

30 August 2005

Mr Peter Corish  
Chairman  
Agriculture and Food Policy Reference Group  
GPO Box 858  
**CANBERRA ACT 2601**

Dear Peter

Thank you for your invitation to make a submission to the Agriculture and Food Policy Reference Group (Reference Group).

As you are aware, the National Farmers' Federation (NFF) strongly supports the work being undertaken by the Reference Group.

NFF has taken, and will continue to take, a leading role in identifying and discussing the many challenges facing Australian farming in the short and long-term and, more importantly, developing strategies and policies to overcome these challenges and to secure agriculture a strong place in the contemporary Australian economy and the global trading environment.

It is crucial we get the policy settings in agriculture right in order to ensure the industry is on a path to continual improvement, growth and innovation. It's vital for the sector, for the people who live and work in rural Australia, and for Australia as a country.

Given your dual role as Chair of the Reference Group and as President of NFF, and Charles Burke's involvement on both bodies also, I do not intend to articulate in detail NFF policy positions across a range of issues – these are well known to you both - nevertheless, I provide several comments for your consideration as the Reference Group drafts their recommendations:

### **Agriculture is vitally important to Australia**

Over the six years up to and including 2003-04 the farm sector and dependant industries, on average, contributed to 12.1 per cent of GDP or \$72 billion. This is greater than the often-cited 3 to 4 per cent or around \$30 billion which does not take into account the value of the inputs that go into farming, nor the flow-on activities that farming supports.

While everyone has long recognised the importance of agriculture to regional economies, a recent Australian Farm Institute report revealed that just as many people are dependant on the farm sector for their jobs in the city. Indeed, by taking both the direct and indirect effects into account, farming supports the employment of around

1.6 million Australians, or 17.2 per cent of the labour force – with half of these jobs found in the six capital cities.

Moreover, the way farmers manage and interact with the environment in which they work is extremely important. Farmers are vital custodians of the land, responsible for the management of more than 60 per cent of the Australian landmass. Despite uninformed criticism, Australian farmers have been at the forefront of embracing sustainable production systems and leading edge environmental science and technology in their businesses.

### **Farmers have embraced change and advocated for change**

In contrast to some sectors of the economy, Australian agriculture has embraced economic reform, deregulation of agricultural markets and the removal of barriers to trade. Farmers have advocated reform of the Australian waterfront, industrial relations and tax systems and NFF continues to strongly advocate further reforms to the Australian economy that will improve our global competitiveness.

### **Farmers are self-reliant and manage business risk**

Unlike some of our major export competitors, Australian farmers are strongly self-reliant, receiving the second lowest level of government assistance (4 per cent) among farmers in all OECD countries.

Australian farmers have demonstrated their competence in managing business risks, in capitalising on business opportunities and in maintaining profitable and productive businesses in a highly distorted and competitive global market. Australian farmers are not expecting governments to subsidise their existence, or to resurrect protection for industries facing strong global competition, but rather they are calling on governments to create a business environment that allows them to plan and invest for the longer term, to address emerging challenges head-on and to capitalise on new opportunities.

### **Farmers require a continually improving operating environment to grow their businesses**

Farmers require of their operating environment resource security, favourable macroeconomic conditions, a stable regulatory environment, new market opportunities through international trade liberalisation, access to world-leading research and developments, access to new products, telecommunications services and information technology, and incentives, tools and information in order to actively prepare for and manage business risks.

Against this background, Attachment A attempts to identify key trends for the sector: the implications of which present both risks and opportunities for Australian farmers. I have also attached NFF's 2005 Pre-budget submission for your information.

Aside from NFF's current policy framework, please note the following points:

## **1. A whole-of-government approach to agricultural policy is vital**

NFF believes it is vital that when setting the policy framework that governments do so taking a whole-of-government view. Farming has linkages with many other industries, which must be taken into account in developing a national framework for agriculture. For example, in pursuing our strategic priorities, NFF regularly liaises with Government employment, telecommunications, environment, education, infrastructure, transport and trade Departments - as well as agriculture. A continuation of the silo mentality that has emerged across different elements of government will be to the great detriment of industry.

Farming systems are dynamic and integrally linked to the natural environment. Natural resources such as water, soil and vegetation, natural events such as droughts, fires and floods, and natural pressures such as pest and disease incursions, weeds and feral animals do not recognise State and Territory borders, meaning that variable policies focusing on different State or Territory jurisdictions are rarely effective in addressing landscape-wide impacts. While these constitutional constraints appear to be reality, at least for the foreseeable term, it is imperative that governments continue to improve their relationships and to work towards more harmonised policies, regulations and management initiatives within and between different jurisdictions.

Agricultural policy challenges are complex. As an example, the very important issue of labour shortages is in NFF's view influenced by a mix of factors - education and training policy, workforce participation, population policy, the industrial relations system and the image of the sector. [Please find attached a draft NFF Labour Shortage Action Plan providing more detail on this issue.] Policy settings for all these matters are dealt with by different Departments both at a State and Federal level. They cannot be considered in isolation if an optimal policy response is sought.

As a result of the points raised above, NFF fundamentally believes the Commonwealth (across the whole-of-government) and State/Territory Governments should put in place a more effective process to ensure the progression of dynamic co-ordinated policy settings. We challenge the Reference Group to identify a process that will ultimately deliver an integrated national long-term framework for Australian agriculture.

## **2. Australian agriculture must think about its future comparative advantage**

The structure of agriculture globally is changing rapidly. The emergence of major new globally competitive exporting nations such as China, India, Brazil and Argentina in key global markets will further heighten the competition facing Australia producers. As a developed economy with high wage rates, sound employment conditions and a strong commitment to environmental stewardship, Australia will face increasing difficulties in remaining competitive within cost-driven, non-differentiating global commodity markets. While new technology, smarter management, improved genetics and varieties may assist Australian farmers to achieve even greater production efficiency, the reality is that if many farmers do not acknowledge the changes that are occurring around them in global markets, and respond accordingly, then their long-term future is far from guaranteed.

Strategic thought is required as to what types of products Australian farmers will be producing and where and how we will be selling them in the future. These types of discussions are required now, rather than when change is knocking at the door. NFF urges the Reference Group to initiate a process to facilitate this discussion. Of course, in this regard NFF stands ready to also play a major role in the discussion.

The challenge for Australian farmers will be to identify and embrace new market opportunities and to drive competitiveness through innovation in production and processing, enhanced efficiency, improved economies of scale, attracting greater returns through better understanding of markets and changing consumer needs, through achieving greater equity through the supply chain, and through differentiating and developing specialised products.

Not all farmers will be able to adapt to meet these challenges. In response to competitive pressures, Australian agriculture has witnessed considerable change over the last number of decades and this will be an ongoing reality. It is therefore important that governments deliver assistance to farmers to support them in considering their long-term future in industry, and to assist them in restructuring or diversifying their businesses to enhance their profitability, or alternately to consider exiting their farm to pursue new opportunities.

**In summary**, the Reference Group has a unique opportunity to provide direct guidance to governments not only on policies to address future issues and challenges facing Australian agriculture, but also on the process it believes governments should undertake to respond to the findings of the Reference Group.

Establishing a process to ensure a whole-of-government approach to the agriculture and rural sector in the future is, in NFF's view, just as important as specific policy initiatives that may have relevance for the future of the DAFF portfolio.

As explained above, this whole-of-government approach is not only essential at the Commonwealth level but also relates to the relationship between the Commonwealth and States/Territories.

I would be happy to discuss the points raised in this letter in more detail.

Kind regards



**BEN FARGHER**  
**Chief Executive Officer**

*Attached*

- 1. Key trends impacting on Australian farmers.*
- 2. NFF 2005 Pre-budget submission*
- 3. NFF Labour shortage Action Plan (draft)*



## **KEY TRENDS FACING AUSTRALIAN AGRICULTURE**

There are a number of trends that enable us to begin to identify many of the challenges and opportunities facing Australian agriculture:

### **Farm size, focus and structure**

- The rationalisation of the farm sector has been a reality for several decades and is likely to continue, but in contrast to international trends, the majority of Australian farms will continue to be family owned and operated.
- The emergence of larger farms, however, has resulted in a situation where 10 per cent of farm businesses produce around 40 to 50 per cent of gross farm product.
- The rationalisation and expansion of Australian farms has also been accompanied by a trend of “intensification” of resource use in agricultural production.
- Intensification has seen many farmers diversify their operations and produce food and fibre that relies more heavily on external inputs into production, including such as irrigation water and feed grain and fodder.
- Changes in the size and structure of Australian farms are likely to continue for the foreseeable future, driven by factors such as water reform, the cost-price squeeze, increased competition in domestic and international markets, climatic risks and the growth in the number of lifestyle farmers.
- In order to achieve the economies of scale and efficiencies required to remain competitive in traditional industries, or to diversify into new and emerging agricultural opportunities, farmers will require access to new and additional capital. Rather than relying on the traditional financing models based on debt, new opportunities may emerge for farm businesses to tap into non-farm ‘mainstream’ equity capital, if financial structures can be developed to satisfy the needs of the business operators and investors.
- The opportunities to attract new capital into a farm business may encourage Australian farmers to reconsider traditional farm business models based on land ownership, and look towards alternate models capable of offering them greater flexibility over their equity. These models may include share farming, leasing, equity financing or securitisation.
- Rationalisation in Australian agriculture will continue and it will ultimately lead to a more efficient, market focused and resilient farming sector. However, it is imperative that government assists in this adjustment process, through effective policies that support marginal farmers to assess their future options, to obtain new skills or diversify, and in some instances to leave the farm with dignity.

## **Farm business operating environment**

- Farmers will continue to see major changes in their farm business-operating environment, with ongoing pressure on their terms of trade.
- In order to keep farm costs down, farmers will need to further refine their production systems and make more efficient use of farm inputs such as fertiliser, chemicals, fuel and irrigation water. The uptake of precision agricultural technologies, improved spatial information, new agricultural chemical formulations, biotechnology and integrated pest management will all assist farmers to achieve improved returns on their input costs.
- In order to access high value markets particularly for fresh produce, Australian farmers will be increasingly dependent on efficient and reliable transport systems in order to get their product into overseas markets.
- Global trade liberalisation can potentially offer new market opportunities for export-focused industries, however the 30 per cent of Australia's farm production sold domestically will continue to be pressured as a consequence of the highly concentrated processing and retailing sectors in Australia.
- In order to prosper in domestic and export markets, Australian farmers will need to "get closer" and better understand their consumers, moving away from the traditional open livestock and commodity markets, toward direct sales arrangements, potentially involving longer-term supply contracts with key customers. In a sense this shift will require Australian farmers to move from supplying into the Australian food industry, to being an integral part of the Australian food chain, an important mind shift.
- While new agricultural market opportunities will emerge, there is no doubt that producers will continue to face increased scrutiny from overseas and domestic consumers in relation to their environmental performance, animal welfare practices or other elements of their production systems.
- Although Australian farmers retain a strong international reputation as producers of high quality and clean food, consumers are increasingly seeking formal assurance in relation to the safety and quality of the products they consume.
- In order to provide such assurance it will be important for Australian agricultural industries to establish voluntary assurance schemes, with international credibility, to provide farmers with a simple and effective framework through which to monitor and document their performance.

## **Climate Change**

- Climate risks represent some of the most serious challenges facing Australian agriculture.
- Climate variability has always been a reality for farmers in Australia, however in order to implement preparedness measures, farmers will require improved information on the extent to which climate variability, in particular the recent drought conditions, are being underpinned by longer-term climatic change.

- There are large uncertainties associated with projections of how climate change will unfold in the future, particularly at regional and local scales.
- Farmers are already undertaking a range of measures to improve the resilience of their farming enterprises to the impacts of climate.
- Industry and government needs to analyse the impacts (both positive and negative) of climate risks in agriculture so that farmers can be provided with the tools that they require to adapt to changes in climate – whether these changes occur within seasons or over the longer term.

### **New technologies**

- The ongoing adoption of new technology is absolutely vital to the future success of Australian agriculture.
- Australian farmers are at the vanguard of adopting new technologies such as biotechnology, precision farming, remote access technology, traceability and integrated pest management, and this ingenuity will be of growing importance in the future.
- While Australian farmers acknowledge that the risks associated with new technologies must be appropriately managed, in instances where rigorous scientific assessment has been proven that new technology is safe, and to the benefit of farmers, the environment and community, there is no justifiable reasons to delay its release.
- For example, the current GM moratoriums in the majority of Australian States have impacted on the path to commercialisation for new Genetically Modified (GM) technologies approved for use in Australia. These unfounded bans on technology are hampering Australia's ability to attract and retain world-class research scientists, stifling innovation and reducing our competitiveness within global markets.

### **The importance of sustainable production**

- Farmers will continue to be key players in delivering outcomes under Australia's major land and water conservation initiatives.
- With Australian farmers responsible for the management of over 62 per cent of the Australian landscape and over 80 per cent of our water resources, farmers are at this country's front line in managing our natural resources.
- Farmers need a regulatory environment that delivers investment security so they can continue to manage native vegetation and biodiversity values within the Australian landscape in a sustainable manner, while maintaining profitable and productive business enterprises.
- The Australian community is increasingly calling on farmers to deliver environment outcomes on behalf of the entire population. Given the national importance of many natural assets that exist on privately managed land, there is a strong case for governments to support farmers in undertaking the on-ground management actions required to deliver identified public-good environmental outcomes. These actions may include habitat monitoring, intervention through

weed control, controlled burning, vertebrate pest management, replanting species or controlled grazing to meet environment objectives.

### **The liberalisation of global agricultural markets**

- With Australia exporting about 70 per cent of our agricultural production, new and expanded access to global markets, through multilateral and bilateral trade agreements will remain a key factor in underpinning the sustained profitability and future growth of Australian agriculture.
- NFF believes the greatest opportunity for Australian farmers to realise improved returns in international markets continues to lie with multilateral trade reform under the World Trade Organisation (WTO) umbrella but NFF also believes high quality, comprehensive and WTO consistent Free Trade Agreements can deliver significant benefits to Australian farmers.
- Against this background, NFF also believes it will be important to remain on guard to defend Australia from new forms of trade barriers. NFF believes that it will be particularly important for the Australian Government to continue to resist moves to include issues such as the environment, labour or animal welfare in trade negotiations.

### **The City-Country Divide**

- The widespread growth in Australia's capital cities and major population centres, combined with climatic, adjustment and social pressures on regional communities has resulted in an increasing economic and social disparity between urban and regional communities.
- A greater portion of the Australian population is more detached from farming and the origins of their food and fibre than ever before, and this trend, whether we like it or not, is likely to continue.
- We must confront the city-country divide and work hard to:
  - improve the perceptions of agriculture and regional Australia;
  - raise awareness and understanding of food and fibre production systems; and
  - promote the unique business and social opportunities offered by rural and regional living.
- We must encourage policies that form part of a broader vision for Australian agriculture, our landscape and our regions.