

AUSTRALIAN TREASURY

SUBMISSION TO THE

AGRICULTURE AND FOOD POLICY REFERENCE GROUP

26 August 2005

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INTRODUCTION

The Reference Group has been asked to examine the profitability, competitiveness, and sustainability of the Australian agricultural and food sector and to make recommendations to the Government on possible future actions. In formulating its recommendations, it will be important that the Reference Group considers the broad macroeconomic context within which the Australian agricultural and food sector operates.

As noted in the Reference Group's issues paper, the agriculture sector is subject to rapid and constant change and the industry may be substantially different in ten to fifteen years time than it is today. However, most of the influences that will drive this change are not unique to the agricultural and food sectors. Consequently, change in the agriculture and food sector will occur in the context of significant changes to the economy more broadly over the next ten to fifteen years.

The first part of this submission discusses some of the key influences on the Australian agriculture and food sectors over the next decade and beyond. These include factors such as the observed long-run decline in the terms of trade for the agriculture sector, international developments, demographic change and environmental issues.

The second section of the paper discusses some of the opportunities and challenges associated with these factors. Also, because change is often not predictable, the section discusses the importance of encouraging flexibility within the agriculture and food sectors so that they are well placed to adapt to take advantage of unanticipated opportunities or to respond to unexpected challenges as they arise.

The third section summarises the key conclusions, such as the importance of innovation and continued productivity growth to maintaining the viability of Australia's agriculture and food sector.

SECTION 1 - THE ECONOMIC CONTEXT

To ensure the long-term sustainability of the agriculture and food sectors, policy affecting these sectors needs to be set with an understanding of the longer-term economic framework. Currently Australia benefits from a sound, medium-term framework for macroeconomic policy. Medium-term frameworks for monetary and fiscal policy have arguably enhanced the economy's resilience to external shocks and contributed to over a decade of macroeconomic stability. Over the decade 1995-96 to 2004-05 the overnight cash rate has moved in a range from 4.25 per cent to 7.5 per cent, while the Australian Government's underlying cash balance has been in surplus for seven out of the last ten years.

A further crucial development was the focus on microeconomic reform, including Australia's floating exchange rate, industrial relations reforms and competition policy. These reforms have contributed to Australia's macroeconomic performance and stability by facilitating the orderly movement of labour and other resources between industries in response to relative price or relative productivity shocks. For example, while the immediate post-float period during the 1980s was quite volatile, currency flexibility has contributed to macroeconomic stability over the last decade.¹

This extended period of macroeconomic stability has contributed to strong and sustained economic growth, accompanied by low and stable inflation, low interest rates and falling unemployment, which is now at a 28-year low.

While the Australian economy has, in overall terms, performed well in recent times, factors such as the drought and a relatively high Australian dollar have impacted adversely on the agricultural sector and may continue to do so in the near future. Additionally, a number of long-term trends, such as the declining terms of trade for farmers; increasing international competition; demographic change; and environmental issues will create opportunities and challenges for the agricultural sector and the Australian economy more broadly.

SECTION 1A – SHORT-TERM CHALLENGES FACING THE AGRICULTURAL AND FOOD SECTORS

As noted above, two short-term challenges for the agricultural sector are the drought and the current relatively high value of the Australian dollar.

Although not uncommon events, droughts impact on agricultural production and economic performance and can affect long-term profitability if not well managed. For example, the worst drought in more than a century is currently affecting many parts of Australia. Treasury estimates that this drought and associated dry periods have had a severe impact on the economy, subtracting almost one percent from Australia's GDP growth in 2002-03 and around one percentage point from employment growth.² The

¹ *The fiscal and economic outlook*, address to the Australian business economists, Sydney, 18 May 2004, Dr Ken Henry, Secretary to the Treasury.

² Hedley and Lu, 'The impact of the 2002-03 drought on the economy and agricultural employment', *Economic Roundup*, Autumn 2004, The Treasury

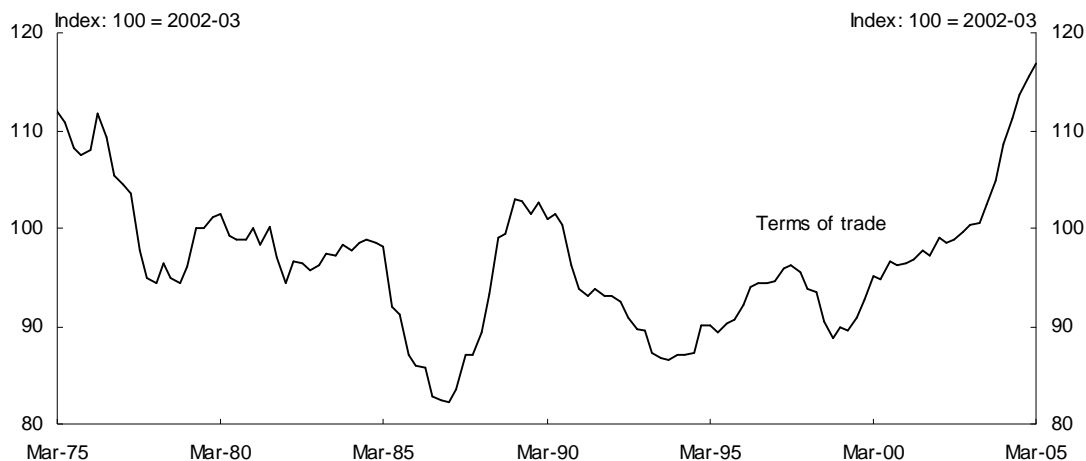
negative impacts of drought also extend to include the devastating impact that it can have on individuals and affected communities.

While recent rains have provided some relief in many areas, it remains unclear whether they will be followed by sufficient additional rain to mark the end of the current drought. Even once the drought breaks, the agriculture sector will continue to experience the drought's consequences since herds will need to be rebuilt and the effects of depleted water storage will continue to affect production.

The relatively high Australian dollar reflects, in large part, developments in the non-rural commodity price cycle. Sustained global economic growth, particularly in the USA and China, has seen a significant increase in demand for non-rural commodities such as oil, iron ore and coal. This increase in global demand has led to strength in commodity prices, with particularly dramatic rises in prices of the bulk commodities iron ore, and coking and steaming coal increasing Australia's terms of trade.

As can be seen in Figure 1, these recent increases in the terms of trade have been significant. In the Budget, Australia's terms of trade was forecast to rise by 12¼ per cent in 2005-06, following 7 per cent growth in 2003-04 and an expected rise of 9¾ per cent in 2004-05. This will take the terms of trade to its highest level in 50 years.

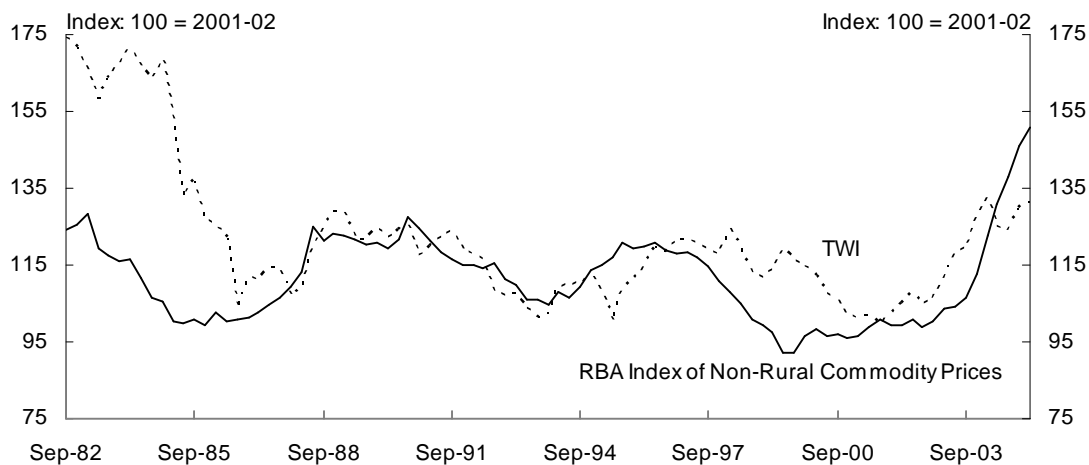
Figure 1: The terms of trade



Source: Treasury

Since the float of the Australian dollar, such increases in world commodity prices have generally been accompanied by an appreciation of the Australian dollar. Figure 2 shows the movements of non-rural commodity prices and the real trade-weighted exchange rate since the mid-1980s. As can be seen, movements in the real exchange rate have been closely correlated with non-rural commodity prices, which have risen dramatically in recent years.

Figure 2: The trade weighted exchange rate (TWI) and commodity prices



Source: Reserve Bank of Australia Bulletin

Looking ahead, Australia's climate will remain highly variable and droughts will continue to occur. Similarly, it is reasonable to expect that international commodity price cycle will continue to influence the Australian dollar. Like other business risks, it will be important that these risks are managed.

In general, individual farmers are best placed to make assessments about the risks facing their farm businesses and how best to manage these risks in light of their individual circumstances and preferences. In this regard, there is a broad range of risk management tools available to the agricultural and food sectors. These tools include activities ranging from storing water or fodder, taking out business insurance or using forward and long-term contracts to lock in prices, as well as more sophisticated financial risk management tools such as futures and options. Over the long-term, private decisions about what risk management tools are best suited to each farm's individual circumstances are more likely to support efficiency and self-reliance than one size fits all policy approaches.

SECTION 1B – LONG-TERM DEVELOPMENTS LIKELY TO AFFECT THE AGRICULTURAL AND FOOD SECTORS

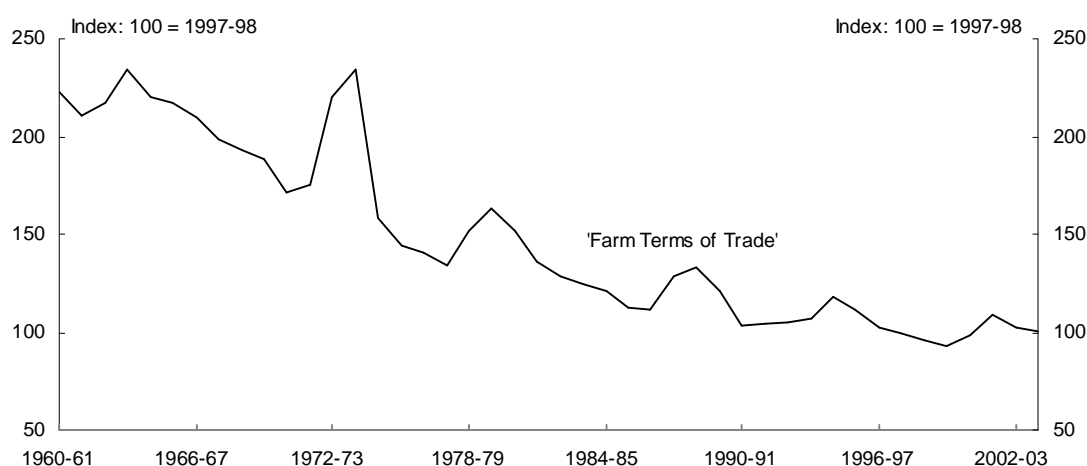
In the near term, cyclical factors such as the drought and the strong Australian dollar are likely to continue to have an adverse impact on the agriculture and food sectors. However, as policy settings generally last beyond the duration of these effects, it is important that policy does not focus unduly on the short-term but rather takes into account likely long-term macroeconomic trends, such as the declining terms of trade in the farm sector, international developments, demographic change and environmental issues. Each of these trends is discussed below.

The Farm Terms of Trade and International Developments

The farm sector has for a number of years faced a long-term decline in farm output prices relative to farm input costs, as can be seen in Figure 3. This ratio is sometimes referred to as the 'farm terms of trade'. This decline reflects the fact that the prices of inputs used in the production of rural commodities has been rising faster than the prices received for rural commodities.³

In fact, rural commodity prices have been falling in real terms as global production of these commodities has grown faster than global demand. ABARE Farm Surveys reveal that, over the past 25 years, world prices for many agricultural commodities have declined significantly in real terms.⁴

Figure 3: Farm output prices relative to input costs – the 'farm terms of trade'



Source: Australian Bureau of Resource Economics, Australian Commodity Statistics 2004 - this represents the ratio of an index of prices received by farmers to an index of prices paid by farmers.

Moreover, most Australian farmers are highly dependent on world markets where they are largely 'price takers,' that is, they have little influence over world commodity prices. As such, international developments which impact on the demand for and supply of agricultural commodities will be important to the Australian agricultural sector, particularly if they reinforce the decline in agricultural commodity prices.

World growth has been consistently stronger than anticipated in recent years, with the world economy growing by 5.1 per cent in 2004, its fastest rate in almost 30 years. Strong growth was recorded across most regions, with particular strength in emerging markets and ongoing strength in the USA and China.

To the extent that strong economic growth implies increased global demand for agricultural products, there may be opportunities for Australian producers to benefit from higher international prices or through capturing market share in new export markets. This

³ Australian Agriculture and Food Sector Stocktake, Department of Agriculture, Fisheries and Forestry, 2005.

⁴ ABARE annual surveys of broadacre industries.

will especially be the case if Australian producers can identify the particular characteristics sought by consumer demand in these markets and satisfy these preferences either more quickly or more efficiently than overseas producers.

While strong world economic growth is likely to create opportunities, it is also likely to be accompanied by challenges. In this regard, Chinese growth has been the focus of considerable attention, as has the development of the Indian economy. It is reasonable to believe that as these and other countries become more efficient primary producers, competing Australian producers will face increasingly intense competition. Further, if supply to global markets increases as a result, it is likely that agricultural commodity prices will continue to decline relative to other prices. The OECD believes it is likely that this decline will continue as global competition between exporters of wheat, rice, oilseeds, sugar and livestock intensifies over the next ten years in both developed and developing countries.⁵

Australia's Demographic Challenges

Over the next decade or so, Australia's ageing population is likely to have an increasing impact on both the agricultural sector and the economy more generally.

Farming Demographics and Labour Supply

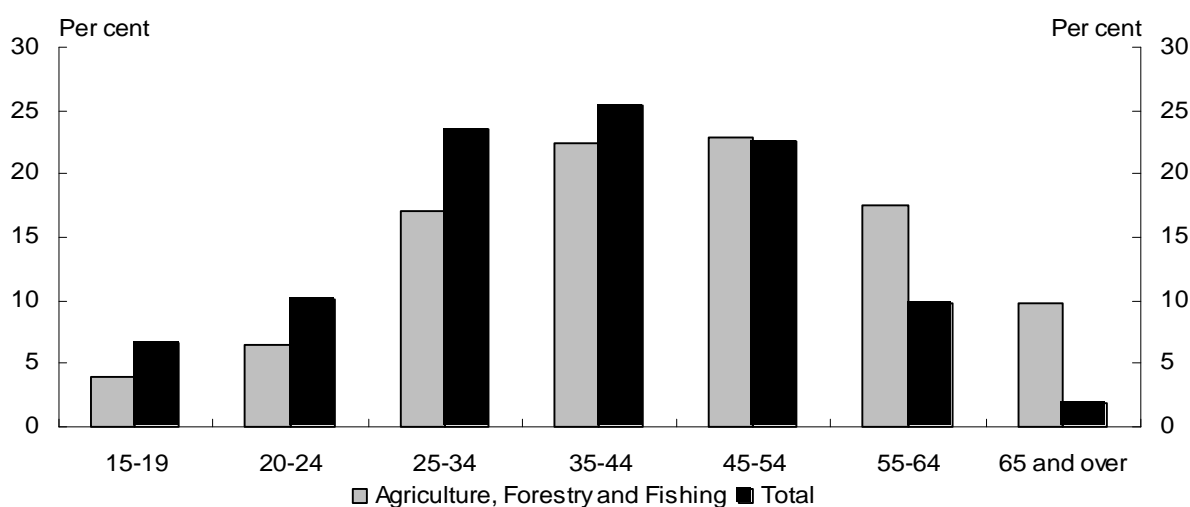
The ageing of the population will have a relatively large impact on the agricultural sector because of the sector's unique characteristics. The Productivity Commission has found that the agricultural workforce differs from other sectors of the economy in that it has: a high proportion of self-employed, family and casual workers; long job tenure; an older workforce; a low incidence of post-school qualifications; and low employee wages.⁶

The comparatively older workforce in the agriculture, fisheries and forestry sector can be seen in Figure 4. At the time of the 2001 census, 50 per cent of people employed in the agriculture, fisheries and forestry sector were over 40 years of age, and 27 per cent were over 55, compared to just 34 and 12 per cent respectively of the total workforce.

⁵ 2005 Agricultural Outlook, OECD

⁶ *Trends in Australian Agriculture*, Productivity Commission Research Paper, The Productivity Commission, 2005

Figure 4: Age profile of workers in the agriculture, fisheries and forestry industry



Source: Australian Bureau of Statistics, 2001 Census of Population and Housing

Agriculture's contribution to the total Australian workforce has been in decline, falling from around nine per cent in the late 1960s to around four per cent now.⁷

It can be expected that the majority of the 50 per cent of people employed in the agriculture, fisheries and forestry sector aged 45 and over will leave the industry over the next two decades. Given the trend towards a decline in the number of new farmers and farm employees entering the industry, this exit due to age will need to be accompanied by increased productivity (output per worker) if production levels are to be maintained.

Generational change will create challenges within the agricultural and food sectors. For example, labour shortages are a risk if large numbers of experienced farmers or farm workers retire in a short period of time. Other challenges could relate to the willingness of farmers to retire if they wish to continue living on the farm but are unable to pass the running of the farm onto their children.

However, it also represents a potential 'once in a generation' opportunity to restructure and improve the productivity of Australia's agriculture and food industries. For example, by allowing for the injection of new ideas, it could assist the sectors to innovate and achieve the structural change and productivity improvements that will be essential for the long-term viability of the sectors. It could also provide an opportunity to accelerate the rate of farm consolidation where this is economically desirable and where little has occurred to date. Large farms typically achieve stronger productivity growth than smaller farms, partly because the benefits of new technologies can be greater for larger farms.⁸ Together, the combination of new techniques and larger scale production should ensure that Australia's agricultural land is put to its most productive use.

⁷ *Trends in Australian Agriculture*, Productivity Commission Research Paper, The Productivity Commission, 2005

⁸ Ibid

Further consolidation and productivity improvements in the agricultural sector can also provide an opportunity for the industry to exercise greater self sufficiency and to better prepare for exceptional circumstances such as droughts.

Broader economic impacts of an ageing population

The Government's Intergenerational Report (IGR) projects that over the next 40 years, the proportion of the population aged over 65 years will almost double to around 25 per cent. At the same time, growth in the population of traditional workforce age —15 to 64 — is expected to slow to almost zero.⁹

The ageing population and rising expenditure pressures will have a profound effect on the economy and, potentially, on our living standards and emphasises the need for Australia to start preparing for these challenges now. Many of the benefits enjoyed by Australians today are the outcomes of the sacrifices and investments of earlier generations. So too the prosperity of future generations depends upon the decisions made today. Equity and fairness across generations are particularly important in times of major demographic change, when the risks are higher. By making wise investments in infrastructure, services and programs, and maintaining prudent fiscal policies future generations can be left with an ongoing legacy of freedom, social cohesion, opportunity and prosperity.

Over time, the ageing of our population will result in a greater demand for pensions and health and aged care spending. The IGR projects that these pressures will continue and that, in the absence of policy changes, spending by the Australian Government will exceed the amount it raises in taxes by around five per cent of GDP by 2041-42. These rising expenditure pressures will place pressures on all areas of Australian Government expenditure, including the Government's ability to provide assistance to industry.

The potential pressures on government budgets due to ageing means that it is vital that both the public and private sectors look for ways to stimulate economic growth and place Australia in a better position to meet the costs associated with our ageing population. The Government's preferred solution to this challenge is to implement policies designed to grow the economy more quickly. The best way to achieve higher economic growth is through increases in labour force participation and productivity.

Government policies are already being directed at supporting the economy in adjusting to the challenges created by an ageing population. Recent budgets have laid the foundations for these challenges. For example, they have included measures to promote increased workforce participation, thereby helping to address the labour shortages that demographic change is causing, and which are already evident in some sectors, including some parts of the agricultural sector. They have also contained tax cuts to increase incentives to work and save, to assist low income earners and to keep Australia internationally competitive. Recent budgets have also included measures aimed at bolstering skills so that the workforce has the skills needed to support the productivity necessary to Australia's competitiveness in global markets.

⁹ *Intergenerational Report 2002-03*, The Treasury, 2002

Environment and Land Use Issues

While many of Australia's natural resources are renewable, there is a need to ensure that they are managed sustainably for the benefit of future generations. The consequences of poor resource management practices have the potential to undermine the productive capacity of the agricultural and food industries both now and in the future.

Existing problems of dryland salinity and poor water quality in the Murray-Darling Basin illustrate the impact of previous land and water degradation on current production. It is likely that the agricultural sector will face further challenges of this nature as the consequences of poor practices in the past continue to emerge and where resource management practices remain unsustainable. While not easily quantifiable, the potential costs to production from unsustainable resource use may be substantial.

While these are complex problems, the potential impact of unsustainable practices and resource use on agricultural productivity and the welfare of future generations means that they should not be ignored. As a result, it is important that policy takes into account issues of resource access and pricing; trade in water and other resources; the role of regulation; public goods provision and inherent conflicting public and private interests; and broader social goals in relation to environmental sustainability and biodiversity.

SECTION 2 - RESPONDING TO OPPORTUNITIES AND CHALLENGES

Ongoing improvements in productivity and efficiency will be essential to addressing all of the long-term challenges and opportunities identified in the previous section of this submission.

SECTION 2A – THE IMPORTANCE OF PRODUCTIVITY GROWTH

Productivity growth is central to the performance and international competitiveness of Australia's agriculture sector and to the economy more broadly. The Intergenerational Report highlighted the need for increased productivity growth to maintain Australia's high living standards as the proportion of the working age population decreases over time. Further, as previously discussed, Australian farmers are facing a trend where the growth in the price of their output is declining relative to growth in input costs. As a result, the challenge for farmers now and in the future, is to find ways to improve productivity to reduce costs in order to remain internationally competitive and maintain or improve farm incomes.

At the enterprise level, productivity growth involves producing more or better quality output with the same inputs or producing the same output with less inputs, and thus at lower cost. At the macroeconomic and industry levels, productivity growth also includes allowing resources such as capital, labour, land and water to move to the most productive activities. This may involve resources moving between different agricultural activities or changes in the mix of agricultural and other activities taking place within the economy.

The productivity challenge facing the agriculture sector is no different to the choices that confront all other sectors of the economy. Changes in consumer tastes, technology and world markets mean that all sectors of the economy face similar choices and must evolve and adapt over time.

The Productivity Commission report *Trends in Australian Agriculture*, found that the entire increase in agricultural output over the past three decades can be explained by an increase in productivity. The total amount of capital and labour used in agricultural production has declined over this period, while output increased by 96 per cent.

That said, the trend decline in real agricultural commodity prices, along with an uncertain international environment, mean that productivity growth remains of particular importance for maintaining the viability of the agricultural sector. Further productivity improvements can provide an opportunity for the industry to exercise greater self sufficiency, and to better prepare for exceptional circumstances such as droughts. Benefits can also extend to the environment, as less land, water and chemicals are used to produce the same amount of output.

Primary responsibility for achieving productivity improvements lies with individual farmers since they are best placed to assess the potential of specific changes on their particular farm. Individuals also have the greatest incentive to innovate since they receive a direct benefit if they can reduce their costs or achieve better prices for their product by better tailoring it to the needs and preferences of consumers. They are also best placed to take into account their own circumstances when making decisions that involve balancing

the risk that a potential productivity enhancement might fail against the longer-term risk that they might become unviable if they don't change.

Government can also play an important role in maintaining and facilitating strong productivity growth over the longer term. For example, policies that provide a stable macroeconomic environment can reduce the risk associated with investment in productivity enhancing technologies.

Historically, the bulk of assistance to the Australian agricultural sector was provided through a range of statutory marketing arrangements (SMAs), regulations and price supports – policies which stifled competition, innovation and productivity. In agricultural industries with compulsory SMAs, the gradual introduction of competition over the last two decades has given growers more marketing control over their products and enabled innovation and productivity improvements.

Free and competitive markets will recognise the realities of the constraints that face them and will make decisions based on these constraints. For example, in the agricultural sector, efficient operators take into account the vagaries of weather and fluctuations in commodity prices in longer-term investment decisions and in choosing strategies to accommodate short term difficulties. More generally, competition in domestic markets ensures that scarce resources, such as labour and capital, move to where they can be used most productively. A number of analytical studies indicate that microeconomic reforms, including National Competition Policy (NCP), have been a major contributor to Australia's productivity surge in the 1990s, and to our economy's increased resilience in the face of economic disturbances. Though varying in magnitude, the benefits of NCP and related reforms have been spread across the community, including most of rural and regional Australia.

The National Water Initiative builds on the reform of water markets that was commenced under NCP. The successful completion of these reforms will be critical to Australia's future economic performance and especially the agricultural and food sectors. However, it is important to note that the success of these reforms should not be taken for granted.

Another area where governments can facilitate the efficient operation of markets and which has recently attracted considerable attention is food labelling standards. In general, mandatory labelling standards are appropriate wherever the cost of providing additional information to consumers is outweighed by the overall community benefit from having access to such information. In this regard, the Trade Practices Act 1974 requires that labelling or promotions are accurate and are not misleading. Food Standards Australia and New Zealand, the body responsible for food standards (including country of origin labelling), is currently considering a range of issues related to country of origin food labelling.

Therefore, the objective of Government policy is to promote innovation, encourage better risk management, reduce regulation and business complexity and take into account possible impacts to the rest of the economy, now and in the future. One consideration that will remain relevant is the impact of agriculture on the environment and the future productivity of the resource base. In this regard, one challenge that the AFPRG may wish to consider is how to design policies that will assist the future viability of agriculture through productivity improvement, while minimising environmental degradation and adverse impacts on the broader economy.

SECTION 2B – INDUSTRY ASSISTANCE

Compared to other countries, government support provided to the agricultural sector in Australia is relatively low. Recent estimates from the Organisation for Economic Cooperation and Development (OECD) show that Australian assistance to agriculture (as a per cent of gross farm receipts) was around 4 per cent in 2003, which is markedly lower than the OECD average of 32 per cent.

However, while it compares favourably with the OECD, the Australian agricultural sector in total still receives a significant amount of assistance relative to other Australian industries. As of 2003-04, the agricultural sector benefits from an effective rate of assistance of 4.1 per cent of industry gross value added, including budgetary, tariff and regulatory assistance.¹⁰ This is second only to the manufacturing sector.

In the absence of market failures, all protection from competition, subsidies, or regulation that impedes market operations reduces the efficiency of the Australian economy, regardless of the sector being supported. This is because, when assistance is provided to one sector, it usually has negative consequences for other sectors. For example, when one sector receives special treatment such as subsidies or tax concessions, then the competitiveness of other, more efficient, sectors will be reduced since they will have to pay more taxes.

A second mechanism through which support for an industry can reduce the overall productivity of the economy relates to the reallocation of resources. This occurs because the supported industry will be larger than it would otherwise be and will therefore use more inputs such as labour and capital. This in turn means that there is less labour and capital available for other more efficient sectors. For example, the Productivity Commission found that government subsidies to the ethanol industry raise the cost of wheat products, and so raise the cost of feed for the pork industry.¹¹ Such second round effects illustrate the need for agricultural policies to be evaluated within a long-term, economy wide framework.

Other forms of assistance can provide a short-term benefit to the industry being assisted, while also undermining its long-term viability. For example, many tariffs were initially introduced to protect Australian industry from having to compete with imports. This led to many protected industries, particularly in manufacturing, becoming inefficient, uncompetitive and unsustainable. When tariffs were reduced, competitive pressure forced industries such as manufacturing to adjust and become more competitive. Since tariff reforms began roughly two decades ago, the share of elaborately transformed manufactures in Australia's total exports has doubled.

It is possible that some agricultural policies could have a similar negative impact on the long-term viability of parts of the agricultural sector. To avoid this, it is important that policy does not offset market incentives to maintain international competitiveness, but rather support self-reliance. A particular risk is that short-term support could become embodied in property values. While current farmers would benefit from higher prices for

¹⁰ *Trade and Assistance Review 2003-04*, Productivity Commission Annual Report Series, 2004

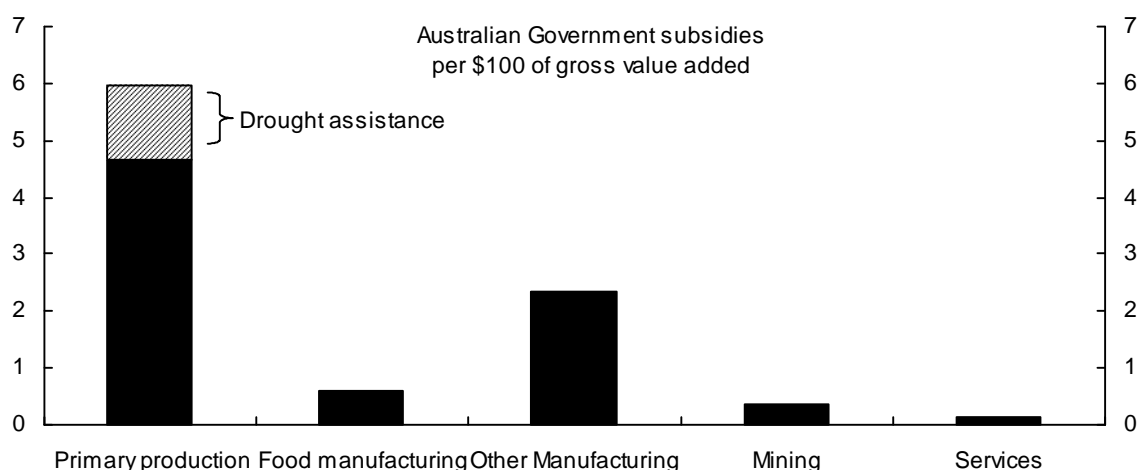
¹¹ *Trends in Australian Agriculture*, Productivity Commission Research Paper, The Productivity Commission, 2005 and Australian Pork Limited, <http://www.australianpork.com.au/media>

their farms if they sell, higher prices could undermine the ability of farmers wishing to expand their farms to improve their own long-term viability. Artificially inflated property prices are also a barrier to potential new entrants to the farm sector.

If assistance for an industry is considered necessary, it should be targeted at enhancing its long-term productivity. In practice, this is difficult since the provision of assistance to one sector can reduce productivity in other sectors if it creates an incentive for that sector to focus on seeking assistance rather than raising its own productivity. Similarly, it is important to avoid creating expectations that further assistance will be provided if productivity objectives are not met.

In addition to the efficiency losses that can result from assistance, there are also budgetary implications to be taken into account, particularly given the increased fiscal pressures likely to arise as the population ages. Proportionally, primary producers receive more subsidies than any other industry (Figure 5), with subsidies to the agriculture sector¹² in 2003-04 estimated at around 4.7 per cent of industry gross value added. This estimate increases to almost 6 per cent when drought support is included and compares with estimates of government support of around 2.3 per cent for non-food manufacturing and less than one per cent for the mining and service industries.

Figure 5: Australian Government subsidies by industry sector



Source: Productivity Commission – Trade and Assistance Review 2003-04, Australian Bureau of Statistics and Treasury calculations.

Direct government payments for industry assistance either reduce the amount of government funds available for other areas of expenditure (such as health and education), or increase the tax burden, or a combination of both.

Like all sectors in the Australian economy, the agricultural sector will need to adapt as fiscal pressures intensify. As well as reducing their negative impacts on efficiency and growth, lowering direct payments to industry would have the twin advantages of reducing

¹² Trade and Assistance Review 2003-04, Productivity Commission, 2004.

government spending and increasing productivity and growth over time.¹³ Any continued direct assistance to the agricultural sector must be based on strong grounds for Government intervention, such as markets not working efficiently, and it must be clear that the assistance will contribute to productivity improvements in the long-term.

SECTION 2C – TRADE

Government policy should also aim to promote increased international competition. The Australian agricultural sector is highly export oriented – it is estimated that for the period 1997-98 to 1999-2000 around 64 per cent of Australia’s agricultural production was exported.¹⁴ The proportion of production exported varies between industries, for example 98 per cent of wool produced is exported, compared to 51 per cent of milk products, but exports are highly significant for the agricultural sector as a whole. Future growth in Australian agriculture is likely to depend more on export markets than on the comparatively small domestic market.

Distortions and other barriers to trade can inhibit access to vital export markets. The Australian Government is committed to vigorously pursuing the removal of international trade barriers that preclude and restrict trade in agricultural products. Policies that promote free trade will be crucial to providing and improving access to international markets as well as ensuring Australian producers have access to competitively-priced inputs.

¹³ For a fuller discussion of the links between microeconomic reform and growth, see *Microeconomic Reforms and Australian Productivity: Exploring the Links*, Productivity Commission Research Paper, 1999.

¹⁴ *Australian Agriculture and Food Sector Stocktake*, Department of Agriculture, Fisheries and Forestry, 2005.

SECTION 3 - THE FUTURE OF AGRICULTURE AND FOOD POLICY

The agriculture and food industry faces near-term pressures such as the drought and the relatively high Australian dollar. However, in the long-term as these cyclical factors subside, the industry will face challenges such as the ageing of the population; the declining farm terms of trade; international developments; and environmental sustainability. Given this broader economic context, the viability of the industry depends on ongoing productivity improvement and increased international competitiveness.

In general, the policy settings that will allow the agriculture and food sectors to maximise their competitiveness and sustainability will be those which promote competition and innovation, reduce barriers to trade, encourage better risk management, address sustainable resource management and reduce regulation and business complexity. Governments can also support the efficient operation of markets by facilitating a stable macroeconomic environment and setting standards that serve the overall community interest, such as setting appropriate food labelling standards. These policies should be determined with regard to their potential impacts on other sectors of the agricultural industry and the economy more broadly, including the natural resource base.

Given the importance of innovation and productivity improvement, it is important not to lock in existing practices or create other impediments to change. In this respect, the agricultural and food sectors will need to be increasingly flexible and adaptable to meet changing and often unpredictable circumstances.

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