

Business  
Council of  
Australia



submission

## Submission to the Agricultural Competitiveness Green Paper

DECEMBER 2014

*Working to achieve  
economic, social  
and environmental  
goals that will benefit  
Australians now and  
into the future*

The Business Council of Australia is a forum for the chief executives of Australia's largest companies to promote economic and social progress in the national interest.

## About this submission

This is the Business Council of Australia's (the Business Council) submission to the Agricultural Competitiveness Green Paper.

The Business Council is making a submission to the Green Paper because the agriculture sector represents a sector that has been, and continues to be, a source of competitive advantage for Australia. This competitive advantage in turn contributes strongly to our national prosperity.

There is an opportunity to grow the sector and for it to become an even more important part of our economy and source of national income and employment. The White Paper process is an opportunity for government to put in place a vision and policies that will help Australia's agriculture sector become even more competitive.

## Introduction

The Business Council welcomes the opportunity to respond to the Green Paper and to participate in the process for developing an Agricultural Competitiveness White Paper.

The Business Council recognises that the Green Paper does not represent the government's policy platform for agriculture and that many of the policy ideas in the paper reflect the views of a wide range of stakeholders.

The White Paper, which will represent the government's position, should set out a strategic and sophisticated policy platform for lifting the competitiveness of the Australian agriculture sector. This will require consolidating and further refining the wide array of policy ideas which have been presented in the Green Paper.

Australia already exports more than half of its food production to overseas markets. With the need for the world to feed a global population of 9 billion people by 2050, and with much of the demand for food coming from our immediate region, the Australian agriculture sector is on the cusp of an unprecedented opportunity.

Australia is starting from a strong position, but this position must not be taken for granted.

Considerable natural resource endowments and previous agricultural reforms have contributed to agriculture being a source of competitive advantage for Australia<sup>12</sup>. These reforms included the removal of a range of industry assistance measures, including tariffs and price support mechanisms.

The White Paper is an opportunity for the government to set a vision and supporting policy framework that will lift the sector's competitiveness and facilitate Australia taking full advantage of the opportunity available.

The Business Council has sought to respond to most of the specific policy ideas raised in the Green Paper. These responses are contained in the attached document.

## **The White Paper is an opportunity to set out a strategic and sophisticated direction for the agriculture sector**

The Business Council believes the Agricultural Competitiveness White Paper is an opportunity for the government to clearly articulate a strategic and sophisticated vision for the agricultural sector.

This vision should be forward looking and focused on what the industry looks like now, and what it must become to be competitive going forward.

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<sup>1</sup> McKinsey & Company, *Compete to Prosper: Improving Australia's Global Competitiveness* (2014)

<sup>2</sup> ABARES, *Australian agricultural productivity growth: Past reforms and future opportunities* (2014)

Specifically, the vision should identify the policy frameworks and actions which will enable businesses in the sector to take advantage of the opportunity available to them.

### **Principles underpinning development of the White Paper**

The Green Paper identifies nine policy principles. The Business Council is particularly supportive of principles three to seven, and believes that each of them contribute positively and meaningfully to improving the competitiveness of the Australian agriculture sector. These include:

- Building infrastructure for the 21st century (principle 3).
- Creating well paying jobs in the agriculture sector and in downstream sectors (principle 4).
- Reducing unnecessary regulatory burden (principle 5).
- Promoting access to key export markets (principle 6).
- Focusing on Australia's competitive advantages (principle 7).

As the Business Council pointed out in its submission to the discussion paper, the creation of the most competitive agriculture sector in the world is the best means of maximising the benefits to the Australian agriculture industry and all Australians more generally. Improved farm-gate returns (principle 1) should be seen as an outcome of a competitive agriculture sector, not as an issue that can be pursued in isolation.

The Green Paper identifies keeping families as the cornerstone of farming (principle 2). The Business Council notes that there are many examples of successful family farming businesses and thinks that this will continue to be the case for many years. However, preferences for one particular type of business model, such as family farming, should not be the driver of government policy.

### **Agricultural output and the broader supply chain and value chain**

The White Paper should adopt a broader view of the role and inter-relationships of the agriculture sector than the Green Paper's focus on pre-farm gate activity.

In 2005-06 around 31 per cent of the value of food production was derived from primary production<sup>3</sup>. Primary agricultural production has increasingly been diverted to further manufacturing processes to meet a growing demand for higher value added food and beverage products. This 'agrifood' market has grown both domestically and internationally and operates all year around. To have a competitive agrifood sector, Australia must also have a competitive agriculture sector.

The Australian agrifood sector should adopt a focus on the production and export of high value-add goods that meet the growing demand in international markets. The performance and contribution of the agriculture sector is critical to this and the policy frameworks of government should reflect this.

### **The White Paper should focus on addressing the demands of consumers**

The strongest growth for demand in products for both the agriculture and broader agrifood sector is predominantly external to Australia. It is founded upon providing premium quality food to the growing urban middle and upper middle income earners of Asia. The starting point for the White Paper should be to clearly identify the current and future demands of these consumers in particular.

The Australian agriculture sector will be best served by identifying and developing an in-depth understanding of these drivers of demand, and then working back from there to determine how best to meet this demand.

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<sup>3</sup> Centre for International Economics, *Australian Food Processing Quantifying the challenges and opportunities*, June 2012, page 21.

### **Consistency with the Government's broader economic reform agenda**

The White Paper must be consistent with the Government's broader economic reform agenda set out in the Industry Innovation and Competitiveness Agenda which stated that:

While it is critical that policy settings are conducive to business investment and growth, it is businesses that are best placed to assess commercial prospects and risks and to decide whether, and in which areas, to invest their capital. Government subsidies and other policies that have distorted these decisions, without addressing significant market problems, have undermined Australia's productivity and competitiveness.

The Government intends to scale back intervention in the economy to restore the balance.

However, some proposals contained within the Green Paper, such as making the Farm Finance Concessional Loan Scheme permanent and accelerated depreciation for certain investments appear inconsistent with the Government's broader approach to economic reform.

### **The need for a long-term approach**

The White Paper presents an opportunity to lay out a long-term strategy for the agriculture sector and to build commitment from all parties involved.

Gaining bipartisan support for the White Paper will be important to whether or not the policy settings it proposes stands the test of time. Too many previous reviews and inquiries have been overlooked as a result of changes of government (for example *Creating our Future: Agriculture and Food Policy for the Next Generation* and the *National Food Plan*).

A more strategic White Paper, founded upon sound principles, will assist in achieving support for its measures over time with both the community and successive governments.

### **Improving the competitiveness of industry is critical to Australia's future success**

The overarching focus of the White Paper should be on identifying implementable actions to improve competitiveness and to facilitate businesses taking full advantage of the expected growth in demand.

The performance of farms, both in terms of output and profitability, varies widely. As noted in the Green Paper, the top quarter of farms account for 54 per cent of the broad-acre value of output, while the bottom quarter of farms account for only 8 per cent. The White Paper must identify actions that will ensure high performing farm businesses remain just that while raising the performance of the rest of the sector.

The Business Council notes a considerable amount of work has already been undertaken to identify and propose actions to address the barriers inhibiting the growth of the agriculture sector. This White Paper should take this work into account, with an emphasis on the actions needed to realise the opportunity of supplying high quality food to the growing urban middle and upper income earners in our region.

The Business Council has identified the following factors as being critical to improving the competitiveness of the sector and to realise the opportunity available to the sector:

- Adopting a global focus:
  - understanding who the customers and consumers of the Australian agriculture sector are, improving access to them, and improving Australia's international business skills to develop long-term supplier relationships and partnerships
  - determining who our competitors are, identifying differences in our cost structures and value propositions, and using this information to inform the strategic direction of Australian industry.
- Removing barriers to scale:
  - reviewing barriers to farm consolidation and ownership that may undermine agricultural businesses' ability to achieve economies of scale and to lift productivity.

- Capturing benefits from innovation and collaboration:
  - mobilising the participants in the innovation system to collaborate and innovate to drive productivity growth and to create new markets.
- Financing and attracting the investment necessary to improve our competitiveness:
  - facilitating access to the capital required for new investments and upgrades which enhance productivity.
- Improving the sector's utilisation of its human capital:
  - building Australia's agri-skills including both on-farm technical capability and off-farm management skills to improve business performance along the supply chain.
- Ensuring access to modern economic infrastructure:
  - putting in place the economic and regulatory frameworks which will encourage more efficient investment in, and utilisation of, infrastructure.
- Committing to ongoing regulation reform:
  - removing unnecessary or duplicative regulation which makes it difficult to do business.
- Delivering competitive and efficient markets through a modern competition policy framework:
  - competition acts as an effective driver of innovation and creativity in businesses.
- Providing a competitive tax system that encourages investment and employment:
  - ensuring that the business environment is globally competitive.

### **The Business Council sector study can inform the White Paper process**

In July this year, the Business Council released a discussion paper entitled *Building Australia's Comparative Advantages*. This report extended on our *Action Plan for Enduring Prosperity* which was released in 2013.

The discussion paper aims to start a conversation about what it will take to build an innovative economy, foster globally competitive industries and identify the types of jobs that can be created in an advanced economy like Australia.

The supporting report from McKinsey & Company, *Compete to Prosper: Improving Australia's Global Competitiveness*, provided a benchmark assessment of the competitiveness of individual sectors within the Australian economy. It identified agriculture and food manufacturing as a potential source of competitive advantage for Australia.

The Business Council is currently undertaking an in-depth sector study into the Australian food industry, including agriculture and food manufacturing.

The Business Council is working towards having this study completed in early 2015. It is hoped that this piece of work will complement and inform the development of the Agricultural Competitiveness White Paper. To achieve this, the Business Council will continue to actively engage with the Commonwealth Government as both projects develop and progress.

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