

Agriculture and Food Policy Reference group

Submission by: Commodore Station Pty Ltd:

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(Please advise your form designer that farms and cattle stations don't have "Suburb/city" locations. I would be pleased to take the relevant public servant and show him or her a farm; there are some within 15 km of Parliament House.)

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Confidentiality – this document is not confidential.

Background

Commodore Station is a family-owned cattle station, approximately 500 km north of Adelaide, between Lake Torrens and the Flinders Ranges. It runs about 700 cattle, which is close to its ecologically sustainable limit. It is still recovering from past overproduction – wheat farming up to around 1930, and sheep grazing up to about 1970.

The comments below are grouped under the same headings as those in the issues paper.



B3. International markets

Restore a commitment to multilateralism. The present government has effectively walked away from Australia’s bipartisan postwar 50 year commitment to multilateralism. The recent bilateral deal with the USA revealed all the costs associated with asymmetric bilateralism, particularly for the beef industry.

World agricultural market reform requires multilateral effort. The WTO, like the GATT, may be imperfect, but it offers the best hope for a small country like Australia.

Sustain trust among customers. As illustrated in the British beef industry, even minor isolated events and community perceptions of cover ups can have devastating effects. In food industries there are so many close substitutes that huge consumer responses can result from comparatively minor events. Our customers, foreign and domestic, need to be confident that our production and distribution are effectively regulated in relation to food safety and quality labelling. The thoughtless fashion of “deregulation” should not displace the economic interests of the industry.

Reduce interest rates. The government fails to understand why interest rates are important to farmers. It’s not about interest costs as such, because viable small-scale farms do not carry significant debt. (In this regard drought relief interest-rate subsidies are rewarding poor management. If the government wishes to subsidize the banking sector it would save in transaction costs if they converted the subsidies into direct grants to the banks, financed from the Treasury budget.)

The trouble with high interest rates is that they support a high exchange rate, which has adverse impacts on farmers’ terms of trade.

Perhaps the Commonwealth Treasurer has come to believe his own political rhetoric about low interest rates, but the reality is that Australia’s interest rates are among the highest in the

OECD. The Reserve Bank has had to sustain high interest rates because of the distortions in the tax system – the “negative gearing” distortions sustained by Labor, and the capital gains tax changes introduced by the Coalition, which, between them, have encouraged a massive and dangerous boom in speculative housing. The Reserve Bank has had to use high interest rates to compensate partially for this bipartisan economic irresponsibility. The Commonwealth should restore a neutral capital-gains tax régime, and abolish the tax breaks which allow housing investors to double-count depreciation deductions. Then the Reserve Bank may be able to reduce interest rates, allowing the exchange rate to fall.

B4. Domestic markets

Slowing growth. One factor not mentioned is probable long-term slowing of growth in the domestic market. In the policy known as “McEwenism” (after the Country Party Leader of the time) agricultural industries were to be supported by a domestic market growing in population through immigration and growing in purchasing power through well-paid employment. Population growth is now much lower.

C5. Supply chains

Reduce insurance costs. Many costs borne by the rural sector are inescapable – fuel and labour costs are the prime examples.

One avoidable cost which has been rising rapidly is public liability. (ABARE data on terms of trade indicates that farm insurance costs have risen by 39 percent since 1997-98.) No reasonable person would deny the need to compensate the victims of accidents, but why this should be done through a high cost, inefficient insurance industry, with massive diversion of funds to the legal system, is not clear. A tax-funded national compensation scheme, while increasing the taxation burden on the industry, would have more than offsetting benefits in terms of eliminating commercial liability insurance premiums.

Make retail competition more vigorous. On retail concentration the paper is reasonably passive on this point; if the ACCC finds no systemic price discrimination then there is no problem. But there is a huge gap between farm gate and consumer prices, in spite of technical efficiencies in transport and retailing. It is naive to expect efficient resource allocation in a market where a powerful duopoly buys from many thousands of dispersed suppliers. The issues go beyond price; they relate to the organizational and institutional arrangements, for example the rigidity and inflexibility of the buying practices of large corporations.

The Commonwealth has had no hesitation in protecting retail pharmacy from large supermarket chains – a level of protection which is way over the top in terms its costs and consumer inconvenience. More modest forms of assistance could be afforded retail butchers, without restricting the ability of supermarkets to sell meat.

C6. Education, skills and labour supply

Support a prosperous farm sector. If farmers feel they have to resort to use of low-paid foreign guest workers to perform unskilled jobs, the viability of such operations should be seriously questioned. Labour costs in the rural sector are high, but not because wages are high; rather it's because some operations are intrinsically labour-intensive.

Those with a commitment to the industry want a farm sector capable of paying good wages, and capable of encouraging young people with energy and motivation to obtain skills to seek careers in the industry. The experience of farming in California, where there is a large population of legal and illegal, unskilled and poorly-paid working poor immigrants, is not one Australians wish to emulate. Immigrants should be welcomed, but on decent pay. In this regard, it is extraordinary that in Australia there are many Afghani refugees being held in concentration camps; humanitarian considerations aside it's a terrible waste of resources not have them accepted as immigrants and available to work in the rural sector.

C7. Research, development, innovation and technology

Provide public good research. The rhetoric of the issues paper is excellent with its reference to market failure and public goods, but the reality of government policy is that the CSIRO and universities are being deprived of research funding, and are having to pursue research which will bring them commercial returns.

Develop solar technology. Commodore had the misfortune of being located in a state where an irresponsible state government sold the electricity network to private interests without securing a community service obligation to supply existing enterprises. But Commodore has also had the fortune of benefiting from the now ceased subsidies for solar power generation.

Commodore is heavily dependence on solar power, but costs are high because of stalled developments in solar technology – an area where Australia once had a competitive advantage. Solar technology has a role not only in reducing greenhouse gases (a legitimate but minor role); it also has a very important role in providing energy where the costs of alternatives would be extremely high.

C8. Infrastructure

Invest in transport infrastructure. For much of the outback the road system is as good as can reasonably be expected in light of the low volume of traffic. But the agricultural sector relies on having a national network of surface transport to service domestic and international markets, and to give producers a degree of market power. There is a significant dispersion in saleyard prices between South Australian markets and markets in eastern states. Competition policy authorities appear to be unwilling or unable to deal with the concentration of purchasing power in South Australia. A good surface transport system – for example integrating road and rail transport – would help develop a national market. The Commonwealth should withdraw from funding local roads (a function correctly left to the

states), and redirect its funding to national road and rail surface transport. The “Roads to Recovery” program is a serious misdirection of funding.

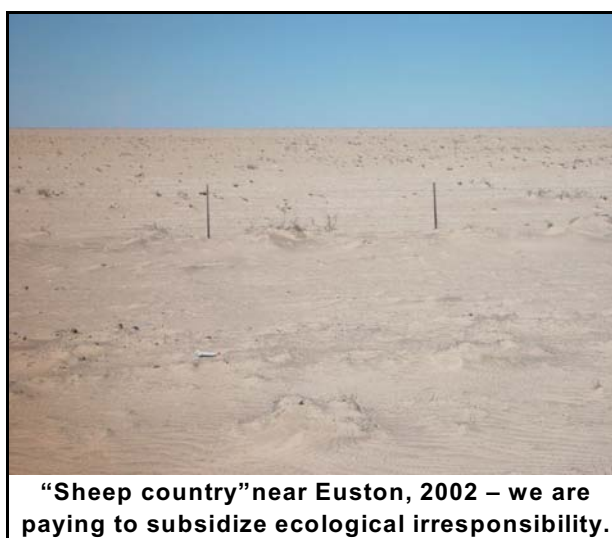
Develop communications infrastructure. The issues surrounding Telstra will be well-covered in this inquiry. Satellite access is another important piece of infrastructure, particularly for those regions where mobile phone coverage is not economic. The Commonwealth could use its purchasing power to buy satellite access initially for all of Australia not presently covered by mobile phones. (The government propaganda on mobile phone coverage is misleading.) Such access which is already available for television and internet services, would be useful for voice phone, telemetry (checking on watering points and boundaries), and web cam (watering points, remote assets).

Provide stock identification systems. The National Livestock Identification Scheme has been fiasco. Not because farmers are slow to take up new technologies – far from it. But in relation to software the government’s approach has been to leave it to market forces, in spite of the clear advantages of a natural monopoly. The result is a mess of non-standard software without integrated support for NLIS. Cattle farmers already pay \$3.50 a head levy to the AMLC, with a proposal that this should rise to \$5.00; there is no reason why some of this levy should not go to developing a standard software and database system available to all farmers at no charge.

D10. Natural resource management

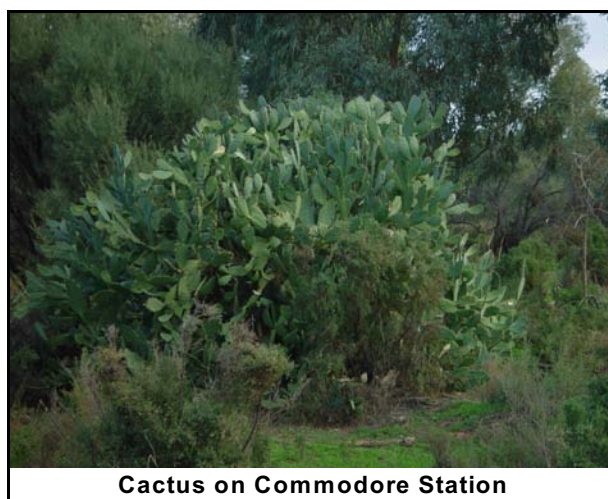
Provide competitive neutrality. Small producers operating on an ecologically sustainable basis face competition from those who have no such commitment. If such practice were occurring in international markets it would be classified as “dumping”, for those producers who are consuming non-renewable environmental resources are effectively enjoying subsidies, in so far as they are not paying for the depletion of the nation’s capital.

When droughts eventually give way to a run of good years there is a trend to overstocking. Eventually, when the following drought comes, there is distress selling and a collapse in market prices. Stocking covenants need to be promulgated and enforced. The Commonwealth may suggest this is a state responsibility, but no state has any incentive or reward for acting alone. This should be a COAG or Commonwealth responsibility.



Similarly there should be strict controls on land clearing and prohibitions on grazing in national parks. (In regard to the latter the Victorian Government has set a sound example.) It is quite unfair on environmentally responsible producers to allow their competitors to engage in non-sustainable practices and not to pay the full costs of their inputs. National Competition Policy principles should apply to state subsidies.

Control feral weeds and animals. Pet shops, nurseries, pet owners and gardeners, usually unwittingly, can pass massive costs on to the agricultural sector. (Commodore Station is suffering degradation of its best grazing land from introduced cactus and pepper trees, which can be sourced to one or two gardens some 50 km distant.) Campaigns, prohibitions and other measures are needed. Because the wrongdoers are dissipated throughout the community over several generations, and because they generally were ignorant of the consequences, restoration costs should be met from public finance.



E11. Rural and regional communities

Think clearly. The term “rural and regional” slips through the lips of politicians and journalists without thought. Alliteration has displaced meaning. Every part of Australia is “regional” – from Balmian to Bourke to Bendigo. The term is meaningless. For policy purposes it is more meaningful to classify regions in terms of remoteness from urban conglomerations, or basic services. Such a classification may not align with the National Party’s electorate maps, but it would focus policy attention on those remote parts of Australia where public services are scant and where private costs for basic services are high. It may allow scarce public revenue to be directed once more to zone rebates (which have become insultingly trivial), rather than to politically motivated projects in marginal “rural” electorates.

Maintain critical population masses. The closure of rural villages and consolidation into larger centres will clearly continue. Without interfering with natural demographic trends and market forces, governments should ensure that these centres can be sustained with a wide range of economic activity. Location of government employment and provision of services (particularly health and education), provision of transport (particularly roads) can help sustain viability of these centres. Having access to specialized trades, specialized supplies and professional services within a reasonable distance is an important cost factor in rural operations.

Omitted

It's extraordinary that in a document of this nature there is not one mention of the original owners of the land. Pastoral activities, particularly in the outback, will never have a fully legitimate basis of operation until there is understanding among all Australians regarding property rights – an understanding which should not give any party unfettered and unbounded rights, and which recognizes and respects the legitimate interests of all who live on this fragile continent.