

VICTORIAN GOVERNMENT SUBMISSION
TO THE AGRICULTURE AND FOOD
POLICY REFERENCE GROUP

JULY 2005

1. INTRODUCTION

The Victorian Government recognises the importance of the agriculture and food sector and its contribution to the Victorian economy, environment and our communities. The value of primary production in Victoria was around \$9 billion in 2003-04. The agriculture, fishing and forestry sectors directly employ 86,300 persons or 3.5 per cent of the total Victorian workforce, with significant flow-on effects to the broader economy (Appendix A).

Generally, there is a high level of cooperation between State, Territory and Commonwealth governments to address the many issues that face the agriculture and food sector. The Victorian Government therefore welcomes this opportunity to make a submission to the Agriculture and Food Policy Reference Group. This submission does not seek to comprehensively address all the issues raised in the *Issues for Consideration* paper, and indeed many issues are being progressed through various processes that will be well known to the Reference Group. Nor does this paper outline the long list of initiatives and activities undertaken by Victorian Government agencies. Instead, this submission emphasises some key issues that the Victorian Government believes are of particular relevance to the Terms of Reference for the *Issues for Consideration* paper, and highlights particular activity by the Victorian Government that may be of interest.

The major drivers of the future competitiveness and profitability of the Victorian agriculture and food sector can be categorised as:

- Factors affecting access to world markets - governments play an important role in biosecurity, the reduction of trade barriers through the World Trade Organisation and plant and animal health status. Increasingly important is the ability of businesses to assure customers that production systems address issues such as biodiversity, environmental harm and animal welfare.
- Factors affecting the cost of production and marketing (broadly defined) - governments and the private sector must invest in the creation and adoption of new technologies and in infrastructure (particularly transport) to achieve productivity gains and meet the demands of consumers. The balance of public and private investment should reflect a careful analysis of who benefits from this work - the broader community, industry or individual businesses. In addition, governments must promote microeconomic reform ensuring that regulation is cost-effective and markets operate efficiently.
- Factors affecting the ongoing productive capacity of Victoria's natural resource endowment - which includes issues such as climate change, matching land use with land capability, pests, weeds and disease, salinity and soil structure decline.
- Factors affecting the resilience/capacity of rural communities - these include access to information and essential services, education and training, sense of place, availability of housing, and maintaining a manageable rate of structural adjustment.

In the context of these themes, this submission will focus on issues associated with:

- Research, development and extension
- Biosecurity and market access
- Animal welfare
- Land capability
- Water management
- Energy and greenhouse emissions
- Transport infrastructure
- Market trends and impacts
- Impacts of change on rural communities.

2. RESEARCH, DEVELOPMENT AND EXTENSION

Public investment in science and technology is fast becoming a core public policy priority. There is now global recognition of the importance of knowledge and innovation to the achievement of economic, environmental and social outcomes, and the key role that public investment in research and development plays. The rapid development, and ultimately the convergence, of new and emerging technologies (information and communications technology, synchrotron science, biotechnology, nanotechnology, microtechnology, etc) will create enormous opportunities for the agriculture and food sector. Society increasingly expects science and technology to deliver benefits by contributing to the resolution of public issues in key areas, such as public health, sustainable development, market protection, environmental protection, safety and security.

Society can also clearly signal its concerns about technology, particularly when it is unsure of the benefits. Biotechnology, especially gene technology and its application to food, is just one of these examples where parts of society and particular markets have signalled concerns. However, it is important to recognise that such technologies can deliver great benefits. Biotechnology has the potential to deliver benefits to the environment, productivity and consumers and to provide greater future prosperity and sustainability. In doing so market and community concerns need to be resolved.

The Primary Industries Standing Committee has recognised the importance of accelerating the pace of improvement in the capabilities and focus of Australia's primary industry research, development and extension (RD&E) systems. The Committee has established a working group to investigate a national RD&E framework. The group has identified that stakeholders need to work together to ensure that:

- RD&E strategies and priorities are focused on industry and cross-sectoral issues where desired outcomes can be achieved cost effectively;
- Current RD&E infrastructure (both hard and soft) is consolidated and modernised to achieve greater capability, flexibility, efficiency and effectiveness;
- RD&E strategies are collaborative and more strongly driven by industry and government needs;
- Public funds are targeted to areas where there is an appropriate role for governments; and
- The overall level of national funding is sustained with savings from efficiency gains redirected to further high-value priorities.

A number of government and industry stakeholders consider that a "Team Australia" approach is needed to ensure sustained critical mass, world-class excellence and improved practical impact.

Basic and strategic research can be provided from a distance but usually regional adaptive and applied research or development is required to test, refine and demonstrate the technology. Finally, local extension allows ready transfer of the now locally tested innovation to users in the region. The need to consider the best methods - and the role of the States - in this research through to extension process is needed. The demonstration of impact, that is, practice change as a result of the R&D, will be critical in evaluating the success of this approach. It is also likely that larger, more integrated and longer-term projects will be necessary to deliver on this proposed national RD&E framework (for example the implementation of an Ecosystem-Based Fisheries Management framework, which focuses on multi-species rather single species). Notwithstanding, there cannot be a 'one size fits all' approach to every sector/issue.

Through a national research framework, agencies and industry would develop cooperative alliances and consolidate and develop a more comprehensive, efficient and effective research

capability. An improved national research capability and framework, combined with regional development and local extension, could facilitate more rapid uptake of new innovation by the food and agriculture sector. Close linkage with research will ensure that regional development and local extension would be continually refreshed by outcomes from the national research effort, thus ensuring a national RD&E continuum will be fostered.

Such a framework would represent a new culture for primary industry RD&E in Australia, based on greater national collaboration to enhance global competitiveness. As a result, its development and adoption will need a medium to longer term approach (10 to 15 years) and will require the widespread commitment from Governments (State and Commonwealth), industry and other stakeholders in constructive partnerships and collaborative delivery of benefits.

Box 1: Victoria’s investment in biosecurity research.

In recognition of the importance of strengthening Australia’s preparedness to meet biosecurity and bioterrorism threats to our agriculture and food sector from endemic and exotic diseases, the Victorian Government has approved funding for the commencement of the planning and design of a national facility for biosecurity research.

The proposed facility represents a significant investment in the upgrading of Australia’s biosecurity research and containment facilities and forms a key component of Victoria’s science strategy. The facility will be located at a university in Melbourne, and will comprise a nucleus of scientists from the Victorian Department of Primary Industries, and, with partners, will achieve a critical mass of around 500 scientists. It will support increased partnerships/collaboration with other leading players in biosecurity research, such as CSIRO, Australian Animal Health Laboratories, CSIRO Entomology, AQIS, and will provide many opportunities for co-investment with the Commonwealth Government, industry, other state and federal agencies and the private sector.

Co-locating at a university will provide multiple mutual efficiency gains including the sharing of resources, the access to high quality researchers and students and the sharing of high-cost science infrastructure.

Victoria has recognised the importance of a centre of excellence hub in biosecurity research to help ensure a profitable and sustainable agriculture and food sector in Australia. The Centre will form part of a national diagnostics research network. Through the development of improved diagnostic tests and predictive disease modelling, researchers at the Centre will seek more rapid responses to plant and animal disease outbreaks and will play a key role in the management of endemic diseases. Rapid responses to disease outbreaks will result in a major reduction in costs to the industry and the public, a reduction in emergency response time and a reduction in costs to human health.

3. BIOSECURITY AND MARKET ACCESS

The continued success of Victoria’s agriculture and food sector relies on effective biosecurity and quarantine systems to protect Australia’s plant and animal health status and the productive capacity of Australia’s natural resource base.

Victoria is currently undertaking research on ways to improve the efficiency and effectiveness of animal and plant biosecurity. This involves the application of ideas in information economics, institutional design, contract design, incentive design and optimal monitoring and enforcement to biosecurity. As far as Victoria can determine, this type of research has not been done anywhere in the world. This work has the potential to greatly improve the

profitability, competitiveness and sustainability of the agriculture and food sector throughout Australia.

3.1 Research on design of biosecurity systems

To achieve an efficient biosecurity system a range of problems need to be overcome, particularly in relation to the availability of information held privately by participants in the system (farmers, importers, exporters). The information held by the private sector that is needed by government includes the incidence and prevalence of pests and diseases on farms, the incidence and risk of pests and diseases in imports, and the measures participants in the system have taken to minimise biosecurity risks. The government cannot easily access this information and often has difficulty in discovering it. If this information was better known to government, biosecurity costs may be significantly reduced to the benefit of the agriculture and food sector.

When designing a biosecurity system, attention needs to be paid to developing policies and incentives that truthfully reveal the required information and encourage innovation in searching for lower cost processes for biosecurity. A Working Paper reporting the results of investigations in this area will be available shortly and will be forwarded to the Commonwealth. The Australian Bureau of Agricultural and Resource Economics has been engaged by the Victorian Government to provide advice on ways in which incursion management can be improved at the State level. It is expected that this report will be available in August 2005 for use by other States and the Commonwealth.

3.2 Improved biosecurity services in Australia

Primary industries benefit when principles of scientific analysis and transparency underpin international quarantine restrictions. Similarly, Australia's primary industries benefit when these principles are applied to State-level quarantine restrictions. For example, in May 2002, Primary Industries Ministerial Council endorsed the application of sanitary and phyto-sanitary principles to cross-border movements for animal health; although adoption has been variable. Improved Commonwealth-State co-operation across plant and animal health has the potential to deliver significant benefits to the agriculture and food sector.

Industries will benefit from more rigorous approaches to proving freedom from pests and disease (to other States and internationally) and innovative methods of delivering quality assurance. Increasingly, industries will be involved in priority-setting and funding of these quality assurance services, which should result in the required biosecurity outcomes being achieved at least-cost.

Many businesses operate in more than one State and/or industry. There are some systems to support traceability already in place (eg National Livestock Identification Scheme), and many more are under consideration. A national approach to policy, design and evaluation would minimise industry compliance burden whilst meeting the needs of consumers, both domestically and internationally.

Victoria is finalising a policy framework to assist with decision-making for endemic animal disease management, and is considering its broader application to biosecurity decision-making. This framework will be provided to the Reference Group later in 2005.

4. ANIMAL WELFARE

All businesses need to maintain a 'licence to operate' from the broader (sometimes global) community. In an increasingly urban society, with little connection to food production, the agriculture and food sector must work diligently with government to ensure a continued ability to comply with the broader community's changing expectations. This is particularly the case with animal welfare.

In January 2006, major international animal welfare organisations will begin a campaign against long distance transportation of animals to slaughter. This will have particular affects on the Australian live animal export trade and the meat exports trade where it draws livestock for slaughter from across Australia. The European Union is attempting to introduce animal welfare quality parameters, either as standards used by the World Trade Organisation or into OIE (World Organisation for Animal Health) Veterinary Agreements. As consumers are beginning to include animal welfare as a quality characteristic in their choice of food products, major international food wholesale and retail companies are increasingly redesigning quality assurance management programs to include welfare quality parameters or descriptors of production system welfare compliance. Welfare parameters, including transportation and slaughter, are likely to be included in future quality assurance programs.

The Victorian Government has established the Animal Welfare Science Centre as an unincorporated collaborative venture with the University of Melbourne and Monash University. Projects at the Centre are developed to assist delivery of sound science into current industry practice and processes. Welfare quality assurance documents for dairy, broiler chickens and pigs have been developed and are in the process of being implemented into company and industry quality assurance programs. Welfare standards for abattoirs and livestock transport are also under development. Outcomes sought from government and industry investment in the Centre are:

- Improved animal welfare through the adoption of best animal welfare practices;
- Recognition of high welfare standards in Australia - ensuring continued access to markets and preferential sourcing of Australian livestock products; and
- The provision of objective, science based information on animal welfare to inform the public debate and contribute to the development of government policy.

The Centre has a core of internationally recognised animal welfare scientists capable of investigating welfare issues and ensuring that current practice, policy development and education activities are based on sound science. The Centre has also developed a number of education and training programs for the animal industries, including education on agriculture for children, stockperson selection programs and two programs for handling of livestock that are now to be adopted in the European Union and United States of America. Other Victorian research centres associated with animal production research back up this capability.

5. LAND CAPABILITY

As illustrated through its recently released Environmental Sustainability Framework <www.dse.vic.gov.au>, the Victorian Government considers that maintaining and enhancing the productivity of soils, and the landscape more broadly, is fundamental to securing the long-term profitability, competitiveness and sustainability of the agriculture and food sector. To be in a position to do so requires that sufficient research investment is undertaken to determine the nature of the land/soil assets, and associated environmental and amenity services, on which the agriculture and food sector depends, including research into the potential consequences of climate change. It also requires that the quality of the assets is monitored

through time and that the required actions are triggered in response to an established decline in the quality of the land/soil asset.

Furthermore, governments have an important role in securing the required capacity to minimise the occurrence and adverse affects of natural disasters such as floods and fire.

From a holistic perspective, land provides a range of services, often described as environmental services, which may not be fully incorporated in the decisions of land holders when using land for the production of commercial (market traded) products. In such circumstances markets are missing or incomplete and there is a need for government action to secure the efficient allocation and use of natural resources from the perspective of the broader community. Such action may involve:

- Specifying the required land use/management outcomes, including defining the uses which are compatible with the underlying soil type or, in the case of native forests, the sustainable yield;
- Creating enforceable property rights/entitlements to enable the establishment of markets such as entitlements for water so that it can be traded and used in its highest value use;
- Developing instruments to create a market for specified environmental/amenity services and, thereby, identify potential suppliers who are prepared to provide those services at least cost — Refer to Box 2 which describes a Market-Based Instrument pilot called *EcoTender*. The pilot illustrates how environmental services could be purchased from landholders; and
- The use of legislation and regulation, which may involve the use of market based instruments, to achieve required land use and natural resource management outcomes.

The creation of markets for environmental services will provide scope for landholders to change the management of their properties in order to create a less risky income stream which will complement the income from more traditional agricultural outputs. It will reduce the regulatory burden (and costs imposed on landholders) from meeting society's environmental objectives. This will have a positive affect on the competitiveness, profitability and sustainability of the agriculture and food sector, particularly in the longer term.

Victoria will continue to pursue a strategic partnership approach with other jurisdictions as illustrated by its involvement in, for example, the *National Action Plan for Salinity and Water Quality* and Murray Darling Basin Commission.

Box 2: Market based solutions to natural resource management

The Victorian government has strongly supported the development of pilots to demonstrate the potential for purchasing environmental services under the Market Based Instruments program of the *National Action Plan for Salinity and Water Quality* (NAP). Victoria has received funding under this program to conduct a pilot of an auction mechanism aimed at achieving multiple natural resource management outcomes. This pilot program, *EcoTender*, will allocate conservation contracts for reduced dryland salinity, improved water quality, biodiversity and carbon sequestration outcomes, while taking into account the impact on the quantity of water available.

The pilot employs an auction of conservation contracts involving land-use change and other land management options focusing on native vegetation activities and builds on previous work undertaken in the *BushTender* pilots. The results from the *EcoTender* pilot and other pilots will provide further guidance to Commonwealth and State Governments on the design of services in this area.

6. WATER MANAGEMENT

Victoria's Water White Paper, *Our Water Our Future*, is a comprehensive, integrated approach to managing Victoria's water resources. *Our Water Our Future* will help Victoria fulfil its commitments under the National Water Initiative, Living Murray Initiative and the operations of the Murray Darling Basin Commission. It will also guide Victoria's relationship with the National Water Commission.

Our Water Our Future provides a framework to encourage smarter use of water for people, farms, businesses and the environment. Specific initiatives include completing the bulk allocation process for all Victorian Water Authority systems; establishing an Environmental Water Reserve, support for irrigators to improve on-farm water use efficiency; and the unbundling of irrigation water entitlements (initially in Northern Victoria).

Unbundling is designed to separate a water entitlement into three components:

- A water share — a share of the water available for consumption;
- A share of delivery capacity — an entitlement to have water delivered to a property; and
- A water use licence — recognises and defines an irrigators right to use water for irrigation on a property.

Through unbundling, irrigators will be provided with greater flexibility and wider choice in how they trade water. In addition, water previously known as "sales water" will be made into a medium-reliability entitlement, thereby providing irrigators with greater certainty and a tradeable product. In return, 120 giga-litres of the pool of "sales water" will be returned to the environment, contributing to Victoria's Living Murray water recovery commitments.

Other initiatives aim to improve Victoria's water infrastructure to prevent water losses and to better meet the needs of water users, including the environment. Examples include the piping of the Wimmera-Mallee and Tungamah domestic and stock open channel water supply systems; the decommissioning of Lake Mokoan; and the automation of water-flow controls in irrigation channels of sections of the Central Goulburn and Macalister irrigation districts. Infrastructure upgrades to improve dam safety, increase reliability of supply to irrigators and to reconfigure the supply distribution network will be undertaken by the Victorian Government as part of the sales water package.

Still further initiatives are directed at increasing the recycling of water. The recycling of water has the potential to provide significant benefits through:

- Increasing the supply of potable water, by substituting with recycled water for appropriate purposes;
- Increasing the supply of "fit for purpose" water available for other consumptive uses through the effective creation of a "new" water resource;
- Reducing the stress on rivers and aquifers as less needs to be taken from the environment for consumptive purposes; and
- Reducing the amount of water discharged to the environment after use which has the potential to harm.

Victoria is pursuing a number of recycling initiatives such as the Werribee Plains Vision and investigating the feasibility of Eastern Water Recycling Proposal. The first initiative aims to achieve sustainable management of the region's water resources including increased use of recycled effluent from the Western Treatment Plant.

The Eastern Water Recycling Proposal Feasibility Study, which has received funding under the National Water Initiative is investigating the potential costs and benefits of, and alternative options to, piping recycled water from the Eastern Treatment Plant via a 135 kilometre pipeline to the Latrobe Valley for industrial uses. By potentially reclaiming this water, the volume of treated effluent disposed by way of open-ocean outfall would be greatly reduced. In addition, the security of drinking water supplies to meet urban growth in Gippsland, Metropolitan Melbourne, Geelong and Ballarat could be enhanced, and increased quantities of water would potentially be available for environmental, irrigation and industrial purposes.

Complementary initiatives have been implemented concerning the pricing of water and demand management. The Essential Services Commission is now responsible for making price determinations associated with the efficient cost recovery of supplying water. Also, Victoria now requires water authorities to provide an environmental contribution, which will fund sustainable water related initiatives (five per cent from urban water authorities effective from 1 October 2004 and two per cent from rural water authorities from 1 July 2005). As well, Victoria introduced a rising block tariff pricing structure for domestic users in metropolitan Melbourne, along with permanent water saving rules.

Victoria considers that the above water management initiatives will make a significant contribution to the profitability, competitiveness and sustainability of the agriculture and food sector. The initiatives will increase the reliability of water, create a more certain environment for investment by the sector businesses, whilst achieving improved environmental outcomes which are also important to the sector both in the short and long term. As with land capability, Victoria will continue to pursue a strategic partnership approach with other jurisdictions as necessary to achieve desired water management outcomes.

7. ENERGY AND GREENHOUSE EMISSIONS

The use of energy, mainly from fossil fuels, by the agriculture and food sector is intensive throughout the production, processing and marketing chain. Therefore, the cost of energy and the efficiency with which it is used (including choice of fuel and transport mode) will be a major determinant of the future profitability, competitiveness and sustainability of the sector.

Climate change is expected to make Victoria warmer and drier, which could have a profound effect on the agriculture and food sector as known today.

Greenhouse emissions are a global problem and the Victorian Government has taken a proactive approach to the issue, as energy production in Victoria is more greenhouse intensive than for any other State in Australia. The Victorian Government has just released an update of its greenhouse action plan <www.dse.vic.gov.au>, and has been working with other State and Territory Governments in developing an Emissions Trading Scheme (ETS) for CO₂ emissions to achieve the efficient allocation of emission rights in the event that a CO₂ cap is imposed. Work on developing an ETS is progressing steadily.

Given the global nature of climate change and associated need to reduce greenhouse gas emissions, it would be preferable for the Commonwealth Government to participate in the development and implementation of a national ETS, which is recognised internationally, and any other measures which Australia may need to take in response to climate change.

The Victorian Government considers that the establishment of well-functioning and efficient energy, transport and emission trading markets will be beneficial to the agriculture and food sector. Such markets will provide incentives to find lower-cost, less energy intensive ways of doing business, as well as new opportunities. There is a clear role for the Commonwealth

Government in this area, including through taxation policy. Such opportunities may arise from:

- The production of biofuels for transport;
- The use of biomass, which may be currently discarded, for the generation of electricity for both onsite use or supply to the national electricity grid — such use of biomass may also generate carbon credits;
- Providing sites for solar and wind generation facilities, or distributed generation off-grid systems; or
- The growing of trees as a carbon sink and the sale of the associated carbon credits through an ETS.

The Victorian Government will continue to pursue the development of such opportunities in the context of achieving energy efficiencies and reduced greenhouse emissions, working with other jurisdictions as necessary.

9. TRANSPORT INFRASTRUCTURE

Like other industries, the agriculture and food sector requires low-cost, reliable transport systems to carry raw materials used in production, and final products to domestic and international markets. The resources devoted to transport infrastructure, and the way in which that infrastructure is operated, can have a significant influence on the profitability, competitiveness, and sustainability of the agriculture and food sector.

Victoria considers that all road and rail projects should be assessed using sound project appraisal and benefit-cost methodologies. Consideration should be given to private sector participation, because this has the potential to provide transportation infrastructure at lower cost and for that infrastructure to be operated more efficiently. Transportation services can be provided by the private sector just as effectively as those provided by the public sector, as demonstrated in the cases of the privatised Victorian export ports of Geelong and Portland. Private investment in infrastructure also relieves pressure on public resources.

Regulation of transport facilities, including access arrangements for rail facilities and gas pipelines, plays a vital role in promoting increased competition. Access arrangements can both reduce costs to existing industries and engender new growth industries in regions, for example developments by companies using natural gas as the energy source to process agricultural products. Victoria considers that it is important for all jurisdictions to carefully consider the appropriate regulatory regimes for transport industries. Such regimes should only be put in place if they clearly foster competition and lower the costs of services, without discouraging investment in the required infrastructure to meet the needs of the agriculture and food sector.

It seems likely that petroleum-based transport will remain important on the farm, and on the roads and rail networks connecting farmers with their markets and raw material suppliers. As the *Issues for Consideration* paper suggests, the farm and transport sectors are likely to make adjustments to higher oil prices and other cost pressures through improved technologies and continued amalgamations to achieve scale economies (in the case of farms). The key role that governments should play is to ensure that regulations do not impede economic decision-making or the capacity of industries to adjust to changing input costs.

10. MARKET TRENDS AND IMPACTS

There are a number of significant issues facing the food processing industry:

- Access to the domestic market, with the two dominant retailers implementing changes which have the potential to disadvantage local manufacturers, particularly small to medium sized enterprises (SME's), in a number of ways (e.g. private labels, shelf rationing and sourcing of overseas products);
- Free Trade Agreements (existing or in process) with the USA, Thailand and China, and the competitive position of Australian and Victorian manufacturers; and
- Industry restructuring, through deregulation and corporate acquisition, and the net effect of these processes on industry.

The Victorian Government supports increasing market opportunities for Victoria's food and agriculture sector through a network of offices across the State and in twelve international locations. Agri-food specialists are based in North America and Thailand, and over twenty Victorian based staff have responsibilities for particular industry sectors and overseas markets covering North Asia, South East Asia/Middle East, South Asia and China. The two "in-market" positions are part of the *Growing the Demand for Victorian Food* initiative, and were created this year to maximise the impact of the recently signed Free Trade Agreements with Thailand and the USA. The South Asia position is co-funded by the Federal Government's National Food Industry Strategy.

The Victorian Government's strategic action plan for the food industry, *Next Generation Food Strategy*, outlines key issues and opportunities for the food processing industry along the supply chain, see <www.food.vic.gov.au>. This was developed with industry and contains 45 initiatives across seven key areas:

- Sustainability;
- Product integrity;
- Export;
- Industry and regional development;
- Innovation;
- Education, training and careers; and
- Promoting excellence.

The Victorian Government is working with the industry to undertake longer term planning, streamline industry access to regulatory information, establish strong communication links supporting industry networks across and within sectors and develop an internationally competitive culture.

10.1 Markets for agriculture and food

It is important that food processing and farming businesses must be able to operate effectively in the domestic environment in order to compete internationally. There is an increasing focus of investment by Government and industry in the areas of functional, healthy and novel foods. This trend is not particularly reflected in the *Issues for Consideration* paper, yet is a positive significant trend. There is a perception in some cases, that the regulatory environment (in terms of food safety and public health) is struggling to keep pace with these demands and at times is being seen as a barrier to industry investment in innovation. There must continue to be a focus on collaborative approaches for companies to respond to international market trends in order to operate effectively in the domestic environment and make inroads into new markets overseas. The *Next Generation Food Strategy* (dealing with industry and regional development and exports) identifies the issues and actions supported by the Victorian Government in operating in this environment.

10.2 Supply chains

There is a strong emphasis on collaborative approaches between companies, particularly SME's in order to gain critical mass in export markets. Collaboration can also allow processing and farming enterprises to share resources and knowledge to develop business opportunities, achieve cost savings and address common issues. The *Next Generation Food Strategy* is also focused on supporting entry into new markets and promoting Victorian food products overseas.

10.3 Education, skills and labour supply

A major issue is that of attracting skilled people to work in the agriculture and food sector – particularly in regional areas. Addressing this is critical to the sector's future growth. The *Next Generation Food Strategy* and the Community and Regional Industry Skills Program outline initiatives (to increase the sustainability of rural and regional food businesses) which seek to:

- Promote the food industry as a career choice;
- Continue to develop a training culture;
- Work with industry to identify ways to access and manage appropriate training;
- Help fill business and community skill shortages to facilitate job growth and new investment; and
- Enhance job security and deal with skills related impediments to growth.

10.4 Uptake of commercially successful innovations

There is the continuing challenge for businesses of moving from the stage of an innovative idea or proposal to being able to commercialise that idea with access to the finance they require. This is particularly the case for SME's. This is a high priority area for the Victorian Government and a number of programs are targeted toward support for businesses in this area e.g. *Regional Business Investment Ready Program* and *Regional Investment and Innovation Program*. There are also a number of federally funded programs designed to assist this such as the New Industries Development Program.

10.5 Funding research and development

It is believed that there is scope to explore the idea of a consistent national research and development agenda as suggested previously – perhaps to identify strategic research priorities – for the food industry where public funding is utilised. The input of industry, research investors and providers is vital to this.

11. IMPACTS OF CHANGE ON RURAL COMMUNITIES AND REGIONAL DEVELOPMENT

Provincial Victoria continues to experience strong population growth across a range of locations. Between 2001 and 2003, population growth rates in many provincial centres exceeded the growth rates of metropolitan Melbourne. Substantial numbers of new jobs are being created to service the rising populations of the provincial centres. Employment growth in retail trade, professional and business services, and health and community services has been particularly strong between 1991 and 2001 and is reported to be still growing.

The Victorian Government has recognised the trends in agriculture and in rural communities and is, in part, looking at other sectors to help provide economic diversity for rural regions. This does not come at the expense of agriculture programs but instead helps to provide a more holistic view on rural and regional issues.

Helping to underpin the Victorian Government's response to regional development has been the "Make It Happen Campaign", which encourages people to consider moving to regional (provincial) areas of Victoria. Population growth has been seen to help drive the economies of provincial centres and nearby towns. This has in turn helped benefit rural areas of Victoria.

Research conducted for the Victorian Government demonstrated that population growth has been generally strongest in regions which are within a 50-75km radius of a major provincial centre. These "hinterlands" have expanded and are becoming more pronounced. There is a greater interdependence between many of the rural towns (and communities) in the hinterlands and major provincial centres. In these areas, the trends identified are:

- Rural towns and communities that have strong links to provincial centres have considerably strengthened their own economies, and new jobs have been created by the growth of the centres. Many towns are experiencing a building boom. In turn, the provincial centres are enriched because, through their hinterlands, they are often able to offer extensive lifestyle choices with a wide variety of places to live and access to an extensive range of recreational pursuits.
- In a number of cases the growth trends have accelerated. For instance, in the local government areas of Ballarat, Bendigo, Geelong, Shepparton, Warrnambool and Wodonga, population growth rates between mid-2001 and mid-2003 exceeded 1.2 per cent per annum.
- Strong population growth occurred in a number of smaller provincial centres and rural areas. Local government areas such as Campaspe, East Gippsland, Horsham, Moira, South Gippsland and Strathbogie all increased their population significantly.

It is important to note that Victoria's situation may be quite different to other States because of its relatively small area and high population density. However, there are lessons that could be modified and applied to other areas of Australia.

The Victorian Government has assisted other industries in rural and regional Victoria, helping to diversify and strengthen rural economies. Since 1999, the Government has helped attract \$4.77 billion in new investment outside Melbourne, which has led to the creation of more than 9900 new jobs. Despite these changes and opportunities, the reality is that there are some small towns and rural communities, generally in the more remote parts of the State, that continue to experience decline in population.

It must be noted however that, as in most Organisation for Economic Co-operation and Development (OECD) economies, the recent strong growth in Australia has been uneven: urban centres have tended to be the 'engines of growth' while the economic performance of regions has been variable, with some regions 'lagging behind'. This variability is particularly true for the communities and small towns of rural Australia, which don't always have the same access as the populations of provincial and urban centres to the financial capital, infrastructure, natural resources, skills and networks required to take advantage of economic opportunities.

The Changing Social Landscape of Rural Victoria is a report that describes some of the major socio-economic drivers of change and their impact on rural businesses and communities. A key conclusion reached is that, while every community is different, there are a number of distinct *social landscapes* emerging in Victoria, each with a markedly different set of economic, environmental and social opportunities and challenges. These social landscapes are described as agricultural production, rural amenity, rural transitional, and irrigation landscapes. This suggests that any government response to these challenges and opportunities needs to be framed according to these landscapes. Such an approach would be consistent

with the broad shift in rural policy in most OECD countries from sectoral to place-based policy.

Moreover, within each landscape, there are particular “communities” and “places” dealing with issues associated with managing change that are unique to their particular circumstances. Where there is a role for government in working with these rural communities to manage change, it will typically require a much more targeted intervention than is currently afforded by most government programs. Also, in many cases, the issues that a particular community is grappling with typically span a number of Departmental portfolios, requiring a coordinated approach from government.

These challenges to government service delivery are not unique to rural policy. Governments in many jurisdictions now recognise the need to tailor programs and services to the particular needs of places. This is based on a growing appreciation that public services organised around programs (rather than client needs) can be remote, rigid and inflexible, and inappropriate for many of the biggest challenges facing governments. Means for overcoming these challenges often do not fit traditional departmental structures.

In Victoria, the government is supporting new, more place-responsive approaches to service delivery through the *Changing the Way Government Works* initiative. This initiative proposes a number of principles that describe a new way of operating in areas characterised by either special disadvantage or substantial change. Many of these principles are now embedded in the new Victorian Government social policy statement – *A Fairer Victoria: Creating Opportunity and Addressing Disadvantage* <www.dvc.vic.gov.au>.

Drawing on these principles, the Department of Primary Industries is currently developing a number of new, regionally-tailored strategies for managing change in rural Victoria as part of the *Sustaining Rural Communities* initiative. Two of the key themes to emerge from this work thus far are:

- i. Governments can play a stronger role in facilitating adjustment by providing better information to rural businesses and communities on the demographic, socio-economic and biophysical impacts of change in rural Victoria (including policy changes such as those associated with *Our Water, Our Future* described previously) at the regional/local level; and.
- ii. New institutional arrangements are needed to encourage State agencies and local governments to work together more productively to facilitate changes in land use and to manage rural adjustment processes at the regional/local level. This is particularly so when the barriers to, and consequences of, change and/or development span the responsibilities of a number of government portfolios and agencies as for infrastructure, skills, essential services and community concerns.

In this regard, Regional Development Victoria (RDV) was established as a statutory body under the Regional Development Victoria Act 2002, to deliver the Government’s commitment to the economic development of rural and regional Victoria. Its focus is on building stronger economies, communities and infrastructure to create a prosperous and growing rural and regional Victoria. It contributes to:

- The support and funding of regional, community business and tourism infrastructure;
- Facilitation of the co-ordinated delivery of government programs, services and resources;
- Regional community development; and
- Increasing the capacity of rural and regional industries to compete, invest, grow and employ.

The Regional Infrastructure Development Funds (RIDF) is a key element of the Victorian Government's platform for reviving Regional and Rural Victoria. In 1999, the Government committed \$180.68 million over three years for additional infrastructure in regional Victoria. This commitment to regional Victoria was further confirmed in the 2003-04 State Budget by the provision of an additional \$180 million over the next five years.

The underlying objective of the RIDF is to improve the competitive capacity of regional Victoria and enhance its development. This is achieved by providing funds for capital works, whether partly privately or publicly funded that:

- Support industry development;
- Improve critical transport linkages;
- Develop and improve tourism infrastructure; and
- Establish better links within regional Victoria to new opportunities in education and information technology

To date the Victorian Government has provided \$221 million through the RIDF to fund 100 projects worth \$564 million across regional Victoria.

By supporting important infrastructure upgrades in a range of areas, the RIDF is helping Victorian farmers.

- **Stock Underpasses:** Under the Program, which is administered by the Victorian Farmers Federation (VFF), farmers can receive up to \$20,000 on a dollar-for-dollar basis to build an underpass. Since its introduction in August 2000, the Program has provided \$5.8 million to 289 underpasses in regional Victoria.
- **National Livestock Identification Scheme (NLIS).** A Victorian-led initiative, now picked up nationally - helps maintain and enhance Victoria's reputation as a supplier of clean, wholesome beef and dairy products, by ensuring that livestock can be reliably identified and tracked. This ensures a complete history of the animal and ability for biosecurity.
- **Geelong Grain Rail Loop:** The construction of the Geelong Grain Rail Loop at the Port of Geelong has resulted in more than 90,000 extra tonnes of grain being brought to the Port of Geelong from North West Victoria and Southern New South Wales. Under the RIDF, the State Government contributed \$1.86 million towards the \$3.76 million Project in a joint initiative with Graincorp Operations Limited and the Australian Rail Track Corporation.

In November 2002, the Government, as part of its *Building for Tomorrow* policy, announced that it would provide \$70 million from the RIDF to extend the natural gas network in regional Victoria. To date the Government has announced 29 towns to be connected to natural gas, with more announcements expected in July 2005. The Program will lower energy costs for residents and businesses and drive future investment and jobs in the region.

12. CONCLUSION

The Victorian and Australian agriculture and food sector is strongly export orientated and, as such, has faced the full force of global competition. Much has been done over many decades by all players along the production chain, to reduce costs, gain and retain market access and better meet the needs of consumers. Included are the substantial investments in RD&E and the actions of farmers and processors to implement new technologies to increase the quality and quantity of their produce at lower costs and to manage the natural resources on which their enterprises depend.

Similarly, under initiatives such as the National Competition Policy, the Victorian Government has been active in reducing the regulatory burden faced by the sector and in improving the efficiency of the markets which supply inputs to, or move the outputs from, the sector.

Through these efforts, the Victorian Government considers that, overall, the current position of the agriculture and food sector is sound. However, the competitive pressures on the sector are relentless and worldwide consumers are becoming increasingly sophisticated about the quality of the food and fibre they consume and the way in which it has been produced.

In this situation, the Victorian Government will continue to pursue every means of increasing the efficiency of the markets on which depends the profitability, competitiveness and sustainability of the agriculture and food sector. The Victorian Government is proud of its achievements thus far but, as outlined above, it is equally determined to take further action as necessary, including working through strategic partnerships with other jurisdictions as required.