

Submission to the Agriculture and Food Policy Reference Group

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Introduction

There are five main areas covered in this submission

1. The myth of the Great Divide
2. Infrastructure (Capturing global capital)
3. Trade
4. Climate change (or lack there of)
5. The role of Government

Background

McLaren Farming operates a predominately broad acre cropping enterprise at Temora in Southern NSW. Complimenting the cropping is a wool growing enterprise. However, 90% of gross income is derived from cropping. McLaren Farming is family owned and operated, and employs only one full time employee.

Given that cropping is the main enterprise undertaken by McLaren Farming, this submission will, in the main, concentrate on issues that are affecting broad acre, dry land cropping operations throughout the cropping belt of Australia.

In reading this submission it should be taken into account, the limited resources available to the author when preparing this paper. Therefore it is only a very high level view of some of the issues facing rural Australia and quite simplistic in nature.

1. The myth of the Great Divide

In the introduction of the “Issues for consideration” paper, it states that

“this review is taking place at a time when agriculture and food industries are being squeezed in many regions by continuing drought, a difficult international trading environment, increasing constraints on

access to natural resources, and differences in economic performance (such as strongly rising non-agricultural commodity prices and several years of sharply rising housing asset prices”

Unfortunately this is typical of the negative comment which in itself is doing more harm to rural Australia than any other single issue. I take a contrary view to the one expressed in the introduction of the paper.

I would say that this review is taking place at a time of

- Record beef prices:
- Record lamb and mutton prices:
- A period of below average rain which funnily enough followed a period of above average rain:
- A revaluation of land prices which has seen the wealth of many farmers more than double in the last three years:
- A period where irrigators are learning that water is not an infinite resource and needs to be managed accordingly:
- A period in which the international trading environment is tough, but hasn't this always been the case
- Incredible growth in the wealth of countries in our region of the world which in turn, presents farmers with tremendous opportunities to supply agricultural products to these new markets.

The question that needs asking is why are we always so quick to write off rural Australia?

Even when the evidence points to the contrary, politicians and industry leaders will concentrate on the negative aspects of our industry. For example, the recent increase in drought funding is a case in point. Farm leaders argued that their constituents were in desperate need of subsidies to help them pull through the drought. This was despite data showing land prices had doubled in the last three years and tractor sales having another extremely strong year in 04/05. Both these indicators would point to financial well being, rather than any desperate financial plight.

If the farm sector was carrying goodwill on its balance sheet, then there would have been a substantial write down in recent months thanks to the negative publicity created by the drought campaign and subsequent increase in subsidies. Was the extra cash a greater benefit to farmers than the ill feeling generated towards them by the rest of the community?

We continually hear about “the great divide” which is a phrase used by many to illustrate the growing gap between the financial health of people living in the cities and those of us who live west of the Great Dividing Range. Once again, this argument only works when one concentrates on the negatives of living in the country and the positives of living in the city.

For example. It is often said that on average people in the city earn more than their country counterparts. This may be true, but given the high cost of real estate in the cities, are these people actually any better off?

By continually talking about “The Great Divide”, politicians and farm leaders are encouraging young people to leave the country and move to the city whilst at the same time encouraging young professionals (such as doctors) who live in the cities, to stay put and not consider moving to the country. After all, it is human nature to be attracted to success rather than failure.

So, in effect, the myth becomes self perpetuating. Without a substantial change in mindset by our farm leaders, we will continue to lose valuable intellectual capital in the form of a drift to the city by many of our most intelligent and capable young people, and will be unable to attract a similar grade of people from the cities to replace them.

Infrastructure

The rural sector can no longer rely on the Government to fund infrastructure. Although there will always be a role for governments to fund infrastructure, it remains unclear as to what level of funding this may be. What is clear is that it will be at a level substantially lower than in the past.

In the grains industry, growers will have to eventually accept that to attract global capital at competitive rates, they will have to cede control

of some of the logistics and marketing companies that dominate the Australian grains supply chain. It is only reasonable for an investor in one of these companies to expect a higher rate of return on his investment because in effect, he has no control of the company.

Grower control of our supply chain companies comes at a high price which many farmers are yet to realise.

It is also important to note that because the majority of the world's capital is foreign owned, it will become necessary for farmers to accept foreign ownership of some of our infrastructure if we are to maintain our competitiveness.

If we allow our infrastructure to deteriorate because we are unable to attract global capital, then we will gradually lose our competitiveness and the entire industry will suffer.

Trade

“No country has ever been impoverished by an unfavourable balance, and those which have the freest trade have been the most enriched by foreign trade”

Adam Smith “The Wealth of Nations” first published in 1776.

Australian agriculture relies on free trade. We are, by and large, an exporting industry. It is very important, therefore, that we are not seen to be setting double standards.

I have been extremely alarmed by the recent reaction of politicians to the news that McDonalds have chosen to import New Zealand potatoes for their French fries rather than purchase the potatoes from Tasmanian potato farmers as they had previously been doing. Rather than criticizing McDonalds and accusing them of “selling out Australia”, perhaps people should have been asking “Why are the Tasmanian potato growers unable to compete with their rivals over the Tasman?”

Australia should not become complacent with any level of protectionism. Only by practicing what we preach will we have any credibility throughout the world when it comes to talking about the benefits of free trade.

Climate change (or lack there of)

There has been much written about climate change over the last couple of years. In my opinion, most of it has been complete rubbish.

Although the last four years have been particularly dry, this is not a new phenomenon. Looking at four years of rainfall data in itself is fairly meaningless because of the small size of the sample. Only by looking at ten year averages do you get to see any meaningful trend. The ten year average at Barmedman (30 kilometres north of Temora) does not support the view that climate change is causing there to be significant lower rainfall. Here are a few facts:

The average annual rainfall for Barmedman over 117 years of rainfall records is 466mm

The ten year average from 1995 to 2004 was 454mm

The ten year average from 1940 to 1949 was 431mm

The ten year average from 1895 to 1904 was 384mm

The only conclusion that can be drawn from the above analysis is that although the last ten years was slightly drier than average, it was wetter than the 1940,s and significantly wetter than the ten years between 1895 and 1904. Hardly an argument for climate change. If anything, it looks as if the climate is becoming wetter.

I would argue that the current dry period we are seeing is just a random event that has happened before and will happen again and just a consequence of living on the driest continent on Earth.

The role of Government

Australia has been extremely fortunate to have been very well governed (particularly at a Federal level) over the last twenty two years. In particular, the Hawke/Keating Government laid a solid foundation for

much of the economic success we enjoy today. It is important that Governments continues to implement reforms that make our industries more competitive.

Specifically, Governments should

- Simplify the tax system (GST base broadened to include all goods and services).
- Work with industry to promote a positive image of rural Australia.
- Not over regulate (maybe too late!!!!). The biggest joke in the country is NSW's Work Cover.
- Promote free trade by setting an example to the world in not having tariff barriers.
- Promote an environment that encourages global capital to invest in rural Australia.
- Vigorously pursue competition policy through the ACCC
- Trust the judgement of an independent NCC over that of lobby groups with vested interests in specific outcomes.
- Phase out drought funding to be replaced by tax incentives for individual farmers who prepare for drought.

Conclusion

Too often Governments try to solve economic problems with social solutions. There has been a natural attrition of farmers over the last thirty years. Rather than be alarmed, people should accept that this is just market forces at work and a natural consequence of increases in the production efficiency of agricultural commodities. Capital has been slowly replacing labour since the Industrial Revolution began in Europe in the nineteenth century, and this is not about to change.

Only by promoting ourselves as successful and profitable, will farmers be able to attract capital (both physical and intellectual). This in turn will propel rural Australia to an even higher level of prosperity. It could be argued that we will need to do this simply to prevent going backwards.

