
Submission to the Australian Government's Agricultural Competitiveness White Paper 2014

By

Southern Farming Systems

Inverleigh Victoria



SUMMARY

Southern Farming Systems (SFS) is a farmer-driven, non-profit organisation focussing on sustainable farming systems in the higher rainfall regions of southern Victoria and Tasmania. It has five regional branches. The geographic spread of these branches reflects the diversity in soil types, production systems, climate, seasonal rainfall patterns, and market opportunities that occurs across the region. It has over 500 financial members.

SFS welcomes the initiative of the Australian Government to develop the Agricultural Competitiveness White Paper, and welcomes the invitation from the Government to contribute. In this submission, **SFS** identifies some of the major issues that we believe hinder our agricultural competitiveness. It also makes recommendations on ways to alleviate impediments and create a more favourable operating environment for agriculture and the agricultural value-chain in regional Australia.

SFS believes that addressing these impediments will:

- Improve the competitiveness and profitability of our operations and of Australia's agriculture sector generally
- Boost the contribution of Australian agriculture to trade and economic growth
- Build capacity to drive greater productivity and regional development through innovation.

The key message in this submission is that there is enormous untapped potential for agriculture and food processing in Australia's Southern Rainfall Zone.

A concerted focus on agriculture in the Southern Rainfall Zone by the Australian Government, in partnership with industry and regional communities will reap handsome rewards for Australia's agricultural productivity, agricultural competitiveness, and export revenue.

SFS makes the offer to work further with the Australian Government to increase Australia’s agricultural competitiveness. The main recommendations to Government are as follows:

SUMMARY OF RECOMMENDATIONS	
ISSUE	RECOMMENDATIONS TO GOVERNMENT
1. Capturing the potential of the Southern Rainfall Zone	<p>1.1 Concerted partnership between Australian governments, industry, regional communities, and academia to harness the potential of agriculture in the Southern Rainfall Zone for national benefit</p> <p>1.2 A major research and development initiative led by industry to maximise opportunities throughout the whole agricultural value chain in the Southern Rainfall Zone covering on-farm production, processing, marketing, and regional development</p>
2. Human capital – labour, education, skills, training	<p>2.1 Increased commitment of government to regional and community infrastructure to make lifestyle in regional areas more attractive to employees</p> <p>2.2 Increased commitment of government to regional education and training, including universities and colleges of advanced education and involving regional institutional networks, remote learning facilities, and application of advanced communication</p> <p>2.3 Public awareness campaigns on opportunities and the breadth of careers in Australian agriculture</p> <p>2.4 Waiving of HECS debt repayment for the year that a graduate is working in regional Australia in agriculture or agribusiness</p>
3. Responding to a changing global environment	<p>3.1 Australian Government provides leadership to develop a culture of adaptability and flexibility in Australian agriculture - through market intelligence and information, incentives for industry change, innovative R&D, and infrastructure to build necessary scale and streamlining</p> <p>3.2 Australian Government makes it its business to understand the impact of climate change on the longer-term trends in global commodity production and on the capacity of Australian agriculture to produce, and it designs national climate change responses accordingly to maximise agricultural competitiveness in the changing climate</p> <p>3.3 Australian Government is on the front foot in evaluating and understanding the future and changing needs of consumers in the Asia region, and evaluates and implements the best, and possibly new, opportunities that this may bring to Australia’s competitiveness</p> <p>3.4 Australian Government provides financial and operational support to build scale and manage risk in targeting high value markets where Australia has, or will have, the competitive edge</p>

<p>4. Better targeted agricultural R&D</p>	<p>4.1 A new national research fund be established urgently to address big issues essential to Australia’s agricultural and regional prosperity and to Australia’s international competitiveness that currently are being sadly overlooked by current funding structures; namely cross-commodity issues, farming systems and resource use, landscape design, vertical integration through supply chains (production, processing, transport, marketing), the changing global environment, and regional development</p> <p>4.2 The market failure in the collection of industry levies from some major sectors of Australian agriculture (e.g. feed grain and fodder) be addressed to support research relevant to these sectors</p> <p>4.3 Cooperative Research Centres for agriculture to be led by grower groups rather than by major research establishments with strong financial clout</p> <p>4.4 Major research initiative to address industry and regional development in the Southern Rainfall Zone led by SFS in partnership with governments, industry and academia</p>
<p>5. Transport and port infrastructure</p>	<p>5.1 Strong commitment to (re)building fast and efficient rail networks in regional Australia linking with port operations</p> <p>5.2 Strong commitment to fast and efficient road transport complementing effective rail networks</p> <p>5.3 Extend fuel tax credit rates for taxable liquid fuels currently only available for off-road operations in agriculture to trucking operations that are an integral part of an agricultural value-chain operating in regional Australia</p> <p>5.4 Upgrade port infrastructure - modernising existing ports and establishing a number of new deep sea ports for reduced export costs</p> <p>5.5 Government commitment to establishing true freight equalisation for Tasmania, and establish port facilities in Tasmania with supporting land transport infrastructure for export of agricultural product</p>
<p>6. Value-chain information and management</p>	<p>6.1 All Government decisions relating to agriculture and regional development be made through the prism of the agricultural value-chain; i.e. Governments must consider the impact of all policy decisions on Australia’s capacity to target high-value global markets and the flow-back effects throughout the value-chain. Examples would be decisions relating to Free Trade Agreements, foreign investments, resource and infrastructure ownership, regional development, and biosecurity</p> <p>6.2 Establish a Centre of Excellence as a think tank to increase our understanding of the agricultural value-chain in Australia, in particular the management of product and financial flows <u>between</u> the different elements of the value-chain</p> <p>6.3 Establish an information resource base relating to management of agricultural value chains in Australia</p>

About this Submission

Southern Farming Systems (SFS) is a farmer group formed in 1995, initially to improve farm viability in the south-west regions of Victoria through the development of high rainfall cropping and diversification of agricultural production systems. The success of **SFS** in delivering to the needs of farmers and the agricultural industry has led to the group expanding to five branches across most of southern Victoria and Tasmania (see www.sfs.org.au).

SFS has over 500 financial members, but extensive information and communication networks ensures that the influence of **SFS** and its impact on improving the financial returns to growers extends well beyond its formal membership base.

The main focus of **SFS** is on-farm management and improving on-farm production systems. At the same time, however, we recognise that there are a range of other factors that frame our operating environment that lie external to our farms, and over which we generally have very little direct influence or control.

SFS welcomes the Australian Government's initiative to critically examine the competitiveness of Australian agriculture, and welcomes the invitation to make a submission to development of the White Paper.

This submission focuses on the operating environment for agricultural industries in regional Australia using experiences of **SFS** and farmers in the **Southern Rainfall Zone** of Victoria and Tasmania as examples.

The **Southern Rainfall Zone** is centred on Victoria and Tasmania. It does, however, extend in the west to the Millicent catchment of South Australia and in the east along the NSW coastal regions to the Nepean catchment. It includes the Bass Strait islands.

This submission focuses on key issues that, in our opinion, have a dominant effect in determining the competitiveness of Australian agricultural industries. It proposes actions within the responsibilities of the Australian Government that would reduce impediments or enhance opportunities related to these issues for Australian agriculture.

The main issues addressed in this submission are:

1. Capitalising on the potential of the Southern Rainfall Zone
2. Human capital – labour, education, skills, training
3. Responding to a changing global environment
4. Better targeted agricultural R&D
5. Transport and port infrastructure
6. Value-chain information and management

The submission also makes reference to some other considerations that while not the 'cornerstones of success' are recognised as factors that impinge on the competitiveness of Australian agriculture, and could also be addressed by the Australian Government.

This submission is deliberately kept brief. However additional information or extra supporting evidence can be provided at any time.

SFS makes the offer to work further with the Australian Government in the development and implementation of the Agricultural Competitiveness White Paper.

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ISSUE 1. CAPITALISING ON THE POTENTIAL OF THE SOUTHERN RAINFALL ZONE

Australia is the world’s driest continent, and water remains the ultimate limit to productivity in the vast majority of Australian agricultural systems. A few pockets in the tropical north may provide exceptions.

The competitiveness of Australian agriculture in the world marketplace essentially comes down to a function of the amount of water available for agricultural production, and our capacity to convert this water into saleable products on world markets with a cost structure that equals or exceeds the benchmarks of competing countries.

On the mainland, the **Southern Rainfall Zone** is the area on the coastal side of the Great Dividing Range – extending from the Murray-Darling Basin to the coast. The Millicent Catchment in South Australia forms the western boundary and the Nepean catchment in southern NSW forms the eastern boundary.

All agricultural systems in Tasmania and the Bass Strait islands are included in the **Southern Rainfall Zone**.



Major production zones of Australian agriculture:

- Northern tropics
- Wheat/sheep regions
- Murray-Darling Basin
- Coastal urban fringe
- Southern Rainfall Zone

The **Southern Rainfall Zone** was referred to in the Agricultural Competitiveness Issues Paper as the *more intensive production systems mainly inland of the south-eastern seaboard*.

The **Southern Rainfall Zone** contains 8.8 million hectares of arable land. It is characterised by high and generally reliable rainfall, between 550 and 900 mm annually. The rainfall is more evenly spread throughout the year than in other temperate areas of Australia providing greater flexibility in the production systems. This zone is less affected by the periodic El Nino events.

The soils in the **Southern Rainfall Zone** have the potential to be the most fertile agricultural soils in Australia, suitable for producing a wide range of agricultural commodities at least at world's best practice, but for a number of commodities setting the world benchmark.

The **Southern Rainfall Zone** is located in close proximity to high population and industry centres, especially greater Melbourne. This provides a number of strategic advantages for building Australia's agricultural competitiveness, including:

- Industrial capacity for efficient secondary processing and value-adding
- Availability of workforces and diverse worker skill sets
- Opportunities to integrate established education and learning facilities with industry needs
- Established transport infrastructure and nearby port facilities
- Integration of regional agriculture with urban centres for direct marketing of fresh commodities and utilisation of urban waste.

Vision for the Southern Rainfall Zone

By 2024 (10 years)

- 50% increase in on-farm agricultural production in the **Southern Rainfall Zone** – as the first step towards doubling on-farm production by 2030
- Greater value-adding to agricultural produce, resulting in high quality, high value commodities for export being highly competitive on world markets
- Setting world benchmarks for agricultural production, maximising the conversion of available water to national economic return
- Integration of landscape, land use, commodity production, value adding, and marketing, i.e. doing in each area what each area does best
- Vertical integration of different farming systems for efficient production of high value commodities, such as fodder production to support animal industries
- World-class education in temperate agriculture – delivering skills training for local needs and exporting our knowledge to the world
- Demographic shifts leading to stronger regional communities
- Innovation through research
- Farmer access to the best available knowledge based on a digital platform(s), filling the knowledge need with less reliance on government-based extension services
- Increased capacity of industry-based regional groups (such as **SFS**) to provide the necessary leadership for on-going agricultural and regional development.

Unfortunately, agricultural production in the **Southern Rainfall Zone** is operating well below its potential. Many production systems are still anchored in the past, where pastoral industries provided a high and reliable farming income – in the times when Australia could rightly ‘ride on the sheep’s back’. Times have changed.

Some innovative farmers across the **Southern Rainfall Zone** have already made shifts to higher production systems, and some of the production opportunities are clearly demonstrated through the work of Southern Farming Systems (see for instance SFS Trial Results 2013 Victorian Edition). But still the potential of agriculture in the area remains largely untapped.

SFS propose that there is now the opportunity for a concerted focus on agriculture in the **Southern Rainfall Zone** as a partnership between governments, industry, regional communities, and academia to build Australia’s national agricultural competitiveness in world markets, and to be able to better manage production and competition risk at a national level.

Recommendations to Government:

- 1.1 Concerted partnership between Australian governments, industry, regional communities, and academia to harness the potential of agriculture in the **Southern Rainfall Zone** for national benefit
- 1.2 A major research and development initiative led by industry to maximise opportunities throughout the whole agricultural value chain in the **Southern Rainfall Zone** covering on-farm production, processing, marketing, and regional development

ISSUE 2. HUMAN CAPITAL – LABOUR, EDUCATION, SKILLS, TRAINING

Australia’s agricultural competitiveness dependent totally on the availability of a reliable and highly skilled workforce throughout regional Australia.

Decisions of employees to come to, or to remain in regional areas is just as much about lifestyle and opportunities to engage with local communities outside of the job environment as it is about the job itself.

Government decisions on investments into community infrastructure and facilities are largely based on a set of demographic parameters that are applied consistently across Australia. This means that planning decisions are based on population figures within a ‘catch area’ for a particular service or facility - such as one facility per certain number of people.

SFS believes that such an approach fails to adequately take into account geographic distances and accessibility of alternatives as it applies in regional Australia. The consequence of this approach is that there has been a progressive decline in government services and community facilities in many regions of Australia. And this decline is continuing. The argument is always that a fewer number of facilities allows for better services to be delivered at a central or regional facility. While this is true, this

argument fails to account for the penalties of travel and expense that must be experienced to access the services, and the disruption to family life that travel and 'time away from home' may bring.

SFS advocate that governments must make much stronger investments into regional community infrastructure, to make regional Australia a more attractive place for young people and workforce personnel to come, to live, to stay, and to work.

These investments into regional infrastructure may need a different mix of public and private capital than occurs in capital cities, or alternatively, modifications may need to be made to incentives for private capital than occurs in capital cities. Nonetheless, there needs to be some innovative thinking on ways to maintain and build community infrastructure in regional areas. Key examples of such investments are schools, tertiary education facilities, airports and air services, sporting facilities, public transport, cinemas, and shopping precincts.

Opportunities for tertiary education are much more limited for students across regional Australia than for their city-based counterparts. The brightest young Australians from regional areas move to city locations for high-quality university education. The idea that these people will return to regional Australia to work in agriculture and agriculture-related industries unfortunately has a very low strike rate.

There are cultural implications also for the lack of tertiary education facilities in regional Australia. Some areas of regional Australia are strong centres for migrants from a particular country or cultural background (e.g. Iran, Iraq). Many young ladies from these backgrounds are unable to leave the family home until they marry. Lack of tertiary facilities locally greatly reduces the capacity of these students to become well equipped to enter into professional positions in regional agricultural industries. Regional industries after good and skilled employees suffer as a result.

SFS believes that opportunities for the best university education have to be increased within regional areas through a greater number of smaller centres networked through remote learning facilities and advanced communication.

At the moment there is the perception that the pathway into a professional career in agriculture is limited to the broad-based agriculture courses offered at only a few of the main universities or tertiary institutions in Australia, and that after qualifying in these courses other options are limited. The low tertiary entry scores for agriculture at the main universities also create adverse perceptions.

To the contrary, for Australian agriculture to be highly competitive on world markets it needs highly skilled graduates from a wide range of academic disciplines including basic sciences, social sciences, engineering, accounting, economics, and marketing.

There are no regular advertising campaigns to promote careers in agriculture, as has been delivered successfully in the mining industry, for instance.

There is also the opportunity to introduce an incentive to attract young people back into regional areas and agriculture after graduation by modifying the Higher Education Contribution Scheme (HECS) repayment structures, independent of the university course they completed. The HECS debt repayment could be waived for each year that a graduate works in regional Australia in agriculture or agribusiness. This would be straight forward for the Australian Government to administer through

taxation arrangements. This may appear only a small incentive, but the effect could be substantial in attracting and retaining skilled staff in regional areas.

Recommendations to Government:

- 2.1 Increased commitment of government to regional and community infrastructure to make lifestyle in regional areas more attractive to employees
- 2.2 Increased commitment of government to regional education and training, including universities and colleges of advanced education and involving regional institutional networks, remote learning facilities, and application of advanced communication
- 2.3 Public awareness campaigns on opportunities and the breadth of careers in Australian agriculture
- 2.4 Waiving of HECS debt repayment for the year that a graduate is working in regional Australia in agriculture or agribusiness

ISSUE 3. RESPONDING TO A CHANGING GLOBAL ENVIRONMENT

Australian primary industries have shown a remarkable capacity to be able to adapt to changing environments over the past 100 years, in particular as our production systems have expanded into a wider variety of landscapes and climatic regions across Australia. Flexibility is one of the main attributes that has provided strength to our agricultural industries over time.

The Australian agricultural industry is now thoroughly embedded within in the global environment, and clearly needs to be able to respond swiftly, or possibly even in advance of, any changes within that environment. This applies particularly to changes in the global balance of commodity supply and demand brought about by changing production levels, type of commodities grown, consumer preferences, and consumer buying power.

A major factor determining the competitiveness of Australia’s agriculture is the extent to which it is flexible throughout all of its value-chain to respond swiftly to the changing global environment.

Only in this way we can continue to be at the forefront of delivering to the marketplace what consumers want and at times when the balances of supply and demand favour price premiums.

Climate change is being felt in all corners of the globe, and it is one of the factors that has, and will increasingly have major impacts on the global agricultural environment.

The latest projections of the effects of climate change on global agricultural production show that there will be increases in the areas of arable land under production at the higher latitudes of Canada,

Russia, Northern United States, and southern Argentina; and decreases in western Africa, central America, southern-central United States, and northern South America.

These changes impact directly on the production levels and types of commodities grown in many of the countries or regions that are Australia's main traditional trading competitors, or alternatively are becoming competitors as the breadth of commodities being produced in Australia increases.

At the moment, however, the Australian agricultural industry has **no reliable information** on projected changes to the supply and demand of the main commodities we grow, and no way of knowing the best way to modify its commodity type or volume to maintain or increase its competitiveness in response to global climate change.

We are not in a position to effectively forward-plan, and this leaves us vulnerable.

Within a few years, Asia's ascent will make it the world's largest producer and consumer of goods and services, and it will be home to the majority of the world's middle class. Rising food demand in Asia, coupled to rising populations and the expanding middle class offers opportunity for Australia to be an increasingly important supplier of high-quality, high value food into this market. Again, the Australian agricultural industry has **no reliable information** or market intelligence nor does it have knowledge of the specific commodity needs of this expanding market to ensure that it can target what is required and can be more competitive in this market than anyone else.

Recommendations to Government:

- 3.1 Australian Government provides leadership to develop a culture of adaptability and flexibility in Australian agriculture - through market intelligence and information, incentives for industry change, innovative R&D, and infrastructure to build necessary scale and streamlining
- 3.2 Australian Government makes it its business to understand the impact of climate change on the longer-term trends in global commodity production and on the capacity of Australian agriculture to produce, and it designs national climate change responses accordingly to maximise agricultural competitiveness in the changing climate
- 3.3 Australian Government is on the front foot in evaluating and understanding the future and changing needs of consumers in the Asia region, and evaluates and implements the best, and possibly new, opportunities that this may bring to Australia's competitiveness
- 3.4 Australian Government provides financial and operational support to build scale and manage risk in targeting high value markets where Australia has, or will have, the competitive edge.

ISSUE 4. BETTER TARGETED AGRICULTURAL R&D

Australian agricultural productivity has increased steadily by about 2% per year since the 1950's and much of this can be attributed to improvements in cultivars, agronomy, farming systems and technologies brought about through structured research and development conducted either directly or indirectly through Australia's Rural Research and Development Corporations.

Research by farmers and industry also contribute substantially - as they continually explore new and innovative agricultural techniques mainly with their own resources. Research funders that were established to address cross-commodity issues or systems research have either been closed or wound back – for instance the Land and Water Resources Research and Development Corporation, the cross-industry program within the Rural Industry Research and Development Corporation, and the Natural Resource Management Strategy of the (then) Murray-Darling Basin Commission.

The most significant funding program that was established recently between Rural Industry Research and Development Corporations to address cross industry and farming systems issues is *Grain and Graze*, but that has only ever been quite small and now is also being wound back.

There has been a major contraction in recent years of cross-commodity or farming systems research in Australia in favour of more narrowly-focussed research that aligns with the individual commodity interests of each Research and Development Corporation.

SFS believes that this contraction of cross-commodity or farming systems research is severely hindering development of better whole production systems, and reduces the opportunities for creating synergies between production types – such as between fodder production and animal production; synergies that are essential to build Australia’s agricultural competitiveness.

A second issue is that the established Research and Development Corporations focus predominantly on matters relating to on-farm activities. Possibly Australian Wool Innovations is the exception. In any case, there is no agricultural research funding organisation in Australia that focuses, for instance, on the issues of this White Paper i.e. Agricultural Competitiveness, or on regional development.

SFS believes that this is a major short-coming in the structure and operations of the funding model for Australian agricultural research.

Research through the Research and Development Corporations is based on levies collected from growers - generally matched equally by the Australian Government. Understandably, the Research and Development Corporations don’t stray too far from funding questions that are an immediate, obvious, and usually visible issue for those who have paid the levies. There are many examples of this, such as the one-year funding for mouse-plague research only when there was a visible mouse plague.

Generally, organisations applying for research funding commit their own resources to the project as well. This makes the bid more attractive, but it also has the effect of limiting the scope of research by these organisations only to where they can attract external funds.

This whole chain of scaling up levee contribution has the effect of locking nearly all of Australia’s agricultural research resources into existing commodities and structures. Opportunities for developing new and innovative agricultural industries that may have a real potential to be competitive on global markets are very small indeed.

One example, relevant to **SFS** in the way that the current research and development structures constrict innovation and development of new industries, relate to red wheats. Red wheats have very high production in the **Southern Rainfall Zone** – in excess of 10 tonnes per ha, and produce high

quality feed for the animal industries and high quality flour for flat breads and crisp breads. Some research investment is required however, to ensure that the whole value-adding production systems involving growing, processing and marketing at least matches or preferably exceeds world's best practice - so that Australia can guarantee competitiveness on world markets.

Our business planning shows a market potential in excess of 100,000 ha of red wheats from the **Southern Rainfall Zone**. However, there is a market failure in the collection of research levies in the production of feed grain, with levies only being able to be collected if the grain passes through a registered trading house. The funding body that is responsible for wheat research in Australia is reluctant to put funding into red wheats because of lack of industry levies for this commodity, and in any case most of the Australian industry is currently based on white wheats.

The model for Cooperative Research Centres to address major industry issues is generally working well in Australia. However, in any CRC that is or has been related to Australian agriculture, the lead organisations have always been a University or academic institute, partly because of the financial resources that the lead institute can bring to the CRC bid. **SFS** believes that the CRCs for agriculture in Australia will be stronger and more able to target Australian agricultural competitiveness if mechanisms could be found for CRCs to be led by grower groups, such as **SFS**.

SFS believes that a major research initiative targeting agricultural competitiveness and regional development in the **Southern Rainfall Zone**, covering all aspects of the production, processing, and marketing chain; and associated education and knowledge would bring rich rewards to Australia's agricultural competitiveness and to Australia generally.

Recommendations to Government:

- 2.1 A new national research fund be established urgently to address big issues essential to Australia's agricultural and regional prosperity and to Australia's international competitiveness that currently are being sadly overlooked by current funding structures; namely cross-commodity issues, farming systems and resource use, landscape design, vertical integration through supply chains (production, processing, transport, marketing), the changing global environment, and regional development
- 2.2 The market failure in the collection of industry levies from some major sectors of Australian agriculture (e.g. feed grain and fodder) be addressed to support research relevant to these sectors
- 2.3 Cooperative Research Centres for agriculture to be led by grower groups rather than by major research establishments with strong financial clout
- 2.4 Major research initiative to address industry and regional development in the **Southern Rainfall Zone** led by **SFS** in partnership with governments, industry and academia

ISSUE 5. TRANSPORT AND PORT INFRASTRUCTURE

Fast and cost-effective transport is a cornerstone of profitable operations right through the value-chain of Australian agriculture, and a cornerstone of Australia’s agricultural competitiveness.

The vast majority of freight for agriculture in Australia is by road – for the supply of inbound materials, for internal operations such as from paddock to the processing plant, and for transport of product to sea ports for export. The main exception to this is the transport of bulk grain by rail from central receival sites to ports.

Australia’s agricultural competitiveness will be best served by national and regional transport systems based on effective integration of road and rail, so that the transport functions within Australian agriculture can be best matched with the most efficient and cost-effective means of delivery for each specific need.

SFS does not believe that rail freight need necessarily be slow. Most businesses in Australian manufacturing are developing ‘just-in-time’ delivery systems that appear easier with less risk to be serviced by road freight. **SFS** believes that effective development of rail transport, coupled with modern systems of logistic control and communication could provide just as effective and timely transport of materials as road.

There would be obvious advantages for Australia’s agricultural competitiveness should there be a modern national rail freight service especially considering vast distances for agricultural freight across Australia. There would be savings to costs of fuel, labour, and operations through load volume. But in addition, fast and efficient systems rail freight provides the means of shifting costs to a user-pay principle without any net increase in transport costs to Australian agriculture while at the same time reducing road cost subsidies currently borne by residents in regional communities and by all three tiers of government.

But Australia’s rail infrastructure is well below international standards. Tracks are antiquated restricting loads, speed, and train logistics. Aluminium freight trucks are now commonplace in efficient rail systems worldwide, allowing an extra eight tonnes of freight per truck to be carried. The only place that aluminium rail trucks are used in Australia is in the mining industry.

Standard for train freight in Canada:	10,000 tonnes per train 40 tonne axle load weight \$20/tonne farm to port (wheat)
Standard for train freight in Australia:	2,000 tonnes per train 16 tonnes axle load weight \$70/tonne farm to port (wheat)

(Source: Australian Export Grains Innovation Centre 2014)

SFS recognise that there are major difficulties for governments to invest in upgrading train tracks and rolling stock in Australia, or to facilitate upgrades or improvements. Most of the tracks and freight

rolling stock are now privately owned, and within any one region it is owned by a single provider. In most cases, there is no consistency of ownership between states, and the freight systems are not compatible. There is minimal (if any) market competition for train freight in any one region.

This will need to change for Australian agriculture to be highly internationally competitive. There will need to be substantial upgrades and redesign of Australia's rail freight systems, based on a number of highly efficient inland container terminals with radiating feeder lines, and fast transport from the inland terminals to the export ports.

Upgrading rail networks is not just about the track, it also involves systems of loading, unloading and rolling stock. The Government may be better placed to make investments in select parts of the network, such as loading and unloading facilities, and using a range of other policy options to force improved efficiencies in the parts of the system that it does not own.

There also needs to be a national perspective independent of state borders to utilise the best options for the location of tracks and ports.

Logistically, transport from the inland terminals would be matched with shipping availability and/or shipping timetables reducing expensive storage bottlenecks at the port facilities. This is what happens elsewhere in our competitor countries.

Nonetheless, while there is the dominance of road transport for agriculture produce, the Government will need to improve and better maintain the road networks throughout regional Australia.

The fuel tax credit rates for taxable liquid fuels (diesel and petrol) for heavy vehicles travelling on any public road in Australia is 12c per litre, independent of the distance travelled and independent of the proximity to city centres. The fuel tax credit rate for off-road activities in agriculture is over 3 times this amount – at 38c per litre.

There appear to be abundant opportunities to extend the higher fuel tax credit rate to certain trucking operations in regional Australia, where those operations are an integral part of Australia's agricultural industries. Transport of an agricultural commodity from the paddock to the processing plant within the one agricultural supply chain is one example where the higher fuel tax credit rate would be quite appropriate.

Over recent times there have been major improvements to the infrastructure of Australian ports, but most of this is has been for the export of coal and iron ore from Queensland and Western Australian sites.

Similar continual upgrading of existing ports for export of Australian agricultural products is needed for Australian agriculture to be internationally competitive. In addition, new port facilities for agricultural exports in deep water ports such as Portland and Burnie are required to ease logistical pressures on capital city ports and reduce through-put costs.

The cost of freight transport for **Tasmanian agriculture** is crippling, both for inward supply of goods and outward delivery of agricultural product. The cost burden of Bass Strait is not faced by the mainland states, and it affects every aspect of agricultural competitiveness in Tasmania - both domestic and export.

As an example, several years ago agricultural produce could be exported from a container terminal in Burnie on the north coast of Tasmania. These facilities are now closed, and all container freight for the international market must move first to Melbourne, to be re-handled for export. When the Burnie port was operational, it was cheaper to transport a container from a Tasmanian farm to Japan than it was from the same farm to Melbourne. With the Burnie port closed, transport costs from Tasmanian farms to Asian markets have doubled.

In the past year there have been three major studies and reports into transport and freight costs in Tasmania:

1. **The Australian Government Productivity Commission Report on Tasmanian Shipping and Freight, January 2014** (www.pc.gov.au/projects/inquiry/tasmanian-shipping/draft)
2. **Final Report of the Freight Logistics Coordination Team commissioned by the Tasmanian Government, December 2013** ([www.dier.tas.gov.au/data/assets/pdf/file/0009/94374/Final FLCT Report December 2013.pdf](http://www.dier.tas.gov.au/data/assets/pdf/file/0009/94374/Final_FLCT_Report_December_2013.pdf))
3. **Report by the National Highway Coalition – Towards a True National Highway: Bridging the Gap Across Bass Strait – The Case for Economic Equity March 2013** ([www.tfga.com.au/index.php/download/file/view/653/219/A National Highway to Tasmania – Case for Equality of Access.pdf](http://www.tfga.com.au/index.php/download/file/view/653/219/A_National_Highway_to_Tasmania_-_Case_for_Equality_of_Access.pdf))

And these reports follow a long string of similar analyses and reports over the past decade.

The message in each of these reports is the same, that is current arrangements under the Australian Government's Tasmanian Freight Equalisation Scheme (TFES) and the Tasmanian Wheat Freight Scheme (TWFS) are sadly inadequate, imposing substantial penalties for Tasmanian agriculture to engage with the Australian marketplace generally, and substantially limiting the competitiveness of Tasmanian agriculture internationally.

The Tasmanian Farmers and Graziers Association has contributed to each of these reports and supports the findings in these reports. The Association is also making a submission to the Australian Government's Agriculture Competitiveness White Paper, and it is again making the case that inadequacies in the service and cost structures of freight for Tasmania is severely constricting the competitiveness of Tasmanian agriculture. **SFS** wishes to support the submission made by the Tasmanian Farmers and Graziers Association to the White Paper.

Recommendations to Government:

- 5.1 Strong commitment to (re)building fast and efficient rail networks in regional Australia linking with port operations
- 5.2 Strong commitment to fast and efficient road transport complementing effective rail networks
- 5.3 Extend fuel tax credit rates for taxable liquid fuels currently only available for off-road operations in agriculture to trucking operations that are an integral part of an agricultural value-chain operating in regional Australia

- 5.4 Upgrade port infrastructure - modernising existing ports and establishing a number of new deep sea ports for reduced export costs
- 5.5 Government commitment to establishing true freight equalisation for Tasmania, and establish port facilities in Tasmania with supporting land transport infrastructure for export of agricultural product

ISSUE 6. VALUE-CHAIN INFORMATION AND MANAGEMENT

Since white settlement, Australian agriculture has continued to develop and expand on the basis of farmers being able to grow what farmers can grow well.

The Australian wheat industry has reached the strengths of today due to the wide-spread success Australian Standard White (ASW) delivered to large regional receival sites with very little, if any, product segregation at those receival sites. It was then the role of the Australian Wheat Board (or its predecessors) to float the product it received onto world markets, often with product mixing to create wheat of acceptable market quality, and to obtain the best price it could. Mostly this worked well, although this meant that we were always **price-takers** in this market place.

With the advent of modern technologies, instant communication, and rapid product intelligence, the days of just hoping that whatever we grow could be sold for a good price on world markets has become an increasingly risky approach to marketing and remaining competitive.

Buyers world-wide are now much more discerning, and they can source product from anywhere instantly to match their requirements.

There is a dreadful recent example of this 'grow and hope' approach going wrong. A key sector of the Australian wool industry, has maintained its faith that if it continued to produce superfine wool, then the world market place would continue to buy it at a premium price. Suddenly, they have been blindsided by the advent of a new processing technology that allows coarser grades of wool to appear to the customer as the same quality of superfine, but at a fraction of the price.

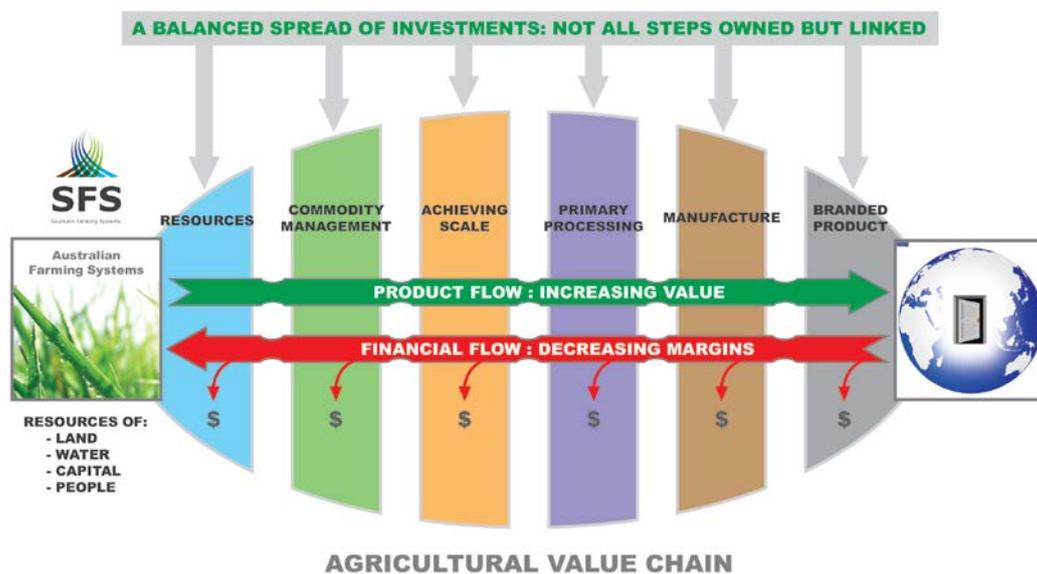
After decades of heavy investment by the wool industry and farmers into producing better and better superfine wool, within one year, the price of superfine wool has dropped to less than half the price producers would have otherwise reasonably been able to expect. This represents a total failure of an industry to understand the agricultural value-chain internationally and to manage the industry accordingly, unfortunately in this case with dreadful consequences for Australia's international competitiveness in that industry.

To maintain and build competitiveness, Australian agriculture has to understand how to 'reverse-engineer' the value-chain, so to know:

- what is the high value product buyers want
- what are the quality standards to command the premium price
- what are the assurance standards that the buyer needs before he will buy.

The whole value-chain needs to know how to produce that product, and how to play its role collaboratively in delivering the product to the market place cost-effectively.

Knowledge of the value-chain allows Australian agriculture to target successfully high value markets for building agricultural competitiveness, with each component contributing effectively to the success of the whole chain.



Value-chain knowledge also provides entrepreneurs and agribusiness with sufficient understanding to meet the due diligence requirements of investors.

A senior manager in one of Australia’s largest banks that provides finance to Australian agriculture has explained (in reference to the above diagram) that while the bank is vitally interested in the performance of each component along the value-chain, the bank is even more interested in seeing the functions that occur between them. This involves the continuity of product flow, the continuity of finance flow, and continuity of knowledge.

There are companies, many of them international, that understand the Australian agricultural value-chain well, as evidenced by them acquiring Australian assets in agriculture down-stream from farms. But in most cases, **this information isn’t held by, or available to farmers.**

Why is it that foreign investors are prepared to invest heavily in the Australian agricultural value-chain?

Why is it that we appear so happy to see this happen and mostly with minimal scrutiny of implications for Australia’s competitiveness or national interest?

And why is it that at the same time, Australian investors, such as superannuation funds appear reluctant to do so?

This interest by foreign investors in the Australian agricultural value-chain right occurs across the board in all commodity sectors, with one recent high profile case being the application by Archer Daniels Midland Company’s to acquire **100%** of the shareholdings of GrainCorp Ltd. This application

was rejected by the Australian Government on the basis that such international investment in Australia's agriculture value-chain '**would not be in our national interest**' (www.jbh.ministers.treasury.gov.au/media-release/026-2013/).

Southern Farming Systems is making this submission to the Agricultural Competitiveness White Paper with the intent of improving the **operating environment** for farmers in the **Southern Rainfall Zone** and across Australia. Knowledge and management of **agricultural value-chains** is a key factor in improving farmers' operating environment and improving Australian agricultural competitiveness nationally.

Financial reform for Australian agriculture, including access to capital and access to cash-flow finance will increasingly become inextricably linked to value-chain knowledge, value-chain operations, value-chain management, and possibly value-chain control.

Recommendations to Government:

- 6.1 All Government decisions relating to agriculture and regional development be made through the prism of the agricultural value-chain; i.e. Governments must consider the impact of all policy decisions on Australia's capacity to target high-value global markets and the flow-back effects throughout the value-chain. Examples would be decisions relating to Free Trade Agreements, foreign investments, resource and infrastructure ownership, regional development, and biosecurity.
- 6.2 Establish a Centre of Excellence as a think tank to increase our understanding of the agricultural value-chain in Australia, in particular the management of product and financial flows between the different elements of the value-chain
- 6.3 Establish an information resource base relating to the management of agricultural value-chains in Australia.

OTHER CONSIDERATIONS

There are a number of other matters that **SFS** wish to note as factors contributing to Australia's national agricultural competitiveness. While they may not rate as highly as the key issues described above, we consider them important nonetheless and worthy of Government attention.

1. Energy reform

Natural gas is the most widely used form of energy in food processing plants in Australia's agricultural value-chains, especially for cooking and dehydration of product, sometimes amounting to 40% the total operating costs in processing plants.

The cost of natural gas to agricultural processing plants in regional Australia has about doubled in the past five years from \$4.10/GJ in 2010 to a contracted price of \$7.80/GJ in 2015. Many processing plants have already been notified that the price of gas will rise to over \$10/GJ in 2017.

Australia is on track to become the world's largest exporter of gas in the world, but in so doing is creating a gas shortage domestically that is increasing energy costs to Australian industry. At the same time, Australia is providing cheap energy to the advantage of our competitor countries. There does not appear to be a mechanism, as in America for instance, where gas cannot be exported until domestic demands are met first.

Information from the US Energy Information Administration, Annual Energy Outlook 2013 show that the price of natural gas to industries in California, Australia's main competitor on world markets for a number of processed agricultural products was A\$4.40/GJ in 2000, A\$4.40/GJ in 2013, and is projected to be A\$4.60/GJ in 2020. In real terms this is a decrease in energy costs over two decades in a major competing country.

Australian food processing companies simply cannot absorb this sort of increase to operating costs and remain internationally competitive especially when such cost increases don't occur in our competitor countries.

2 Research into agronomic limitations to yield and productivity in the Southern Rainfall Zone

The high potential of the **Southern Rainfall Zone** is outlined in *Issue 1* (above), and the opportunity to greatly improve delivery of agricultural research and development in Australia is outlined in *Issue 4*.

Key agronomic limitations to yield and productivity in the **Southern Rainfall Zone** remain, however. Successful research into some of these limitations will help realise the high production potential of this zone, and will help build further opportunities for regional development and improving agricultural competitiveness.

Two of the most important questions relate to improving agricultural soils within this area, and assisting regional agriculture adapt to the local impacts of climate change.

SFS will be building its research program in both these areas over the next few years, and is seeking support from governments to work in partnership to address them, so to build agricultural competitiveness of the **Southern Rainfall Zone** and of Australia nationally.

3. Even playing field for quality standards of imported foodstuffs

Australian based producers of food are required to adhere to strict food-quality standards in production of the raw material, in processing, and in packaging. **SFS** fully supports this, but the same quality standards don't apply to imported foodstuffs.

Imported product can be alongside Australia product on the supermarket shelves, and the buyer has no way of knowing that different quality standards apply. Imported product must be forced to adhere to the same quality standards as Australian product; otherwise it should not have market access.

4. Accelerated roll-out of National Broadband Network in regional Australia

Improved IT and communication facilities are vital for businesses in regional Australia to compete in world markets. Preference should be given to regional Australia for accelerated roll-out of the NBN.

5. Refugee settlement programs

Regional Australia could provide wonderful opportunities for genuine refugees accepted for settlement in Australia. Many of these people have backgrounds in agriculture and food production. SFS proposes that the Government could better demonstrate to genuine refugees the merits of settling in regional Australia, and could provide encouragement for them to work in agriculture and the agricultural value-chain.

6. Government support for 'leaders in agriculture' programs

Australian agriculture will be relying on the next generation of leaders for innovation and creativity to drive increased competitiveness in world markets.

There are several programs already in place, some funded partly by the Australian Government, that build the knowledge, skill-base, capabilities and networks of leaders in agriculture, such as the Australian Rural Leadership Program, the Nuffield Farming Scholarship Trust, and On the Money.

These programs have clearly demonstrated their value. **Southern Farming Systems** propose that increased investments by the Australian Government in rural and agriculture leadership programs will, in turn, reap rich rewards for the competitiveness of Australian agriculture and for Australia nationally.

End