

Agricultural Competitiveness White Paper Submission - IP699-02
Patrick Byrne
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Submission to the
Agricultural Competitiveness Inquiry
By Patrick J Byrne, National Civic Council

Part 2

**Opportunities from correctly assessing the value
of the domestic and export markets for
Australian agriculture**

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May 15, 2014

Identifying the markets for agriculture

It is vital to know the markets for agriculture, in order to set agricultural and trade policies.

Confusion over markets

NFF, ABARE – Australia **exports 80%** of its agricultural product.

NFF, ABARE in the 1990s.

Mr Pat Secker — ... As a general rule, we **export 80 per cent** of our agricultural produce. It is not as if we have a shortage of food here in Australia.

House of Reps Sanding Committee on Agriculture, Fisheries and Forestry, Sydney, August 15, 2003.

Senator Julian McGauran — Our international reputation as an unreliable exporter was notorious. The biggest loser in those days was the farming sector, the rural sector, which **exported 70 per cent of their produce**, and to this day they still export 70 per cent of their produce.

Official Hansard, No. 18, 2005, Tuesday November 29, 2005

DFAT – Agriculture is an important part of the Australian economy. Australia is a competitive net agricultural exporter, with around **two thirds [66%] of total production** being exported.

"Agriculture and the WTO 2009", Department of Foreign Affairs and Trade.

Former Federal Agriculture Minister, Tony Burke

– **60%** of what we produce gets eaten in other countries.

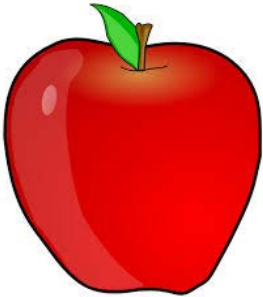
2009

ABC Landline, March 8,

DAFF – Around **60 per cent** of our agricultural production is exported, generating \$32.4 billion in 2010–11.

"Australia's Agriculture Fisheries and forestry: At a Glance 2012", Department of Agriculture Fisheries and Forestry

ABARES methodology is flawed: you cannot compare apples, oranges, bananas



Farm gate value

wheat, sugar cane, cotton, beef cattle, sheep, wool, fruit & veg, fish, wine grapes, milk ... etc

First stage production

Wheat to flour

Sugar cane to sugar

Cotton to ginned cotton and cotton seed

Cattle into beef



Final stage production/Retail sales

Flour & sugar into bread and cakes

Spun cotton into cloth, cloth into clothes

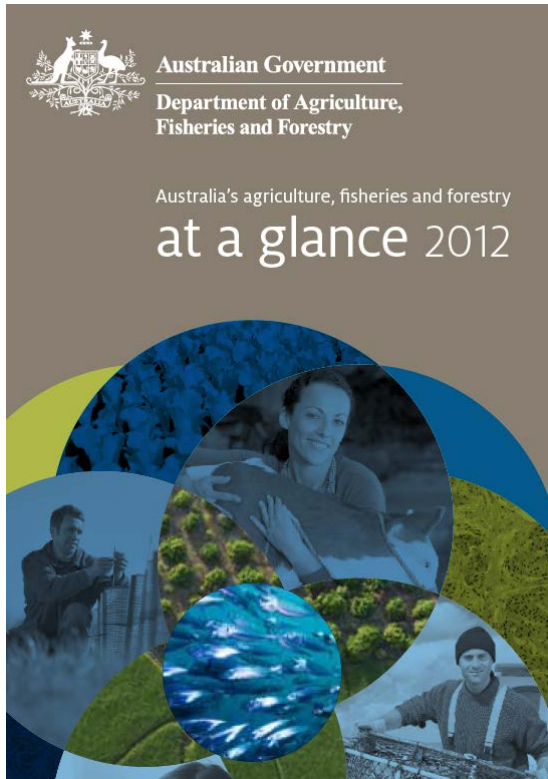
Beef processed into ready to cook meals, sold in restaurants

Milk into cheese, yoghurt

Wine grapes into wine

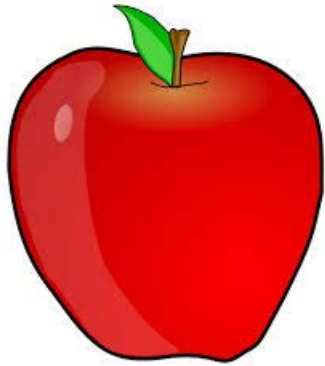


Here's how ABARES calculates 60% exports



“Agricultural exports are important to both the agriculture sector and to the economy as a whole. By value, around **60 per cent of agricultural production** was exported to overseas markets in 2012-13.”

Agricultural Competitiveness Issues Paper, Ch 8: Enhancing agricultural exports, (pg. 30). ABARES 2013e



ABARES calculates total value of farm gate production

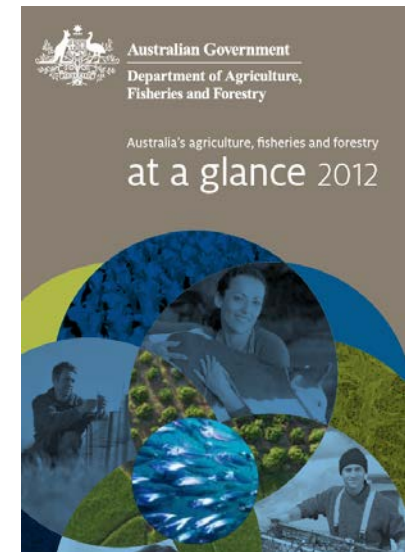
\$48.2 bn

Agriculture

Farm sector indicators

| | | 2007 | 2008 | 2009 | 2010 |
|---------------------------------------|-----|--------|--------|--------|--------|
| | | -08 | -09 | -10 | -11 |
| Gross value of farm production | | | | | |
| Crops | \$m | 24 237 | 22 769 | 21 119 | 27 106 |
| Livestock | \$m | 19 516 | 19 149 | 18 537 | 21 057 |
| Total | \$m | 43 752 | 41 918 | 39 656 | 48 162 |

Pg. 6



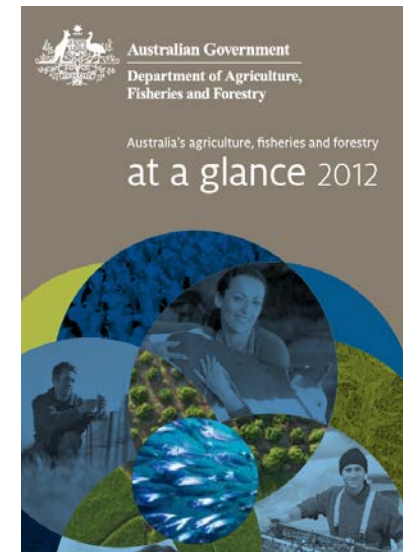
Agricultural export summary

| | 2007 -08 | 2008 -09 | 2009 -10 | 2010 -11 |
|---------------------------|---------------|---------------|---------------|---------------|
| | \$m | \$m | \$m | \$m |
| Barley | 1 496 | 1 321 | 1 093 | 1 295 |
| Beef and veal | 4 190 | 4 857 | 3 953 | 4 328 |
| Canola | 303 | 595 | 583 | 855 |
| Cheese | 968 | 796 | 715 | 731 |
| Cotton | 466 | 500 | 755 | 1 367 |
| Cottonseed | 8 | 19 | 46 | 85 |
| Dairy – excluding cheese | 1 796 | 1 885 | 1 372 | 1 614 |
| Horticulture a | 733 | 903 | 798 | 715 |
| Lamb | 803 | 925 | 916 | 1 033 |
| Live cattle | 446 | 538 | 550 | 499 |
| Live sheep | 286 | 339 | 297 | 346 |
| Mutton | 443 | 482 | 433 | 403 |
| Pig meat | 128 | 124 | 109 | 106 |
| Rice | 110 | 143 | 59 | 183 |
| Sugar | 1 006 | 1 338 | 1 887 | 1 436 |
| Wheat | 2 990 | 5 028 | 3 692 | 5 516 |
| Wine | 2 683 | 2 428 | 2 164 | 1 957 |
| Wool | 2 796 | 2 322 | 2 306 | 3 048 |
| Other | 5 918 | 7 603 | 6 824 | 6 929 |
| Total farm exports | 27 570 | 32 148 | 28 550 | 32 444 |

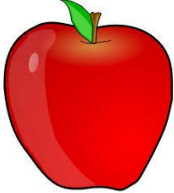

a Comprises mainly fresh fruit and vegetables.

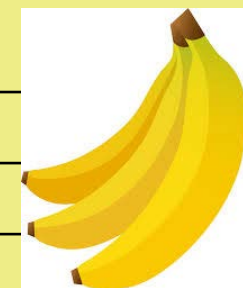
ABARES calculates the 'food production value' of exports

\$32.4 bn



Here's the differences between 'farm gate values' and 'food production values' (exports).

| Production at farm gate | Food production exports | |
|-------------------------|---|---|
| Wheat | Wheat | <div style="color: red; font-weight: bold; font-size: 1.2em;">Farm gate value</div>  |
| Barley | Barley | |
| Wool | Wool | |
| Horticulture | Horticulture | |
| Sheep Cattle | Live sheep Live cattle | |
| Canola | Canola oil | <div style="color: red; font-weight: bold; font-size: 1.2em;">First or final stage values</div>  |
| Cotton | Ginned cotton and cotton seed | |
| Milk | Cheese, yoghurt and other processed milk | |
| Rice | Hulled and rice | |
| Cattle Sheep | Processed beef and veal Processed lamb, mutton | |
| Pigs | Processed pork | |
| Sugar cane | Sugar | |
| Grapes | Wine | |
| Other | Other: raw & processed products | |



By comparing 'food production value of exports' with 'farm gate production value', ABARES calculates exports at 60% of farm production

$$\begin{aligned} \% \text{ exported} &= \text{Exports} / \text{Farm gate} \\ &= \$32.4 \text{ bn} / \$48.2 \\ &= \text{about 60\% of} \\ &\text{agriculture} \end{aligned}$$

ABARES compares food production value of *wine exports* farm gate value of *wine grapes*

Domestic grape production¹ = \$712 m

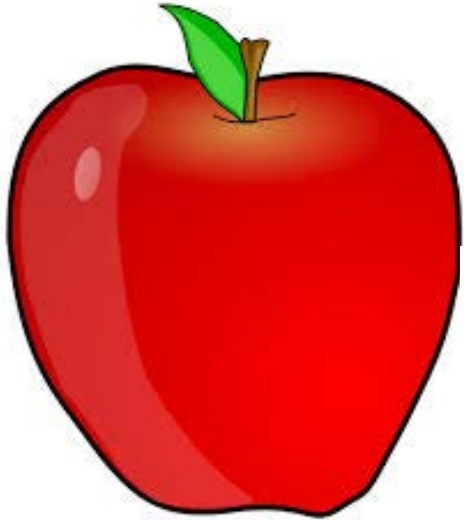
Wine, exports³ = \$1,957 m

Wine, domestic sales² = \$2,400 m

% exported = Wine exports / wine grape production
= \$1,957m / \$712 m
= 274 %

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1. *Australian Wine Grapes*, Research report13.14, 2011-12, Tim Caboche et. al., ABARES, December 2013. pg. 10.
 2. Domestic sales value of Australian wine (\$m) , 1329.0 - Australian Wine and Grape Industry, 2012-13 , December 5, 3013. <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/1329.0Main%20Features22012-13?opendocument&tabname=Summary&prodno=1329.0&issue=2012-13&num=&view=>
 3. *Australia's agriculture, fisheries and forestry at a glance 2012*, DAFF, 2012. pg 9.

This is the problem of comparing apples with oranges and bananas.



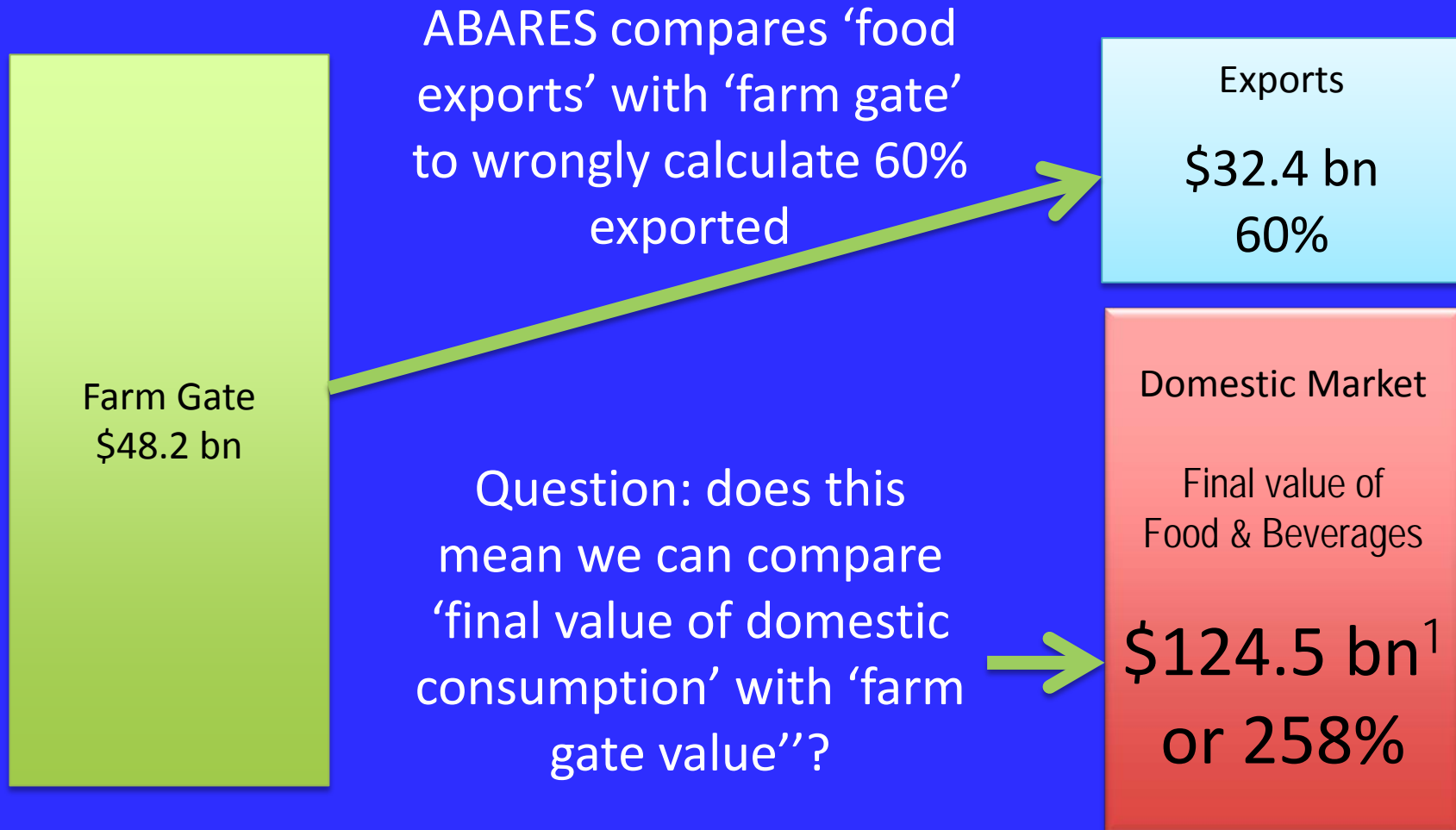
Conclusion

You can only compare like with like.

**If you don't compare like with like,
then comparative statistics -- like exports
worth 80%, or 70%, or 66% or 60% of
agriculture -- become misleading and
lead to policies that can damage agriculture.**

How ABARES gets it wrong:

Exports 60%? therefore, domestic 258%?



1. Australians expenditure on food and beverages – imported foods = \$135.8 bn - \$11.3 bn = \$124.5 bn
(ABS Household Expenditure Survey, Australia: Summary of Results, 2009-10.)

SOLUTION – the industry production method of calculating exports.

The “industry production method” involves detailed determination of – industry output values – and value added for the various farm, manufacturing and related industries.

It eliminates the problems associated with ABARES methodology. How?

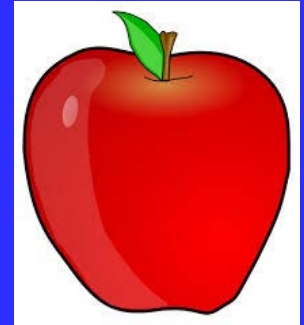
SOLUTION – for calculating the percentage of exports v's domestic market

You can compare:

1. farm gate values for domestic and export markets;

OR

2. first stage production values for domestic and export markets.



In 2000, The Customs House Agreement in Brisbane confirmed this principle for determining domestic v's export values.

The Customs House Agreement evaluated export v's domestic markets

Three Canberra-based Australian Bureau of
Statistics (ABS) officers:

- Kevin Toivonen,
- Ian Bobbin
- Jim Williamson

met with leading economists

- Guy West (Associate Professor of
Economics, U of Q)
- Ted Kolsen (Emeritus Professors of
Economics, U of Q)
- Rod Jensen (Emeritus Professors of
Economics, U of Q)
- Dr Mark McGovern (QUT School of
Marketing and International Business)

and several others.

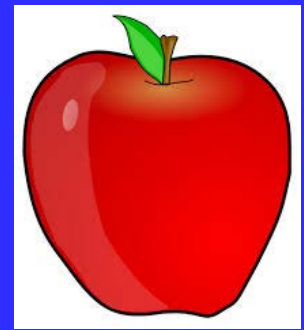
May 9, 2000.



The Customs House Agreement

used the industry production method to concludes:

“that direct exports were 22% of the gross value of production” at the farm gate,



and that exports at first stage production “accounted for about 25% of [agricultural] exports.”

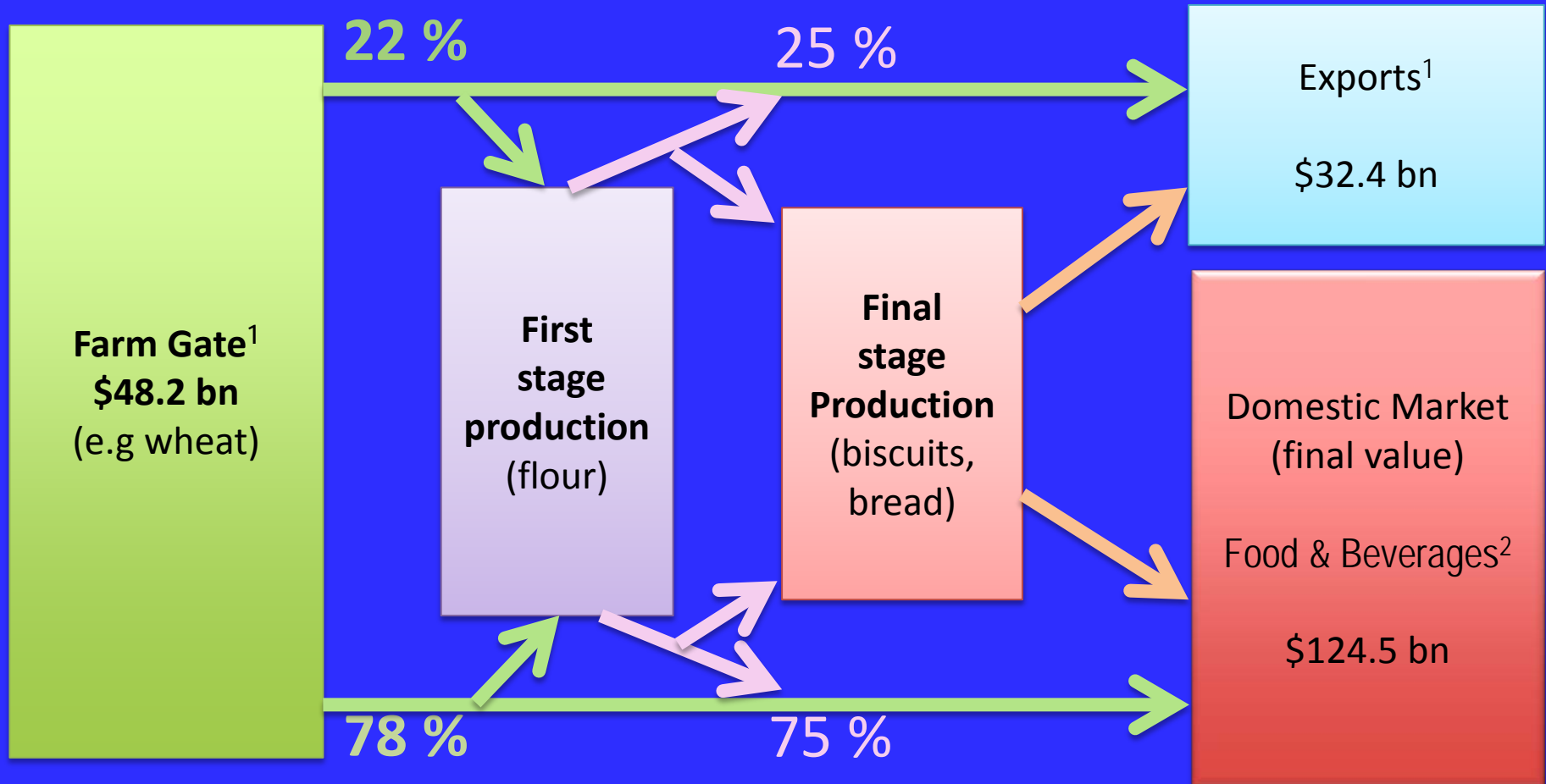


The Customs House Agreement

used the industry production method to conclude :

Further, 25 per cent export figure had “been essentially unchanged for 30 years or so” and that “the ABARE and NFF (80%) export figure has no basis of fact.”

The industry production chain: with Customs House Agreement export v's domestic figures



1. Australian Agriculture, Fisheries and Forestry : At a Glance, 2012, DAFF.

2. Australians expenditure on food and beverages – imported foods = \$135.8 bn - \$11.3 bn = \$124.5 bn

The methodology for calculating
export v's domestic markets has
been defined

*Decomposition of Exports and GDP into Direct and
Indirect Industry Contributions,*

by Associate Professor Guy West,
Centre for Economic Policy Modelling,
Uni of Queensland.

Australasian Journal of Regional Studies, Vol 8, No 2, 2002.

The methodology for calculating export v's domestic markets has been defined

Findings of *Decomposition of Exports and GDP into Direct and Indirect Industry Contributions*,

“the direct value of goods and services leaving the farm gate and destined for the export market” is 22 per cent, which is consistent with the national accounts data.

Implications for marketing

Imagine a major Australian mining company mistakenly believing that it's primary export market was New Zealand when in fact it was selling 78% of its production to China.

Misconceptions about agriculture based on the 60% exports

Believing that exports make up 60% of agriculture, Australians have mistakenly come to believe ...

- Australia's food security is not threatened by imports, *whereas* rising volumes of subsidised/dumped imports are pushing down farm gate prices in the vitally important domestic market;
- that we could lose half our farmers and still easily feed Australia, *whereas* it would make Australia a major net importer of food;
- We feed 3-to-4 times the Australian population (60 million), *whereas* agriculture feeds a fraction this number;

These misconceptions are reinforced by the belief that the WTO Doha round will deliver free trade in agriculture and open markets for Australian farmers, *whereas* the Australian Farm Institute says there free trade in agriculture is not going to happen.

Policies derived from the 60% export figure ...

... have overemphasis export market policies to the neglect of policies for the domestic market. For example, it has led to the view that:

- the supermarket duopoly only impacts 40% of the market, *whereas* their pricing policies affect 78% of market for agricultural product; and
- That subsidised and dumped imports only affect 40% of the food market, *whereas* it affects 78% of market for Australian farm product.

Policies derived from the 60% export figure

... have focused on making farmers compete more with each other and with farmers overseas in order to become more competitive on export markets.

Such policies have included:

- deregulation of 14 areas of agriculture¹ to make farmers compete with each other. This has left large numbers of farmers producing undifferentiated products selling ultimately to the duopoly supermarkets that control around 80% of the grocery market; and
- a soft approach to subsidised and dumped imports undermining the vital domestic market for farmers, aiding the supermarket duopoly to force down Australian farm gate prices.

1. National Competition Policy focused on deregulating fourteen areas of agriculture including AgVet Chemicals, bulk handling (single selling desks for wheat, barley and sugar), dairy, fisheries, food regulation, forestry, grains, horticulture, mining, potatoes, poultry, quarantine, rice, sugar, veterinary services. Further, deregulation of the water was under NCP.

Scoping new policies based on the domestic market

Recognising that the domestic market is the most important market for agriculture means:

- Adopting policies appropriate to rural industries dependent on the domestic market and separate policies for those primarily dependent on exports.
- Balancing the heavy market concentration in processing and retail sectors with legislation to strengthen the ability of farmers to collectively bargain.
- Stronger enforcement of anti-dumping policies to stop erosion of the domestic markets to subsidise imports.

Such policies that restore profitability to farming will, in turn, attract investment back into agriculture and young farmers into the industry.

Further, doubling exports from a base of 22% requires far less investment than from a base of 60% of agriculture.

Opportunities from getting it right on exports and imports

- Corrects perspectives on markets and resets agricultural policies.
- Easier to double exports if exports are 22% of agriculture.
- Resetting agricultural policies will attract new investment into to farming, increase farm productivity and farm profits, reduce farm debt and increases tax revenue to government ...
- which in turn increases reliability of supply the the huge food processing industry.
- Preserves Australia's food security and reduces reliance on imports.

Managing risk is far easier for the domestic market

Farming is a high-risk industry:

- Farming is perhaps the only business that buys inputs retail and sells outputs wholesale.
- The world market is corrupted by high levels of subsidies and protectionist policies, made possible through the *WTO Agreement on Agriculture*.
- Commodity prices are volatile on world markets, and domestically due to Australia's highly variable climate and other market factors.

Managing risk is far easier for the domestic market

Therefore:

It is much easier to manage the risks to agriculture when its primary market is 78% domestic, because governments have a wide range of policy instruments to manage the risks in the domestic economy,

whereas governments have only limited policy instruments to manage risks on world commodity markets.

Conclusion

Australia exports large VOLUMES of unprocessed and simply transformed agricultural commodities.

However by VALUE, about 78% of food and fibre product is destined for the domestic market.

Recommendation

That the Agriculture Minister undertake to recalculate the value of agriculture into the domestic and export markets.

This process should calculate direct food and fibre contributions to the domestic and export markets, using the methodology established by Associate Professor Guy West in his paper, *Decomposition of Exports and GDP into Direct and Indirect Industry Contributions (2002)*.