

DENNIS E TOOHEY

# Agricultural Competitiveness

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A Submission to the Agricultural  
Competitiveness Task Force

**Dennis E Toohey and Stephen J Chaffey**

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This submission provides three points for consideration for inclusion in the White Paper. Achieving a greater degree of agricultural competitiveness will require a bottom-up approach; A community-centred approach is pivotal to becoming more competitive; and partnerships involving community, industry and higher education will be crucial to support the setting of policies and decision making on creating Australia's agricultural competitiveness.

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*A Submission to the Agricultural Competitiveness Task Force*

*by*

Dennis E Toohey

Agribusiness Consultant  
[Redacted]  
[Redacted]

Stephen J Chaffey

Business Management Consultant  
[Redacted]  
[Redacted]

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## Submission Summary

The Government's aspirations flowing from a more competitive agriculture sector leading to better returns to farmers, more jobs, more investment and stronger regional communities are commendable. However are the desired outcomes achieved simply by addressing anti-competitive forces?

This paper provides three perspectives for consideration by the Agricultural White Paper Task Force.

### Take a bottom up approach to become more competitive

It is appropriate the Federal Government focus on enabling Australian agriculture to become more competitive. Much is known about the principles and practices, strategy and tactics of becoming and remaining competitive in a business sense. Achieving a greater degree of agricultural competitiveness will require a bottom-up approach with a focus on regions, supply chains and industries.

### Enable rural communities to compete

Three questions are proposed for consideration.

- a) Are local industry, Economic and/or Community development in its current form working?
- b) Are the affected people in regions undergoing substantial change sufficiently informed when dealing with complex problems as to processes that enable them to discern meaning, make decisions and move toward desired outcomes?
- c) Are community leaders of these affected regions sufficiently skilled to appreciate alternative futures and the ability to articulate them?

A community-centred research approach is a preferred way of examining these questions.

### Collaborative activities for policy development and implementation

The effort required to improve Australia's agricultural competitiveness will require investigation of opportunities and research into areas that may be different from the past in order to bring together the knowledge required for policy making and its subsequent implementation. We would encourage government to facilitate community, industry and university partnerships across Australia to undertake investigation into carefully chosen research to support decision making to improve and maintain Australia's agricultural international competitiveness.

# Competitiveness of Supply Chains

A number of reports have identified opportunities for Australia in producing food for the growing populations in the Asia Region. There are many qualifications, notably in the area of production of raw product, as to the Nation's capacity, presented in the Agricultural Competitiveness Issues Paper (Cwlth, 2014). The Issues Paper also highlights employment within the food and related manufacturing sector where it accounts for around one quarter of all employment in Australian manufacturing.

Australia's competitiveness in manufacturing has featured strongly in media and Government circles over the past two years with particular reference in Victoria to downsizing, closing and off-shore transfers. Some highly simplistic commentary has accompanied these company announcements such as Australia is an uncompetitive country for manufacturing. Back in the 1990s several studies were undertaken of competitiveness of Australia's food industry, e.g. McKinsey and Co (1995) and the Australian Department of Primary Industries and Energy (Gifford *et al*, 1997). The latter formed part of the Supermarket to Asia (STA) Initiative started by the Prime Minister (John Howard) in 1996<sup>1</sup>.

Reflections on what was found in this period provide some indicators as to why competitiveness in so far as food manufacturing is concerned remains a major challenge as we proceed into the 2000s. Notwithstanding the excellent work undertaken in the late 1990s (Gifford *et al*, 1997) the signs are scant of food manufacturing businesses in Australia implementing the findings of two decades ago judged by the events of 2012 through to the present time.

A major finding of significance from the 1990's was in the areas (messages) where managers needed to think more deeply about their competitive performance. These messages were grouped into two themes, i.e. Management and Business Strategy. For the food industry, three strategic management categories were applied i.e.

- 1) Competitiveness and Productivity
- 2) Market access and development
- 3) Quality and food safety.

To these three categories, sixteen (16) strategic management themes were identified e.g. Leadership, communication and decision making, business structure, branding, to list some.

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<sup>1</sup> The aim was to improve the international competitiveness of the Australian food industry with a particular focus on Asia. The basic idea of STA was to bring together producers, food unions, processors and government to determine what could be done to improve the way the Agrifood chain is managed.

Gifford *et al* (1997) found the problems/opportunities experienced by managers of food businesses in Australia were:

- Securing long lines of supply
- Limited markets and oversupply
- New competition on the domestic market
- Market access
- Price competitiveness.

The scope of the White Paper (Cwlth, 2014) retraces many of the knowns for at least two decades about what is required for Australia to become a world-class provider of value-added food and fibre. For example, research by McKinsey (McKinsey, 1995) within the food industry found 'among other things, that productivity...was hampered by:

- Low management aspirations, leading to slowness to adopt innovations
- Lack of genuine relationships between food processors and suppliers
- Lack of innovation in developing new products and services
- Over regulation and
- Poor labour relations'.

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#### **A contemporary example**

*The story behind SPC Ardmona's (SPCA) approach to the Commonwealth for \$25million captivated the public's attention. During this time anecdotal commentaries abounded as to what else SPCA needed to address, with one commentator being Les Cameron, Chairman GV Foods Co – a venture set up in the wake of the exit of Heinz in 2012. Mr Cameron's residency in the Goulburn Valley coupled with his local observations of the Goulburn Valley's fruit industry and experiences with an allied Goulburn Valley processing business enhance the credibility of his comments. He found himself in agreement with the Commonwealth's decision not to accede to SPCAs proposal with these supplementary comments: SPCA's return to profitability was achievable through*

- *a combination of export and domestic focus and by being more nimble in adapting to market requirements;*
  - *the ability to get new products on the ground quickly;*
  - *exploiting Mr Abbott's (the Prime Minister) offer to help facilitate exports; and*
  - *for the Commonwealth to introduce changes to labelling laws, and getting a better country of origin labelling system.*
-

In the 1990's two industries stood out as having 'international competitiveness': Australia's milk production efficiency and international competitiveness of the wine industry. In the intervening years the dairy industry has moved well beyond 'farm production efficiency'. Gary Helou, the chief executive of Murray Goulburn Co-Op, (the country's largest dairy company) recently indicated 'the nation's food sector track record has generally been "pretty horrible" at making its mark on global markets. By way of comparison, European dairy co-operatives and the hugely successful New Zealand farmer-owned goliath, Fonterra, had seized production efficiencies and trade opportunities that delivered valuable market share back to their suppliers'.

His comments reflect the necessity of adopting the principles and practices of an integrated supply chain and the Business Strategy Themes mentioned above.

## Rural Communities – Some challenges

The debates on the Draft Murray-Darling Basin Plan were really challenging ones for irrigation-dependent communities. They were very different to ones of the past as this time, through television, the expressed raw emotions were there for all to see – both country folk as well as those in the cities.

Against this backdrop we have overlaid our interpretations from a study of a range of papers and conference presentations.

### Key macro considerations

- Business, Community and Government actions notably in rural and regional Australia not in synch with the paradigm shifts that characterise to-day's three leading trends:
  - 1) Global forces now dominate commerce and trading and agribusiness investment decision processes;
  - 2) Institutional reforms in Australia reshaping the roles of the three levels of government. For instance, Local Governments' roles re-defined to emphasise it works in partnership with state government and in effectively and efficiently leading and serving the local community; and
  - 3) Declining democratic representation in all levels of government, i.e. electorates/Local Government Areas (LGA) expanding in response to declining populations, especially noticeable in areas outside regional centres.
- Agriculture has an image problem with urban communities. Contributing factors seen as loss of filial connections arising from fewer people operating/working on farms; discomfort with processes of production and processing of 'industrial agriculture' and clumsy messaging.

Food, water, land and energy are intricately interconnected and 'wicked problems'<sup>2</sup> that challenge rural communities in developing long-term plans.

- There is considerable scope to increase farm output from broad-acre farms and exploit growing domestic and export markets in Asia, e.g. for certain non-GMO grains (Maize and Soybeans) and red meat. Having the right value-adding strategy where the focus is on meeting Asian demand-driven products but on a scale where processors 'fly under the radar' of large off-shore processors.

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<sup>2</sup> Wicked Problems "go beyond the capacity of any one organisation to understand and respond to, and [where] there is often disagreement about the causes of the problems and the best way to tackle them." Ison, R *et al* 2010.

Government policy has shifted to one where it is expected of communities to take increasing responsibility to design, build, operate and transfer their futures. To-date community response turns on using approaches that have worked in the past but what are the responses required for the future?

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***An example of change in rural communities***

***Dubbo, a NSW regional city and Warren Shire some 100km to the northwest***

*One of the most powerful forces to have shaped the Australian nation and its people over the course of a generation has been the depopulation of the bush. Rural and regional, rather than metropolitan and coastal, has lost population as young people have drifted to the city in search of work and/or further education.*

*Farm communities have also diminished as a consequence of amalgamation, as one farmer buys out a neighbour, who moves to the nearest city or the coast...*

*Warren Shire's population has changed. In 1986, there were 327 people aged 25-29; by 2011 this number had decreased 59 per cent to 134. The 30 to 34-year-old population in Warren was 278 in 1986; in 2011 it was 155, 44 per cent lower. In contrast, those aged 60-64 increased 79 per cent, from 107 in 1986 to 192 in 2011.*

*Dubbo City's total population over the period 1986 to 2011 grew by 8,300 or 27 percent.*

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**Key messages**

- Towns losing youth whilst aged population increases.

For Warren, the concern is not just the decline of the population overall, but also the specific loss of youth and accretion of the aged.

- Warren's experiences are shared across Australia.

This is not to say that the experience of Warren is any different to that of many farming communities across the Australian wheat belt and especially in places such as the western reaches of NSW, the Riverina, the Mallee, the Wimmera, the Eyre Peninsula or the Upper and Lower Great Southern in Western Australia.

- The spirit of towns grows.

The 2011 census shows that many small, remote communities have among the highest proportion of volunteers. These towns might be small and diminishing, but the spirit of the locals is vital and civic-focused, (Salt B 2013).



## NSW Southern Riverina reflections

The macro issues listed on the previous page are now examined through the lens of our experiences and knowledge of the Southern Riverina of NSW<sup>3</sup> where there is a sense of unease about the Region's wellbeing e.g.

- A perceived weakness in industry, economic and community development i.e. the ability to make sound, unbiased decisions to adapt to meet a changing social, economic and environmental future.
- The professionalism and resources of the rice industry have not been emulated by non-rice growers in terms of generating research resources to support other cropping and animal production systems. During the so called 'Millennium' drought with its severe water scarcity there was an unpreparedness as to how best to use substantially less than normal allocations of water. The entry of cotton may change the dynamics of R&D allocations as might an invigorated GRDC Southern Region in addressing critical limiting factors like waterlogging of the soils on performance of irrigated winter grain crops.
- The withdrawal of government research and extension services and the subsequent breakdown of the communication networks they provided and, the as yet untried new systems of Local Land Services (LLS).
- Local Governments' expect changes in boundaries, roles and functions flowing from the *Independent Local Government Review Panel*.

Within this mix of issues three questions emerge for consideration by the Task Force:

- Are local industry, Economic and/or Community development in its current form working?
- Are the affected people in regions undergoing substantial change sufficiently informed when dealing with complex problems as to processes that enable them to discern meaning, make decisions and move toward desired outcomes?
- Are community leaders of these affected regions sufficiently skilled to appreciate alternative futures and the ability to articulate them?

A community-centred research approach is our preferred way of examining these questions.

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<sup>3</sup> Southern Riverina or Mid-Murray Region of NSW comprises the LGAs of Berrigan, Conargo, Deniliquin, Jerilderie, Murray and Wakool.

The odds are high of the findings mirroring those of a study of 'remote' Australia where people said they sought:

- A say in decisions that affect them.
- Equitable and sustainable financial flows.
- Better services and a locally responsive public service.
- Local control and accountability where possible.

Inclusion in a greater Australian narrative, (Walker *et al* 2012).

## Policy Development

Australia's agriculture industry competitiveness in the past has been largely driven by an excellent track record of research, development and extension focusing on productivity. A 21<sup>st</sup> Century emphasis on 'competitiveness' broadens the policy challenge for business and government and the accompanying research effort that is required for good policy formulation and implementation.

*"As opportunities to boost direct on-farm cost competitiveness becomes harder to realise in Australia the nation's food and agribusiness sector must look to broader factors to maintain its competitive edge."(Rabobank 2014).*

The policy challenge exists for four main reasons.

1. The complexity of managing nature (the physical sciences) within an increasingly complex society (the social sciences)
2. In many cases problems and questions are not confined to a single discipline; instead range across disciplines and multiple stakeholders
3. The power of new technologies and the need to harness them
4. The need for Australia to work together to solve problems and improve situations to become and remain 'competitive'.

To successfully realise the policy challenge we would encourage government to insist on the adoption of two important co-ordinating and facilitating methodologies and that these practices are enabled at the regional level:

- Advanced project management methodologies and practices and
- Integration and implementation sciences methodology (Bammer 2013).

The approaches are complementary and both increase the likelihood of positive outcomes from difficult, multifaceted, multidiscipline problem situations. The project management approach is strong in engineering and 'hard' sciences and, the Integration and implementation approach is strong in social 'soft' sciences. Being competent at both these approaches will help to achieve co-ordination and collaboration at all levels of industry.

*"while the rising demand growth for food from our Asian neighbours remains a golden opportunity, Australia risks missing the boat without a more co-ordinated effort from industry and government" (Rabobank 2014).*

The effort required to improve Australia's agricultural competitiveness will require investigation of opportunities and research into areas that may be different from the past in order to bring together the knowledge required for policy making and its subsequent implementation. We would encourage government to facilitate community, industry and higher education partnerships across Australia to undertake investigations into carefully chosen research to support decision making to improve Australia's agricultural competitiveness.

A preferred set of outcomes from implementing such policy changes would be a strengthening of collaboration between Research and Development Corporations (RDCs) and in their commitment of allocating resources to address appropriate constraints/opportunities across the whole supply chain rather than using the 'farm-gate' as an arbitrary boundary.

## White Paper Considerations

The addressing of the many complex matters for achieving a quantum improvement in the competitiveness of the Agriculture Sector requires a holistic approach involving governments, industries, agribusiness and regional communities.

Engagement processes need to be business-centric and applied in a manner that ensures involvement of all players in the respective supply chains.

The focus of this submission is on the following four questions posed in the Agricultural Competitiveness Issues Paper:

1. Ensuring food security in Australia and globally
2. Farmer decisions for improving farm gate returns
3. Enhancing agriculture's contribution to regional communities
4. Improving the competitiveness of inputs to the supply chain

Straddling these questions are two high level themes of applying a regional approach and involving all levels of Government. Matters for consideration by Governments in these two themes are:

### 1. A Regional Approach

An imperative for change is bottom-up engagement. Communities want to be more closely involved as they have the on-the-ground knowledge and experiences. Further, research clearly informs of successful change occurring by creating a climate for participants to contribute, a process that builds trust and where there is full participation.

Un-competitive issues differ in occurrence and complexity across the agricultural sector. The policy framework for change must have the breadth and the flexibility to accommodate these differences. At this stage regional knowledge is not readily available or sufficiently comprehensive. The preferred process in such circumstances is to proceed cautiously. In the context of the Agriculture Sector, industries are supportive of action-learning projects undertaken as pilots where through external guidance their understandings are expanded leading to the framing of practical responses.

An overarching framework is required to guide these pilots and their assessment. An allowance of up to three years per project including an evaluation is considered sufficient. For some pilots resources be on hand to permit their pilots morphing into implementation such as guiding the implementation of changes via a regional body.

## 2. Involving all levels of Government

The matters raised in the *Issues Paper* and those of previous cited studies are of national significance, or which need co-ordinated action by all Australian governments. Typically such macro changes are via intergovernmental agreements and auspiced by the Council of Australian Governments.

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