

Submission to the Agriculture and Food Policy Reference Group

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This submission addresses Part C of the scope of reference dated May 2005, namely the "Competitiveness of Australian agriculture and food businesses". In so doing however, issues relating to Parts D and E are addressed as they are complicit in the lack of Australian horticulture competitiveness.

## The Competitiveness of Australian Horticulture

The underlying issue the horticulture industry in Australia is facing is that Australian horticulture products are not globally competitive. The problem is exacerbated when they are processed in our high cost, highly regulated environment.

The key issues are:

- Labour cost and on costs
- Lack of scale of farms and to a lesser extent, processors
- Disparity in freight costs inbound versus outbound
- Expensive social agenda

The inflow of offshore sourced product is gaining momentum, the official statistics are lagging well behind the reality and we believe they will shock everyone when they are eventually published.

To demonstrate the size of the issue, the following table gives the current farm gate price gap for a number of commodities regularly sourced by Simplot.

Commodity	Source Country	Australian Price Gap
Potatoes	New Zealand	30%
	North America	60%
Peas	New Zealand	42%
Corn	New Zealand	30%
	Thailand	55%
	North America	116%

The competitive advantage of the offshore competitors can be mainly explained as follows:

Issue	Comment
General	<ul style="list-style-type: none"> <li>• Strong Australian Dollar <ul style="list-style-type: none"> <li>○ Gives importers buying power.</li> <li>○ Some people say it is still undervalued based on terms of trade and the "Big Mac" index</li> </ul> </li> <li>• Collective bargaining by growers keeps the less efficient growers in the game and keeps the farm gate price artificially high</li> <li>• Australia is a net exporter of many commodities and so offshore suppliers are able to gain back loading freight rates into Australia</li> <li>• Power base of dominant retailers and global customers</li> <li>• Staying power of discount supermarket entrants</li> <li>• Current environmental conditions such as water shortages</li> </ul>
New Zealand	<ul style="list-style-type: none"> <li>• Export oriented community, they start with world price and work backwards.</li> <li>• Have lost Asian business to China and so are targeting Australia.</li> <li>• Rolled up labour costs, [including on costs], around 30% lower than Australia. The higher Australian costs derive from the payment of payroll tax (~7%), superannuation</li> </ul>

Issue	Comment
	<p>levies (9%) and overtime penalty rates, all of which don't exist in New Zealand but add over 20% to the Australian wage bill and higher occupational health levies.</p> <ul style="list-style-type: none"> <li>• Union activity in Australia adds complexity and inflexibility in management of farm and factory enterprises which New Zealand doesn't face</li> <li>• NZ processors are increasing capacity and will be even more problematic when they reach greater scale</li> <li>• Bigger scale farms. [Simplot buys approximately 757 tonnes of potatoes from an average Tasmanian grower, NZ growers average 9,000 tonnes and Boise USA growers average 17,155 tonnes, a factor of 22!]</li> <li>• Ample water, suitable topography, quality product</li> </ul>
Europe	<ul style="list-style-type: none"> <li>• Large scale, highly automated processors, rationalising and becoming even bigger</li> <li>• Large farm subsidies especially the Benelux countries. Belgium farmers receive approximately 37% of their gross income from subsidies. They are paid for their environmental management.</li> <li>• Much of the recent Supermarket</li> </ul>

Issue	Comment
	<p>private label product is coming from or is predicted to come from Belgium</p> <ul style="list-style-type: none"> <li>• Simplot has been approached by Belgian processors to supply frozen vegetables to us</li> </ul>
Asia	<ul style="list-style-type: none"> <li>• Low labour rates. [Simplot rolled up labour cost in one of our factories is approximately \$33.00 per hour, whilst competitive operations in Malaysia pay \$4.80, and in China \$1.27]</li> <li>• Increasing skills and agronomic capabilities</li> <li>• Well equipped factories, often foreign owned</li> <li>• Now meeting Eurepgap agriculture practice in most instances</li> </ul>
South Africa	<ul style="list-style-type: none"> <li>• Low labour rate [\$6.00 per hour]</li> <li>• Excellent agronomic conditions</li> <li>• Export oriented</li> </ul>
South America	<ul style="list-style-type: none"> <li>• Low labour rates</li> <li>• Excellent and extensive agronomic capacity</li> <li>• High quality output</li> <li>• Very export oriented</li> <li>• Only shipping limitations keeping them from being more damaging</li> </ul>

Some suggestions:

1. The average farmer in Tasmania operates 100 hectares of land. At best we calculate his taxable income in a **good** year at

\$125,000 per annum from which he has to finance his enterprise, pay his taxes, raise and educate his family, provide for his retirement. He doesn't have much room to move on the required price of his farm output.

We estimate that a grower would need to farm about 700 to 1,000 hectares to have any capacity to meet global benchmark farm gate prices. If the grower was able to buy or even lease this amount of land in Tasmania, the cost of doing so would eliminate any profit improvement the consolidation would generate.

The concept of a collective model could be examined. In this model a number of growers would combine their assets to grow as a collective and sell to the processors as one entity. Those growers who are ready to retire shortly could simply provide their land, others their labour and management. Capital equipment could be reduced and efficiencies of production be gained.

In this model the processors would seek tenders for a large quantity of potatoes from one entity at a price and the collective would organise themselves to produce and supply to those terms. This would mean a move away from the lowest common denominator system of collective bargaining.

We suggest that some Government support in exploring this option of farming collectives or any way to grow the scale of farming enterprises would be useful.

2. Simplot has been running a number of initiatives in Tasmania and NSW over the recent years to assist growers to improve their capabilities in agronomics and farm management. We are spending \$1.3M with growers at the moment on these programs but could use additional funds to reach more growers and to increase the speed of gaining results.

Simplot and the growers would be willing to work with Government on ramping up these schemes if some financial assistance was available. This action would require a commitment by the growers to work proactively over a period of time.

3. We are aware that Australia has been strong proponents of free trade throughout the various WTO forums over recent years. We also know that the European Union has applied pressure to those members who continue to subsidise their agricultural sector and commitments are at hand to gradually reduce such support but recent press suggests the negotiations are foundering. It is however a fact that the supermarkets in Australia are buying more and more product from these subsidised economies with Belgium at the forefront of the wave. This means that until a more balanced situation is achieved, and that seems a long way off, the taxpayers of the European countries are funding the demise of a large part of the Australian agricultural sector and it's complementary industries.

We do not support subsidies but we believe we should refuse to allow subsidised produce to be imported into Australia or at least apply some form of countervailing duty. By the time the Doha objectives are delivered on a consistent basis, there will not be a viable Australian agriculture industry to take advantage of it. Sometimes one has to admit that one cannot afford one's principles, as honourable as they may be.

A related issue is that these subsidised economies are also taking export business away from those Australian agricultural enterprises who are efficient by global standards and so further weakening their ability to withstand import pressure.

4. The Federal government is moving to strengthen the industrial relations laws to assist Australian enterprises to be more globally competitive. Whilst we support this move strongly, we don't believe however that this will bring significant on farm advantages as current practice on farms doesn't usually conform with the cutting edge of labour relations anyway. It will however be important for processors and businesses which impact the final cost of agricultural output.

The key for us is that processors regain the right to manage their plants in the most efficient way without interference from the unions. Despite the laws already in place, nothing much has changed because custom and practice suggests that it is within the operating methodology of the unions to ignore the law when it suits them and the ability of the food industry, for many practical reasons, to gain any penalties for these actions is limited. We believe the Government has to find a way to protect business from the economic fallout of demanding their legal rights. At the moment this is not possible without risking de-listing by customers, when supplies are interrupted, and significant loss of profits due to out of stocks, which could threaten the viability of the processor's business.

5. We support country of origin labelling, extended to fresh product, but warn against the overkill being suggested by some sectors. To be compelled to nominate the country of origin of every component in a product would be both impractical and prohibitively expensive.

We do suggest however that the ACCC be stricter on deceptive labelling as it pertains to country of origin. There are a growing number of instances where Australian importing companies declare their Australian credentials on front of pack only to declare on back of pack in the smallest allowable font that the

product is in fact sourced off shore. As an example, Safcol canned tuna products declare the Australian origins of the company "Born and Bred in South Australia" on the lid of their cans and yet fail to highlight that the company is now owned by a Malaysian company and all products are sourced from Thailand. Interestingly, the ACCC can see no problem with this particular case.

We would also support a larger font conveying the country of origin but not an increase in the detail. We also suggest that the country of origin regulations be simplified to reflect the origin of the key, or major, ingredient so that consumers are not confused by the label and the cost of regulatory compliance for Australian suppliers be reduced.

6. There are a number of groups working on the problem of competitiveness, trying to understand it better and come up with solutions. Amongst them, ABARE, The Agriculture and Food Policy Reference Group, The National Food Industry Strategy Council and The Department of Economic Development in Tasmania, not to mention the Tasmanian Farmers and Graziers Association. It would be of value if they could be co-ordinated so that effort could be focussed and duplication of effort be reduced.

7. Finally, the Australian consumer demands a high social wage of growers and processors in Australia, again with no recompense. Farmers in some European countries receive payment for environmental management whilst our farmers are forced to include these costs in their commercial pricing, further widening the gap to the offshore farm gate benchmark.

We believe growers should be paid as public servants for certain environmental roles they play.

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