

## SUBMISSION ON AGRICULTURAL COMPETITIVENESS WHITE PAPER

### The Author

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### Objectives of Submission

This submission does not attempt to address the whole gamut of issues relevant to furthering the efficiency and betterment of Australian agriculture. The author limits his contribution to a range of topics which he believes he has the knowledge of and experience about to be able to add to the valuable information required to make objective policy decisions. The author has opinions on a range of other topics but has attempted to confine the submission to areas where he considers he can add to the information pool in areas that may otherwise be overlooked even if the topics addressed are not necessarily the most important.

The submission is hastily prepared and does not have the substantiation that may be obtainable by drawing from objective data, reports and research work.

### TOPICS

#### Farm Structures and Land Tenure

The Family Farm has long been hailed as the ideal and most efficient form of farming in Australia. Whether or not this has been true this submission attempts to dispel the notion this form of farming is best for the future. In regard to both the present situation and as a template for the future family farming, with notable exceptions, has reached a stage where a huge array of problems is curtailing its ability to perform efficiently.

A major problem with family farming lies with the ownership of land. Ever more so farmers are placed in the position of having the dual occupation of farming proper and the management of a large real estate asset. Whether or not they are good at the former they are rarely good at the latter and indeed circumstances prohibit them from being able to manage the real estate asset.

In the opinions of many succession planning has loomed as the major impediment to successful family farming. With the accretion of land values and the need to expand to become more efficient

given the relentless cost/price squeeze the land asset becomes significant and large in relation to the income and surplus capital available to deal with it. Even if the farm is efficient in terms of production when it comes to family settlements the business cannot generate the capital required to meet the various demands. Ironically the efficient farm can be more vulnerable at this point than the farm which has been run poorly. While every situation is different the general problems centre around the cost of retirement, the rights of non participating family members to receive a share of the family's wealth and the lack of ability to deal with this problem. Even when succession is 'successfully' orchestrated there is usually a legacy of debt and diversion of funds from farming proper to meeting capital payments and interest payments where debt is employed. It is notable also these situations result in a huge amount of the capital generated by farming being exported out of the farming community curtailing the ability to invest in agricultural infrastructure. This in turn has a negative effect on farm suppliers and the regional towns and cities.

Often too huge costs are incurred by family farmers in the process of dealing with succession planning. These include legal fees, taxes, advisory fees and disruption to production. Notably also there is usually and sometimes devastating human cost resulting from the process of succession planning whereby family relationships irrevocably break down. Also the involvement of legal processes does, apart from being costly, often result in ridiculous and grossly unfair outcomes.

In the author's case he was thrown off the farm without being able to retain some ownership despite a lifetime of dedicated and effective participation in the business.

The family farm is also vulnerable to other family events such as divorce and property settlement.

Apart from the problems caused by the land asset very few family farms are efficient at this point in time. In a complex situation there is a continuum from a small number of efficient farms (possibly around 10%) through a morass of varying stages of efficiency to a point where farms are grossly inefficient and even totally unproductive.

Because of the diversity of situations it is impossible to summarize the whole gamut of reasons efficiency has been lost if indeed it was ever there. Every situation is different. It is only possible to denote some commonly occurring scenarios.

Many farms which are relatively small in relation to the size needed to support a family are not able to source the capital required to invest in expansion and infrastructure needed to maintain living standards given Australia is becoming an increasingly affluent country. It must be remembered here many farmers are there because they were born into the occupation rather than having chosen it because of their particular ability to be good at farming. So often the reaction to diminishing returns is to attempt to maintain living standards (such as education costs) by curtailing inputs such as fertiliser. This of course results in a further loss of profit and increases the dilemma. Solutions to an inadequate cash flow include taking off farm employment and ceasing to maintain infrastructure. Often the blame is appended to droughts, poor government policies etc rather than facing the reality of the situation. These farmers are often vulnerable to so called alternate solutions which result in further deterioration of their predicament.

Usually the farmers beset with inefficiency are in the more select areas and climates. This ironically produces the situation where the best agricultural land is the least productive. A further and major spin off from the demise of family farms is the hugely detrimental effect on country towns and cities and

the rural and national economies. Efficient farmers not only produce more but turn over many times more money per unit of production because as agriculture progresses more inputs are required for efficient production. Also jobs held by farming members can be argued to be done so at the expense of non farming employees.

Clearly farms which are inefficient are cannot be properly maintained. Apart from infrastructure such as fences and buildings becoming dilapidated, pastures, weeds, soil health and environmental issues are not addressed properly. The problem here can be long term. Many properties become unviable even for efficient farmers with capital to take on because the cost of restoration is prohibitive.

Another problem with family farms is the lack of ability to manage the enterprise in times of ever increasing complexity. As said many farmers are there because they were born there. There is a devastating brain drain in agriculture because those with the necessary ability can use their talents more profitably elsewhere. The author has noted before *if you have enough brains to be farmer you have enough brains to not be a farmer.*

Associated with the problems of family farming is the system of land tenure in Australia. The principle problem is the perceived need to own the land upon which farmers operate. In many case leasing land is more efficient than a system of ownership. Unfortunately the culture of ownership has been worsened by the status symbol ownership of land is.

As mentioned it is the ownership of land which for family farms is causing insuperable problems with succession planning. Otherwise though farmers who lease land have to be efficient to survive, can expand more easily and are able to be more mobile. In the case of wealth accretion surplus capital can be invested elsewhere as it generally can be.

One problem with ownership is that although farmers usually make substantial capital gains over extended time periods they do not enjoy the benefit of this 'success' during their working lives. Ironically they are often quite wealthy but live poorly while the farm business is short of working capital even though there is a substantial bank of capital tied up in the land.

In other cases such as ownership by large companies, fund managers and the like it may well be desirable for them to own the land. In the case of fund managers their role as asset investors, who lease the land to active farmers, could be a desirable template for agriculture.

Of course there are many individuals and organisations who own agricultural land for non farming purposes. In a free country such bodies must be allowed to use this resource for whatever purpose if they are prepared to pay more for it provided their usage does not cause problems for surrounding occupiers and the environment.

## **Food Security**

Contrary to many frequently made claims the world is becoming short of food the truth could not be more the opposite. While some countries do have this problem and have to rely on imports there is an abundance of countries that have the potential to produce more food and fibre of all sorts if economic conditions caused additional production to be viable.

Australia is a clear example of a country with vast latent capacity. We have seen huge increases in wool production when the price appeared to be high. Wheat production for example could vastly increase should the price be high enough to make additional inputs of land use, fertiliser, improved varieties and research. The same applies to most other crops. There is clearly a huge capacity to grow horticultural and viticultural crops.

The myth of an impending crisis with food production is causing distortions in the world economy with unnecessary investments being made to avert a problem which does not exist.

At times it appears the simple fact food can only be produced if it is profitable to do so at prevailing prices is overlooked.

A more likely threat for food security with the huge amount of international trade is the disruption and shortages that could occur if food imports are disrupted.

### **Foreign Investment and Free Trade**

There is so much hysteria and paranoia in the media about foreign investment in agriculture, especially with the ownership of land the perception appears to be such ownership differs in principle to other investments by foreigners. In fact there is no real difference.

Except for some restrictions such as for monopolistic practices it seems contradictory to advocate free trade and at the same time restrict investments by foreigners. The quality of any such investments is of course determined by those introducing the capital. As in the past some foreign investments into this country have proved disastrous for the investor and a benefit to the country. Others have brought technology and expertise providing employment, economic stimulus and export income.

The fundamental problem with opposition to foreign investment in land seems to be the notion owning such land is tantamount to owning the country.

Australia has gained enormously from its comparative advantage. The standard of living in this country would be much lower without being able to concentrate on the industries we have advantages in. Agriculture is clearly one of these. Free trade is the key to Australia's prosperity and the prosperity of regional areas.

### **Climate Change**

In the author's view the evidence climate is changing is overwhelming and it is quite ridiculous to consider otherwise. We have seen the evidence of climate change for several decades now. Such change has been consistent with the overarching scientific opinion the climate will change in the manner it has. The predictions are these changes will become more exacerbated. The prospects of even slowing down the world wide rate of increase in greenhouse gasses appear to be nil.

Any agricultural policy in existence or to be made which ignores the prospect of further climate change is fraught with danger and likely to fail. Policy that factors in climate change is more likely to succeed even if the predictions are fortuitously wrong.

Learning to live with climate change is perhaps one of the key areas to address in future agricultural policy.

### **Competitiveness of Retail Markets**

Again there seems to be a lot of misunderstanding and paranoia about food retailing in Australia. This is especially so with the retailing giants. In fact these retailers appear to be extraordinarily efficient. Consumers gain enormously from this efficiency. The ability of these retailers to provide large modern supermarkets, even in smaller country towns, stocked with a huge array of cheap foods from all Australia and overseas in fresh and presentable condition has greatly improved the standards of living of the Australian consumer when compared to the hitherto retailing structure.

Mostly, low prices that are offered to farmers are the result of high supply in relation to demand. The differentials existing between wholesale and retail prices have long been a source of controversy. Studies invariably show there are few if any extraordinary profits made along the supply chain.

On the other hand the centralisation of processing together with higher distribution costs, which is so much a part of giant the retailers is adding to the energy used to provide food to our highly urbanised population. As with many things there may ultimately be huge hidden cost in this growing advent which may have to be paid for in the future.

Likewise the vulnerability to interruptions in the supply chain puts the whole system of food supply in a potentially precarious position.

### **Agricultural Finance**

There does not seem to be a particular need for governments to intervene in the rural credit markets at present. Interest rates are low with debts generally being serviceable.

In the longer run and especially if the family farm is to be fostered there is a need for long term low interest loans provided they are judiciously handed out to improve the stability and efficiency of farmers. In fact this is hard to do.

Also any form of subsidisation has to be cost effective and not seen as being contradictory to policies of free trade.

### **Northern Development**

Previous attempts to hasten the development of Northern Australia have not proved viable. With some exceptions there is no reason to think there has suddenly been a change in circumstances which now make these areas wanting for development. Mostly such thinking is emotive stemming from the fact there are large areas of land and water not being utilised.

If private capital is not rushing in to fill any opportunities which have gone unnoticed then it is unlikely government expenditure is required to stimulate development ahead of any existing processes.

Government investments in the existing agricultural areas to bring about restructuring and greater efficiency should, it can be argued, more likely to be beneficial than any grandiose plans to develop new areas such as the North.

## **Conclusion**

There is clearly much that can be done by governments to improve Australian agriculture. Obviously the scope for this is much wider than the few topics briefly mentioned above.

The problem is any policy decisions need to be the product of careful research which is costly to do. Often things are not as they appear when accurate and objective criterion is used. Hence assumptions can well be wrong.

A concrete suggestion the author includes in this submission is to closely examine the present situation with the family farm and the alternatives that may be able to be encouraged.

With respect to the family farm a study of the existing problems of succession planning and what can be done to improve it has the potential, if subsequent measures are introduced, to singularly lift the performance of this facet of Australian agriculture more than any other measure.

Just how this can be done is not clear. Probably tribunals with strong incentives for people to accept outcomes is the most likely to succeed. In any event little could be worse than the existing situation.

Ends

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