

Accordingly, ALFA recommends the following;

- Grain stock data provision should relate to all grains and oilseeds, not just wheat;
- Data should be provided by grain type, port zone (not just state) and certain particulars such as grade for wheat, feed/ malt for barley and GM/ non GM for canola;

- Data should be collated and reported on a weekly basis. Monthly reporting would also be beneficial;
- There needs to be communication to all supply chain participants regarding the collective industry good benefits of providing this data to enable a more transparent market place for informed decision making to occur;
- An independent body such as the GRDC (which does not stand to commercially benefit from this information and is funded by industry levies) should collate aggregated data from the supply chain on industry's behalf;
- There should be some level of compulsion imposed on key supply chain participants to disclose grain stock data. The options available are legislation or a code of conduct/ memorandum of understanding signed by the bulk handling companies, storage companies and GRDC. Whilst the latter option would not have legal standing it would invoke a level of collaboration and support that is not currently present;
- A randomized and statistically relevant number of growers should be surveyed each week to establish estimated on farm storage tonnages.

ALFA would also support the development of improved tools to forecast weather. Given climate change predictions are that weather conditions are likely to be more variable into the future, such information would be valuable particularly for the feedlot sector given the risks associated with cattle heat stress.

2. Farmer decisions for improving farm gate returns

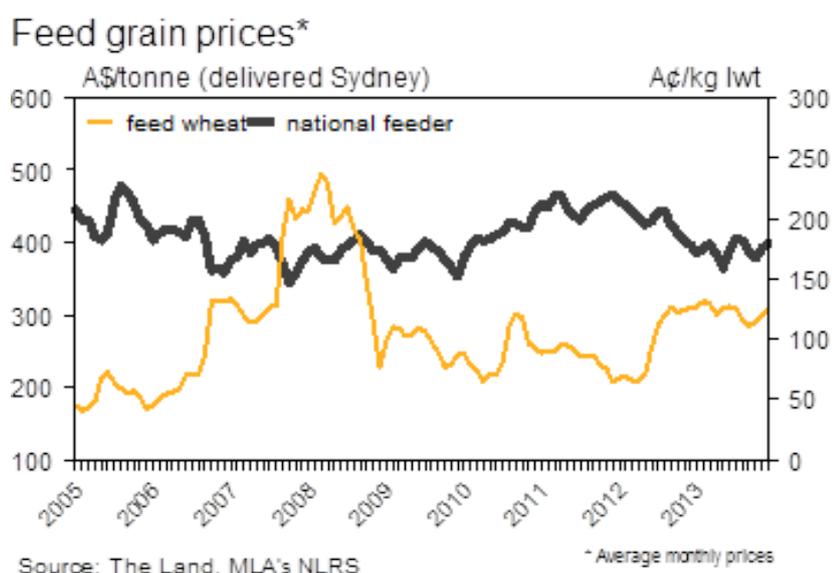
What are the drivers and constraints to farmers to adopting alternative business structures, innovations or practices that will assist them in improving farm-gate returns?

Whilst the largest 20% of feedlots in the country represent around 80% of overall industry capacity, the average feedlot size is nonetheless small by international standards, around 2,000 head. This indicates the large number of small family owned and operated facilities in the sector. Many of these facilities are 'opportunistic' meaning that they place cattle in their feedlot only when market and/ or seasonal conditions are particularly conducive to their operation. However, such behaviour also makes it difficult to maintain high calibre staff and customers; and to expand and gain economies of scale. Moreover, such lot feeders are likely to be disconnected to the rest of industry and accordingly may unknowingly suffer from the inability to access information regarding R & D outcomes, new technology or best management practices.

Other feedlots are unable to expand due to the high upfront capital costs involved. Rough estimates are that the cost to expand a feedlot is in the vicinity of \$1-1,500 per standard cattle unit (depending on the overall size of the intended operation). Such infrastructure is both immobile and inflexible in its use making the investment a sunk cost if it becomes unsuccessful.

Cattle feedlots essentially earn a small margin on a high number of cattle. Like extensive cattle production, profits largely depend on seasonal and market factors. From a seasonal perspective, good seasons lead to higher feeder cattle prices but lower grain prices for example. However, the sector does have some market influence on feeder cattle prices (the largest cost of production) through its own demand, but these are often lagged and may not completely offset increases in other costs. For example, the following graph demonstrates the decline in feeder cattle prices as grain prices increase (and vice versa).

Graph 3. Australian feeder cattle vs grain prices over time



Given the intensive nature of feedlots, they are characterised by a high cost structure, particularly from a labour and capital perspective. The high operating cost environment in Australia only aggravates this situation. For example, Australia has the highest minimum wage in the world (USD\$33,355)³ and the 5th highest average wage⁴ among OECD countries (USD\$49,656). Labour costs in Australia have also grown at twice the rate of other OECD countries over the past decade and 1.7 times that of the US. This has been particularly felt in rural regions where mining and Coal Seam Gas operations are located. Given these costs, we need to determine efficiencies to save labour costs over time. Such opportunities may include driverless feed trucks for example as occurs in the mining industry.

Over the last 4 years, according to Federal Government figures, average energy costs have also increased by around 70%⁵. Whilst the carbon tax may well be removed by the Federal Coalition Government this year, it is nonetheless clear that energy costs will continue to rise into the future. Accordingly, the feedlot sector needs to reduce its energy usage particularly around the further processing of grain given its energy intensiveness. More R&D needs to be undertaken to determine energy reduction or reuse opportunities such as finding alternatives to steam flaking grain, capturing and reusing the energy from manure/ effluent and improving energy efficiency for facilities such as cattle washing.

For marginal costs, given the high turnover of cattle, small efficiency benefits lead to large potential savings. Any technology which helps facilitate cost reductions will accordingly be utilised extensively in the sector. Unfortunately, Australia, being a small market, is often unable to access a number of cost saving technologies utilised by beef producers in other countries. This applies particularly to animal health products. Government actions that could help assist access to such technologies including the streamlining of chemical registration approvals would be beneficial.

Unfortunately, state and federal Governments have reduced their relative investment in research, development and extension into agriculture over time. This has made it more difficult to address declining terms of trade issues. It also hamstrings the sector's ability to take advantage of the growth in Asian beef

³ http://en.wikipedia.org/wiki/List_of_minimum_wages_by_country

⁴ http://en.wikipedia.org/wiki/List_of_countries_by_average_wage

⁵ <http://www.ret.gov.au/Department/Documents/clean-energy-future/ELECTRICITY-PRICES-FACTSHEET.pdf>

demand over the next few decades. Whilst there is a role for the private sector to help address this area, previous reviews in this matter, demonstrate the market failure and need for Government intervention.

The feedlot sector adopts a very collaborative and socialist response with respect to Research and Development (R&D) outcomes. ALFA organises a variety of workshops and conferences where such outcomes are shared among the sector. As a result, the costs for R&D extension are less and delivery of knowledge far quicker than other agricultural industries.

What tools, skills and advice do farmers need to effectively adapt and respond to the risks they face?

To effectively adapt and respond to identified risks industry requires on-going investment in research, development and extension programs to ensure lot feeders can improve their skills and have access to tools and advice to address:

- Technology to reduce and reuse energy such as finding alternatives to steam flaking grain, capturing and reusing the energy from manure/ effluent and improving energy efficiency for facilities such as cattle washing.
- Technology and/ or knowledge to more efficiently and effectively utilise water.
- Tools to more accurately predict weather variability, particularly given this is more likely to be an issue into the future. This is relevant not only for crop production but also management of excessive heat load events in in cattle.
- Development of strategies to assist with drought mitigation including investment into grain research and development to develop more drought tolerant grain varieties along with varieties that more specifically deliver requirements for various market needs.
- Genetic improvements to boost profitability.

What alternative actions or measures by governments, farmers or others would result in improved financial performance at the farm gate?

The following is recommended of Government's to improve financial performance over time;

- Increase Government R&D investment over time;
- Reduce the administrative burden associated with red tape. State and Federal Government have a range of legislation which lead to administrative burden. Importantly, whilst a number of reforms have led to more harmonisation of state legislative issues, there nonetheless is a plethora of others where this problem still exists. Australian agriculture operates on a global level yet we are hamstrung by state based legislative differences. A key example for the feedlot sector is state based differences in environmental legislation with different license thresholds, compliance requirements, assessments of risk, environmental incentives, among others. Differences in state legislation surrounding transport, payroll tax and animal welfare are other examples.
- Improve access to financial capital. Currently access to capital for feedlots is constrained by conservative lending principles adopted by banks and other lenders. Direct foreign investment is supported by the cattle feedlot sector as an option to obtain access to otherwise unavailable capital.

What approach could be used to encourage improved drought preparedness?

Government can provide producers with information regarding appropriate options to help mitigate the impacts of drought. This information can be disseminated via a number of options i.e. face to face, electronic, post etc.

One option available for Australian cattle producers is the development and/ or increased utilisation of feedlots. An inherent advantage of feedlots is that they can ensure the survival of cattle whilst also delivering a consistent quantity and quality of beef (irrespective of our variable seasons or droughts). Whilst this is best delivered through the normal market mechanism rather than Government intervention, Governments can play a role in promoting the benefits of feedlots and helping facilitate this as an option for producers.

How can new farmers be attracted to agriculture and how can they succeed?

New farmers can be better attracted to agriculture through Government investment and/or support in the provision of information about agriculture and the opportunities it offers in school curricula and mainstream and online media. Seminars and information sessions would also assist interested parties to access information on how to enter, and be successful, in a career in agriculture.

There is a large disconnect between the city and the bush with consumers and the urban community having little access or experience with farming life. This gap is increasing over time and is resulting in very little understanding or appreciation of the nature of agriculture, its professionalism, and the breadth of career opportunities it offers. Options to bridge this gap and ultimately reduce it need to be identified and implemented.

One of the challenges for new farmers to be successful in agriculture is access to finance. Whilst Governments could support new farmer investment through the provision of low interest loans so young farmers can purchase or lease land, ALFA would also like to see Government support and encouragement of land lease or share farming arrangements (as is undertaken at a greater level overseas). Well-planned agreements can provide opportunities for new farmers to grow net worth and increase their investment in agriculture through increased operating profit and asset creation.

3. Enhancing access to finance

By nature, feedlots are expensive to build and run. Agriculture's fundamental failure to attract "industrial sized capital" on a broader scale is a limiting factor to growth and industry reinvestment.

What examples are there of innovative financing models that could be used across the industry?

The largest cost of production for lot feeders is feeder cattle. Some feedlots may have 50,000 head in their feedlot at any one time yet the value of such cattle is not recognised as an asset by many lenders and hence can't be used as collateral for loans. Such lenders see these cattle as a risk that can be easily disposed should financial difficulties emerge. However, these lenders fail to appreciate that feedlots have credible and robust quality assurance systems with individual cattle given individual radio frequency identification devices under the National Livestock Identification Scheme to allow them to be tracked throughout the supply chain.

What would encourage uptake of new financing models?

Recognition of the systems, programs, privacy arrangements and risks associated with lending to the cattle feedlot sector.

What alternative business structures could be developed for farming that also retain ownership with farm families?

Australian agriculture should consider the increased adoption of the practice of leasing land as an alternative to direct ownership. As land increases in value, the ability to purchase land outright (particularly in the face of declining terms of trade) becomes more difficult. Debt to equity ratios increase and farmers struggle to meet current debt obligations. Leasing land is far more common in other countries and should be considered (from both a lessor and lessee perspective) more readily in Australia.

How can foreign investment best contribute to the financing and productivity growth of Australian agriculture?

Foreign investment provides a ready source of capital that is often otherwise unavailable due to Australia's small size and an aversion to invest in agriculture as a result of its long term returns on investment characteristics. Foreign investment should be considered separately to foreign ownership with the former a preferable arrangement.

4. Increasing the competitiveness of the agriculture sector and its value chains

How might existing laws and regulations be changed to address any market power imbalances in the agricultural supply chain, without limiting prospects for global-scale firms developing in Australia?

Australian competition law needs to be reviewed to place more focus on suppliers of goods and services. Whilst the cattle feedlot sector has a close and generally amicable working relationship with the major retailers, we are increasingly experiencing pressure to comply with requirements which impose increased costs on the sector and/ or limit access to technologies which would otherwise improve our competitiveness. The banning of Hormone Growth Promotants by one of the major retail chains is a case in point.

How can the agriculture sector improve its competitiveness relative to other sectors in the economy?

The level of regulatory burden has a significant impact on the competitiveness of the agriculture sector. ALFA supports risk based regulation, particularly with respect to environmental protection, WH&S laws, agriculture and veterinary chemicals, and transport. This enables the burden of regulation to be applied most to those businesses where risks are greatest – a far more equitable approach.

The ability to attract and retain staff is also a significant factor in improving competitiveness. Given that agriculture cannot necessarily compete with more profitable sectors with respect to wages, we need to highlight the non-financial attributes of being employed in the sector eg diverse career options, ability to work in the outdoors, live on site, or to work with animals etc

The agriculture sector also needs continued government investment in innovative R & D and extension and adoption activities to improve profitability and also ensure long term industry capability in science and extension.

Which examples of overseas approaches to improving agricultural competitiveness have relevance for Australia?

The model utilised within Denmark has a number of learning's which have relevance for Australia. The country, which is only 200km by 200km in size, is the largest pork exporter and one of the largest dairy exporters in the world. However, it also has the highest unskilled wage rate in the world along with the some of the strictest environmental regulations.

Farmers for example often get a call on their mobile from Government officials concerned about crop chemical application after they have detected through GPS technology that they have entered one of their paddocks. It is additionally a requirement that farmers develop annual plans regarding the use of crop chemicals which then must be approved by Government before any chemical is applied.

Interestingly however, the country's producers have been able to offset their high cost structure by increasing productivity, marketing their products as 'premium' and 'clean and green', improving their terms of trade; and increasing supply chain transparency from an animal welfare perspective. It is commonplace for example for abattoirs and piggeries to conduct tours for all interested parties (despite the fact that they still use dry sow stalls).

Their advocacy group is a cooperative which represents not just agriculture but the wider food sector. It has over 90% of the industry as members, who have all joined not because of advocacy but because of the services that it provides. These include on farm software tools, free legal advice, benchmarking etc.

The cooperative has established and owns the countries Research and Development (R&D) infrastructure, which is housed in a single 'centre of excellence' location. Private companies also undertake their research at the facility to enable R&D collaboration and the sharing of ideas.

Curiously, the cooperative actually put in place the regulatory framework that enables Government to manage and monitor environmental issues. The quid pro quo is that it uses this framework in its marketing to augment its 'clean and green' environmental claims.

In conjunction with Government and private companies, the cooperative also coordinates the international marketing of its agricultural products with private brands backed up by the national Danish brand.

The Denmark model may not have applicability in Australia and it is impossible to have a model that is all things to all people. Nonetheless, it demonstrates one way to address advocacy effectiveness, the provision of services, declining terms of trade and a high wage structure. Moreover, it poses questions regarding the appropriateness of Australia's disparate and fragmented agri-political environment where six peak industry councils represent the red meat and livestock industry (let alone agriculture or the food sector as a whole).

5. Enhancing agriculture's contribution to regional communities

What impact does the growth of populations in regional centres and the decline in more rural or remote townships have on farming business and the agricultural sector?

The decline in populations in more rural or remote townships has a significant impact on the local farming businesses both in terms of the ability to attract and retain staff and also on the access to local goods and services. This includes reduced access to services such as health and education, retail, restaurants, sporting and recreation facilities; a loss of people who are available to volunteer for key local activities (eg rural fire service, sports and fund raisers); reduced social networks and fewer opportunities to diversify income

generation for both the business and families of staff. There is also an impact on local infrastructure with, for example, amended regional priorities for investment in transport and roads.

6. Improving the competitiveness of inputs to the supply chain

How can land, water and other farm inputs be more effectively deployed to better drive agriculture sector productivity, while maintaining or enhancing the natural resource base?

ALFA supports on-going government and industry investment in R, D & E activities to develop and implement more effective methods of increasing the efficiency of production through utilisation of the same or reduced inputs. Opportunities include:

- Intensification of farming practices eg increased lot feeding of cattle;
- Improved water, energy and fuel efficiency and reuse eg reusing heat generated through steam flaking grain, capturing and using methane from manure, reusing cattle wash water, chemical applications to prevent cattle washing, use of treated CSG water and/ or CSG as an energy source for feed mills;
- Improved genetics and use of gene markers, nutrition technologies to improve feed conversion efficiency and cost of gain;
- Genetic modification of grain eg drought tolerance;
- Mechanised, robotic innovations. Eg driverless feed trucks.

What skills including specialised skills and training, will be required in the future and how can these be delivered and uptake encouraged?

Increasing the efficiency of production through utilisation of the same or reduced inputs is a consistent priority for the industry. Accordingly, specialist skills and training that is required to support improved profitability includes, at a minimum, improving water and energy use management. Other specialist skills that are required include the development of provision of support for farm specific IT software as the use of technology for on-farm management increases.

Succession planning is required to help pass on these skills to the next generation and maintain capability. From a feedlot industry perspective, this is required to improve meat science R&D and consultant capacity. This can be facilitated through the provision of funding towards PhD's and post doctorate studies.

As the extension environment changes with reduced state government investment some of the gaps are being addressed through private consultancies and veterinarians. However there are issues with the linkages with research providers and questions around the extension abilities of individuals. The increased focus on social science/extension development and delivery topics in the curriculum of science, agricultural and veterinary courses should be considered in order to strengthen the link between research and development outputs and their adoption on farm.

How can we attract workers to agriculture – particularly in remote areas?

There are a number of recommendations to consider in attracting workers to agriculture including the following;

- Helping bridge the country city divide through inclusion of more reference to agriculture in school curricula;

- Highlighting the positives of a career in agriculture ie diversity, fulfilment, tangible delivery of outcomes, outdoors, close rural communities, ability to work with animals etc;
- Increasing mechanisation of low skill, menial labour jobs;
- Improving services in rural; communities, particularly with respect to health, education and telecommunications;
- Improving leadership/incentive opportunities;
- Increasing access to on-the-job training evaluation, remote formal training;
- Maintenance of rural facilities such as schools, sports, recreation.

How can we promote career pathways for the agriculture sector, including models to enable younger farm workers to gain broader industry experience?

Through the provision of support, funding or scholarships towards;

- Agricultural colleges and training providers such as Longreach/ Tocal;
- Company graduate programs such as NAB;
- Leadership programs such as the Australian Rural Leadership Program, or through state farming organisations or peak industry councils;
- Skills improvement such as Nuffield Scholarships;
- State Government extension investment.

How can rural industries and governments better identify, prioritise and fund research, development and extension?

Industry is best placed to determine and prioritise R, D&E for their particular sectors. However, Government plays an important role in matching Government R&D investment as well as through other channels such the CSIRO and CRC framework.

The removal of Government funding and resources towards R,D&E within agriculture in recent years will have significant impacts on the sector as the private sector, Research and Development Corporations (RDC's) and peak councils attempt to fill the gap. Whether this will negatively affect the rate of on farm adoption of R&D outcomes and whether effective communication linkages with RDC's can be established remains to be seen. Notably, the removal/reduction in government investment in extension services within agriculture in recent years will also have significant impacts on ensuring there remains capability in the extension development and delivery area. The government funded extension programs offered a career path for new science and agriculture graduates to enter the sector and develop their skills in promoting on-farm change management and adoption of methods to increase farm profitability. Extension officers often went on to private employment as industry consultants, further increasing capability and ensuring a succession plan. ALFA is concerned that the absence of this valuable career path through the reduction in government funding for extension will have significant long term impacts for the industry with respect to access to skilled and trained consultants that are able to translate research and development findings into outcomes on farm. It is recommended that this gap in career path opportunities for industry service providers be addressed.

Given the likelihood that state Governments will not reinstate resources and funding into R,D&E, the importance of collaborative funding arrangements between commercial, Government and industry R&D providers and combining R&D projects to deliver more leveraged outcomes for dollars invested will become more important.

The beef industry is incredibly diverse from a geography, production system and agro-ecological perspective. The industry needs to better segment producers and their R,D&E needs and deliver accordingly. This will ensure more targeted outcomes and delivery efficiency.

Government incentives to encourage foreign companies to undertake R&D in Australia would be supported.

What irrigation, transport, storage and distribution infrastructure are required to support the food and fibre production systems of the future and how should this be funded?

Given Australia’s large size, the role of transport in agriculture’s future cannot be overstated. Currently, many rural areas are unable to utilise the scale and cost efficiencies associated with B-Double and road train access. Given that transport costs are significantly higher in Australia than countries such as the US, we will continue to be at a competitive disadvantage until this matter is addressed.

The funding commitment towards the Toowoomba bypass is a key infrastructure announcement. ALFA looks forward to such commitments being delivered into the future.

The floods in south east Queensland in recent years have demonstrated the impact from the loss of key infrastructure assets such as roads and bridges which become impassable as a result of such events. Not only does this represent a large potential animal welfare risk for the cattle feedlot sector, but it also greatly increases the cost of sourcing ration inputs and delivering our end product to market.

Improved telecommunication infrastructure is also required in rural areas to allow farmers to access the benefits from such technology whilst also not disadvantaging them as providers gradually remove outdated systems. This is relevant for both non-industry and industry developed technologies. For example, the beef industry will transition to electronic vendor declarations integrated with the National Livestock Identification System into the future. However to enable this transition to be most effective, improved access to the internet and mobile phone services is necessary. These are basic services that are currently available to metropolitan Australians and are important components to ensure the competitiveness of the industry as we move forward.

7. Reducing ineffective regulations

A number of state Governments are reducing the costs for administering legislation by encouraging the adoption of third party auditable quality assurance programs which cover the areas of legislative concern. This is particularly relevant for Queensland environmental regulation. ALFA endorses this strategy as it provides benefits to both industry and Government;

Benefits to Government	Benefits to industry
Improved environmental performance (as more industry participants are encouraged to voluntarily participate in auditable quality assurance programs)	Reduced environment license fees
Reduced compliance costs (as this responsibility is delivered via independent annual audits)	Reduced auditing costs (duplicative Government environmental audits are no longer required)
Reduced potential reputational damage to Government for the actions of industry.	Improved uptake of QA programs among industry (leading to reduced industry reputational risk from matters captured within QA schemes eg environment, animal welfare and food safety)
Regulatory requirements are more commensurate with environmental risk	Regulatory requirements are more commensurate with environmental risk

How well do regulations affecting the industry meet their policy objectives?

This is best answered by Governments. Notably, the delivery of legislative policy objectives may not necessarily be correlated with the delivery of improved agricultural competitiveness.

Regulations are more likely to meet industry requirements where they are:

- Developed in consultation with industry;
- Nationally consistent;
- Based on science, not overly prescriptive and are proportionate to risk;
- Implemented within industry driven and developed co-regulatory frameworks – see NFAS
- Promote industry investment and competitiveness
- Implemented without appropriate regulatory impact assessment.
- Regularly reviewed legislation to ensure that it meets its objectives without net compliance and enforcement costs exceeding net benefits.

A good case in point is the current Queensland environmental regulations.

Regulations are less likely to meet industry requirements when they are:

- Developed in the absence of industry consultation;
- Are inconsistent between states and territories;
- Not based on science, are overly prescriptive and are not commensurate with risk;
- Add no advantage or deter industry investment;
- Implemented without appropriate regulatory impact assessment.
- Regularly reviewed legislation to ensure that it meets its objectives without net compliance and enforcement costs exceeding net benefits.

A good case in point is the current NSW environmental regulations.

What opportunities are there to reduce ineffective or inefficient regulation?

See answer to previous question.

Which regulations are disproportionate to the risks they are supposed to address?

State Government environmental regulation represents a good example where burden is not necessarily commensurate with risk. NSW, in the wake of the Orica incident, has imposed requirements for this hazardous industrial chemical manufacturer that have also been imposed on all other environmental license holders. This is unjustified and excessive and increases the cost of doing business in the state. By way of example, if there is a natural disaster such as a flood and a feedlot's effluent pond overflows, lot feeders are required to notify the Office of Environment and Heritage, local environmental authority, Ministry of health, WorkCover; and Fire and rescue NSW. However, such an incident has no relevance to Health, Workcover or Fire and rescue with such organisations subsequently requesting lot feeders to not contact them if such an event occurs (despite the legislative requirements). In direct contrast, Queensland has adopted environmental legislation that is more consistent with risk and encourages improved performance over time through the provision of incentives to adopt auditable quality assurance programs.

The legislation surrounding the approval of agricultural and veterinary chemicals in Australia is also draconian and overly officious. Obviously there is a need to ensure such products are effective and don't pose any risk from a human health, environmental or trade perspective. However, the requirements and time taken to undertake this process is excessive. A recent example is a product that the cattle feedlot industry is attempting to trial in Australia to determine its efficacy in removing dags on cattle. After 3 years, the industry has still yet to obtain APVMA approval to trial the product, let alone register it. The same product is available for use in New Zealand. An approach which focuses more on mutual recognition of the approval processes adopted in other countries is required.

How do we coordinate across governments to reduce regulations whose costs exceed their benefits?

Ideally, State Government's should agree to relinquish their legislative responsibilities to a commonwealth level on certain matters that have national relevance. This has been undertaken with respect to Corporation's Law and should be replicated for WH&S, environment, animal welfare and transport matters for example. Australian agriculture operates on a global level yet we have to deal with the interstate inconsistencies on legislation. This is cumbersome, costly and archaic and defies common sense or logic. Given the constitutional sovereignty issues involved, state Governments need to independently agree to this step – an understandably difficult but equally beneficial exercise. An assessment of the costs associated with inconsistent state legislation may assist in the harmonisation or development of a consolidated commonwealth approach to such issues. The development of national industry and Government supported policy to help facilitate more harmonised state legislation is the best interim measure.

8. Enhancing agricultural exports

How can industries and government respond to the key challenges and opportunities to increase or enhance exports?

The single greatest gain that Australian agriculture can make is from improved market access. This is particularly the case given the role that Australia can play to meet the demand needs of Asia. The focus of our efforts should particularly be directed towards bilateral and plurilateral trade agreements rather than multilateral given the large number of disparate countries involved. The elongated, truncated and to date unsuccessful efforts with respect to the Doha round actively demonstrates this.

Importantly, successful trade agreements can be delivered if Government places this as a key priority. The success of New Zealand in securing free trade agreements has demonstrated the results of harnessing resources and focus towards the area. The Coalition Government's achievement of FTA's with both South Korea and Japan since the last election reinforces this.

The Australian Government should also focus on addressing technical barriers to trade. Following the success of the Uruguay round, increased number of signatory countries to the WTO and delivery of a plethora of bilateral and plurilateral trade agreements, importing countries have resorted to the use of technical barriers to moderate trade. These can often take years to resolve and can place significant restrictions on Australia's ability to take advantage of international trade opportunities. Unfortunately this trend is inversely proportional to the agricultural councillor resources focussed on addressing such matters. This trend needs to be addressed by increasing the number of qualified agricultural councillors in key export markets, their elimination in trade agreements and through the use of the WTO appellate.

How can the government take best advantage of multilateral and bilateral trade negotiations (including through the World Trade Organisation and through free trade agreements (FTAs) to advance the interests of the sector?

Trade agreements are the best mechanism to eliminate tariffs, remove safeguard/ snapback provisions and/ or discriminatory tariff line treatment as well as secure improved market access. They also enhance trade relationships and provide mechanisms to better deal with disputes. Given the highly protected nature of agricultural trade around the world, the benefits of achieving such outcomes are large. For example, the benefits to the beef industry alone from the recently approved FTA with Japan are estimated to be around \$5.5 billion over the next 20 years.

How can engagement between the industry and government on market access priorities for Australian agricultural products be improved, including to inform negotiations of FTAs?

By establishing formal Government/ industry consultation frameworks for discussions before and during trade negotiations. This consultation framework is imperative to ensure that the preferred and fallback positions are well understood and attempts to introduce distortionary or obfuscatory provisions by importing countries is quickly addressed.

What changes could be made to biosecurity arrangements, both in Australia and in other countries, that would enhance global trade in agricultural products?

Australia has a hard won reputational as a supplier of 'clean, green, disease free' produce. This has been delivered through its science based but nonetheless conservative approach to quarantine. ALFA believes that Australia needs to review this approach particularly with respect to grain importation.

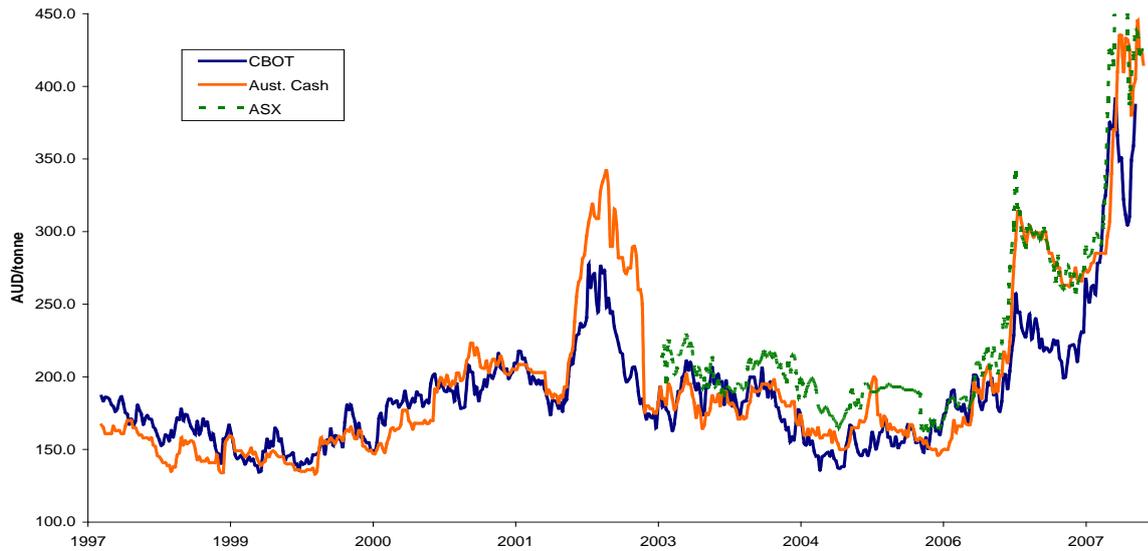
Australian grain prices are determined by a combination of US futures prices, exchange rates and change in basis. Accordingly, they generally have a high correlation with world prices. However, when droughts occur in Australia, the lack of grain supply can often lead to domestic grain prices increasing by over \$100/ tonne greater than world parity prices (see graph 4 below). Given that Australia has a conservative approach to quarantine and biosecurity, the restrictions, delays and costs to import grain effectively makes this option extremely problematic. This is because of the following reasons;

- Import permit restrictions are extensive, complex and resource intensive depending on the nation where grain is sourced.
- All imported grain requires 'devitalisation' (ie hammer milling and steam pelletisation) in dedicated stock feed manufacturing plants in metropolitan areas in order to treat pathogens, pests and weeds. This is not only an additional cost to the importation process but results in a reduction in feed grain quality.
- The requirement that devitalisation occurs in stock feed manufacturing plants in metropolitan areas (given Biosecurity concerns) means that the quantity of available imported grain is restricted by the capacity of such plants. Notably, these plants have limited excess capacity given existing contractual obligations to domestic grain users such as maltsters, flour millers and chicken meat producers. With current plant capacity levels around 1 million tonnes (the feedlot sector alone requires 2.7mill tonnes of grain per year), this is a limiting factor preventing increased grain imports. Problematically, at precisely the same time that intensive livestock industries require capacity to devitalize imported grain, stockfeed manufacturing plants are running at full capacity due to drought feed requirements. The effect of this requirement for metropolitan processing is to allow only some grain users to utilise existing on site processing facilities with both high costs and delays the inevitable result.

- Once devitalisation occurs, there are also additional costs to transport the grain to up country users.

Given the above constraints, grain importation is a potentially more expensive and uncertain option than sourcing domestic grain. Accordingly, it is of no surprise that very little grain has been imported during Australia’s recent droughts.

Graph 4 - Australian versus world grain prices



How do we provide the appropriate biosecurity controls at minimum cost?

By ensuring that our approach to quarantine is genuinely scientific and risk based.

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

It is suspected that very few people would be aware of the suite of government programs and incentives for investment and job creation across state and federal Government levels. This is perhaps indicative of the need to improve the promotion of such efforts.