- I thought it would be useful to update Senators on some of the impacts of the ongoing drought on the east coast and the recent flood event in far north Queensland; and to outline some of the underlying fundamentals for the agricultural sector as we see them.
- First, can I acknowledge the significant trauma that these natural events – in some parts unprecedented in their intensity – have caused farming families and rural and regional communities. The department is working with others across Government, state and local governments and the Councils and industry representatives and communities to respond to these events with assistance in the recovery and long term resilience phases of these disasters.
- Despite what is currently happening, it's worth remembering that the sector has a very positive outlook.
    - Obviously if drought persists, the difficulties facing farming families and rural communities on the east coast will become much more serious – especially in the Murray-Darling Basin. The forecast is not positive and water storages are falling fast.
    - But when seasonal conditions improve, on the fundamentals we would expect the sector will rebound quickly as it has done previously following droughts (reference 2006-07).
- The value of agricultural production broke the $60bn barrier in 2016-17 and has not really fallen much below that since, despite poor seasons.
- The value of our exports has grown by 55% in the 10 years to 2017-18, with growth in the value of wool (115%), horticulture (82%) and beef and sheep meat (73%) exports being particularly strong.
    - The value of cotton exports increased from $500 million to $2.1 billion over the past 10 years (326%), and the value of canola exports increased from $595 million to $1.3 billion (118%).
- Part of the reason for that growth has been because agricultural productivity has been good, outpacing most other market sectors.
- Significantly, export prices have also been good in recent years for a broad range of agricultural goods, including live cattle (up 57% over the 5 years to 2017-18), wool (51%), mutton (40%), beef (34%), wine (27%) and lamb (24%). Grain prices have also been rising recently.
- It is obvious that the ongoing hardships being felt by farmers will reduce agricultural production in 2018-19 (preliminary forecasts from ABARES are suggesting a 4%

decline in the gross value of farm production to $57 billion). But there have been a number of factors that have helped to support the national value of production.

- Favourable seasonal conditions saw the second largest winter crop harvest in Western Australia, while international and domestic prices have also been favourable.
- Preferential access to most of our major export markets, including through the recent ratification of the Trans-Pacific Partnership agreement is also helping to support export demand.
- The lower Australian dollar has also provided a boost to Australian agricultural export earnings. Over 2018 the Australian dollar depreciated by 10% against the US dollar and 6% on a trade weighted basis.
  - Agricultural export prices increased by about 12% year-on-year in December 2018.

- Trade agreements don't provide market access, much less ensure that access is maintained, this requires consistent effort by exporters and the Department as the export regulator. We have seen a graphic illustration of this with recent fruit fly detections.
- The outlook for agricultural production obviously relies heavily on seasonal conditions improving – starting with winter crop plantings this year. In the long run, of course, a focus on improving productivity is vital to manage Australia's variable climate and to continue to grow production.
- There are always external risks to export earnings:
  - Trade tensions between China and the United States (our largest and third largest agricultural export markets) could affect income growth and reduce import demand, including across Asia.
  - Export earnings are also under pressure from increasing competition from major exporters across the grains and livestock industries.
    - For example, increased beef supply from the United States is forecast to reduce Australian beef exports to the United States and Japan and has already done so to Korea.
    - Low cost wheat exporters such as Russia and Argentina will compete strongly with Australian exports in price-conscious Asian markets.
- It looks like we will see continuing drought conditions and water supply problems over the next year but there is good reason for optimism in Australian agriculture and an underlying trend is strong growth in production, exports and investment.