



17th April 2014

The Hon. Barnaby Joyce
Minister for Agriculture
Parliament of Australia

The Agricultural Competitiveness White Paper: *Ridley Corporation's response to the Issues Paper*

Dear Minister Joyce,

Ridley Corporation applauds the Government for commissioning a White Paper to boost agriculture's productivity and profitability. We support a long-term and bi-partisan vision. Agriculture has long term profitability and growth cycles which need to be a platform for developing impactful and effective policy.

Agriculture and farming underpins the strength and profitability of other agribusinesses and manufacturers in the supply-chain, Ridley is one such company. Ridley is Australia's largest independent supplier of animal nutrition solutions. Supporting food producers in the poultry, dairy, fish, pig, cattle, sheep, horse and pet food sectors. We are ASX listed (RIC) with over 800 employees spread across regional Australia. We have more than 20 sites with an annual turnover in excess of \$700m.

To reinforce Australia's role as an AgriFood leader, it is important to build a strong AgriFood supply chains. These will enable industry to benefit from this country's natural competitive advantages, which lie in our geography and proximity to Asia; our abundant, fertile and diverse land coupled with our relatively small and resilient population, which provides us with the highest rate of arable land per capita in the world. No one can take these advantages away from Australia. We can however choose to use them to our advantage by creating a competitive environment for our agribusiness to flourish, or choose to take them for granted.

Strong and integrated supply chains extend well beyond the farm-gate and include agri-processing and value-added agricultural products. There exists a strong economic multiplier



effect in processing and manufacturing which Australia can apply to its inherently competitive industries, notably AgriFood. This is an industry in which Australia not only *can* be competitive, but *should* be competitive. Policies and taxation should reflect the importance of manufacturing to competitive agriculture.

Processing and manufacturing are capital intensive by nature. In a highly competitive world, best in class machinery and technology require a taxation regime which includes accelerated capital depreciation to enable Australian companies to innovate and to stay ahead of the curve. Australia's high cost of labour, relative to other arguably more competitive manufacturing nations in our region, is another important reason to encourage automation through capital investment in machinery and technology. As the cost of labour is unlikely to dramatically decrease in Australia, it is important for agribusiness to operate using the most cost effective and productive technology, processes and number of employees.

The criteria attached to many forms of government funding are dependent on the number of employees directly generated by the investment in question. More employees per project does not necessarily equate to more competitive and sustainable agribusinesses or industries which will contribute to the Australian economy well into the future. The most competitive and sustainable processing and manufacturing businesses have lean employee numbers but importantly, they are capable of generating a considerable multiplication in economic benefits and increase employment in the supply chain.

A more sophisticated criteria for government funding aimed at processors and manufacturers in AgriFood supply, should consider job creation in the supply chain as well as direct employment and other strategic factors contributing to the Australian economy. This will result more effective use of limited government funding.

Policies which encourage and support collaboration in the supply chain and across agricultural sectors can help reduce fragmentation, and strengthen economic synergies. For example, Ridley can help improve farmer profitability and sustainability through consistent and quality animal feed, which improves yields and quality of milk, the quality of meat and eggs...etc. These improvements translate into better returns at the farm gate, and also provide a superior product to food markets. There are many other examples where improved



collaboration through the AgriFood supply chain can improve farm gate and agribusiness profitability. Farms cannot operate in isolation to a competitive supply chain.

Innovative financing

This collaboration can also extend to financing solutions. Financial innovation can help alleviate challenges at the farm-gate and smooth out the Agricultural cycles. Partnership opportunities exist between farmers, agribusinesses and the banks to explore adapted financing solutions and risk sharing models, especially where there is market failure.

For example in the Dairy industry, during the lactation period farmers generally have good cash flow, which they can spend on the farm and on appropriate supplementary feeding. Consistent and high quality supply of animal feed throughout the year is proven through our best dairy farmers to improve milk quality and volume. These methods are adopted by some of Australia's best dairy farmers. However out-side of the lactation cycle, cash flow is often much tighter and some farmers will cut their spending, including spend on feed. This will directly impact their yields and quality of product when the lactation cycle comes back around, providing the farmer with less revenue and less profit – a vicious cycle.

The ability to provide farmers with consistent financing throughout the ups and downs of their industry cash flow cycles, combined with improved education in effective farm and financial management techniques will depend on the ability of farmers, agribusiness and banks to collaborate on innovative solutions to match.

Education and training

Education among farmers is critical to their ability to maximise farm profitability. Tertiary education, including Agricultural Colleges, is a good foundation for improved farming practices. However, much can be achieved in the short to medium term through on-the-job training, best practice awareness and capability building. Formal Government support for industry led farmer training and education programs would go a long way to accelerate a transition to improved farm practices and profitability – particularly for the most promising farms which are struggling to step up without the support to do so.



Consistent messaging regarding best practice in farming across various industry players, government and educational institutions will assist farmers to cut through the 'noise' to improve their productive practices. A consistent and positive approach should also help to attract young and new entrants into the agricultural talent pipeline. Like many agribusinesses, Ridley is concerned by the lack of interest from young talent and is investing in programs to promote agribusiness, however much more can be done through greater industry and government cooperation.

Infrastructure

Despite the Abbott government's commendable emphasis on infrastructure investment, further focus is required specifically on rural and regional infrastructure. This includes an effective and timely NBN roll out, rail infrastructure, road infrastructure ports, and services. Australian agribusiness need a holistic and connected view of infrastructure investment strategies and harmonisation. This view requires an identification of competitive infrastructure pipelines from farm gate to domestic or foreign customers.

For example, rather than investing in roads in isolation which may divert the transport of product from potentially more effective transport channels and increase heavy vehicle traffic, governments and industry can collaborate to identify the most efficient combinations of infrastructure for different AgriFood sectors and in different geographic locations. This might look like b-double standard roads at the farm-gate, then nationally consistent rail infrastructure across multiple States to effective ports. These infrastructure pipeline solutions need to be viewed in the national context to address situations where transport infrastructure is incompatible due to different rail gauges in different States.

Australia's market and population density is too small to commercially justify the rural infrastructure needed to ensure competitive cost to market through effective transport and to ensure the cost effective and productive rural and remote operation, including fast tracking rural access to competitive telecommunications infrastructure. Government support is needed in this case of market failure. Improved infrastructure will also contribute to stronger rural communities, and make it easier for companies to operate cost effectively and efficiently - preventing jobs from moving to more urban areas.



Improved international market access

International market access for Australian AgriFood products is critical to our competitiveness as our small domestic market alone will not enable economies of scale. This is widely acknowledged, accepted and is evident from the fact that Australia exports 60% of its produce. However, value-added (processed and semi-processed) products often receive less attention in trade negotiations than commoditised agricultural produce – both are important to achieving maximum benefits from supply chain integration and creating an economic multiplier effect. Economies of scale through improved trade access create a critical mass for manufacturing in Australia. A lack of critical mass leads to a negative cycle of plant shutdowns, then manufacturing ‘clusters’ start to break up threatening the viability of the entire industry.

Ridley supports the encouraging inroads that the Abbott government has already made on the recent finalisation of Korea Australia Free Trade Agreement, the Japan Australia Economic Partnership Agreement (JAEPA) and efforts to progress a Free Trade Agreement with China as well as through the Trans Pacific Partnership negotiations (TPP). Traditional Tariffs still pose a competitive disadvantage when compared to countries where they do not apply, and these efforts are a step in the right direction. We encourage the Federal Government to continue its efforts to further improve tariff liberalisation for Australian Agriculture and improve its focus on AgriFood processing and manufacturing.

Non-tariff barriers to trade such as quotas, adequate infrastructure, and bureaucracy can present just as much a barrier to trade as traditional barriers. For example, importation documentation cannot be sent to Indonesia before the product has left port, however it takes longer to process the documentation than it does to transport from Australia to Jakarta – causing Australia to lose some of its competitive advantage in proximity. This causes delays and build-up of product in the Port of Jakarta which is too small to accommodate, and leads to expensive storage costs. Many organisations chose to divert product to Singapore or HK first before returning to Jakarta to avoid more expensive bureaucratic delays. This imposes additional costs in an already inefficient and uncompetitive supply chain.

Another important non-tariff barrier includes non-acknowledgement of internationally recognised science, which is used to delay (sometimes indefinitely) the opening of markets.



For example, there is no formal recognition from China and Indonesia that heating of meat products, notably rendered meat products, inactivates the Avian Influenza (AI) virus. Hence when there were AI outbreaks in Australia at Maitland in November 2012 and Young in October 2013 (non-deadly strains to humans), these countries shut down market access. These restrictions are still in place at the time of writing despite an official declaration by the OIE (The World Organisation for Animal Health) officially declaring Australia AI Free. Indonesia would like to send a team to perform a 'risk assessment' in country. International politics will always pose challenges to free trade and investment, however these challenges can be minimised by formalising processes, agreements on science based practice and logic to manage bio-security (sanitary and Phyto-sanitary) and improving transparency.

Industry standards

Australia has some of the highest bio-security, sanitary, phyto-sanitary and environmental standards in the world. However, many of these standards differ from State to State causing confusion, inconsistency and inefficiencies. In the animal feed industry there is the National Feed Standard, yet there is very little government resource to help industry to raise awareness and to assist in the implementation of these standards. Animal feed mills need to be designed fit for purpose, and use effective management techniques to prevent disease and medication cross-transference. If not addressed, these issues create a concern for the safety of animals and humans, put our international trade at risk and impact the sustainability of Australia's primary industries.

Protecting food quality and safety is paramount and industry has not been idle in putting resource towards addressing this gap. For example, the Stock Feed Manufacturers Council of Australia (SFMCA) established the FeedSafe standard, which Ridley strongly supports. The Feed Ingredients Additives Association of Australia (FIAAA) also supports Australia's National Feed Standards. However much more can be done to educate and assist feed millers to raise their standards through improved resource at the Department of Agriculture and consequent collaboration with key industry players and associations.

As agricultural markets become increasingly global, some of the most competitive agricultural supply chains are integrated beyond the farm gate. Australian agribusinesses



doesn't necessarily need to own the entire supply chain to be competitive, however it can control it, influence it and in this way become a driving force for growth.

Improved farmer profitability can be achieved through a number of initiatives. Australia must invest in integrated national infrastructure pipelines from the farm gate, across processing and manufacturing supply chains, to the customer. Farmer education and capability building will be an important catalyst to successfully implementing necessary change and generating more innovation. Fostering a vibrant domestic AgriFood processor and manufacturing supply chain, through accelerated capital depreciation, more sophisticated innovation and investment government support criteria, improved government resourcing to address non-tariff barriers to trade and enforce industry bio-security standards.

We look forward to the release of the Agriculture Competitive White Paper. Upon request, I would be delighted to be contacted to elaborate on any of the above points.

Kind regards,

Tim Hart
Chief Executive Officer
Ridley Corporation