



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON PRIMARY INDUSTRIES, RESOURCES AND RURAL AND REGIONAL AFFAIRS

Reference: Benefits of agricultural trade reform

CANBERRA

Wednesday, 29 October 1997

OFFICIAL HANSARD REPORT

CANBERRA

HOUSE OR REPRESENTATIVES
STANDING COMMITTEE ON PRIMARY INDUSTRIES, RESOURCES
AND RURAL AND REGIONAL AFFAIRS

Members:

Mrs Bailey (Chair)
Mr Adams (Deputy Chair)

Mr Andren	Mr Hawker
Mr Causely	Mr Katter
Mr Cobb	Mr Nairn
Mr Crean	Mr Stephen Smith
Mr Fitzgibbon	Mrs Stone
Mrs Gash	Mr Wakelin

Terms of Reference:

The committee is to inquire into the benefits for regional Australia and Australia's primary industries of, and further issues associated with, world trade reform, including the policy implications of:

- . the growing international demand for food, especially in Asia;
- . the opportunities for primary industries arising from international trade reforms globally, regionally and bilaterally;
- . factors affecting Australia's international competitiveness and capacity to realise these opportunities;
- . the treatment of non-tariff measures, including quarantine, within the World Trade Organisation and how these impact on Australia's primary industries; and
- . how the momentum for trade reform in the primary industries sector can be maintained and encouraged on a global, regional and bilateral level.

WITNESSES

**HOWARD, Mr Lyall, Director, Trade and Quarantine, National Farmers
Federation, PO Box E10, Kingston, Australian Capital Territory 2604 3**

**McGAUCHIE, Mr Donald, President, National Farmers Federation, PO Box
E10, Kingston, Australian Capital Territory 2604 3**

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Mrs Bailey (Chair)

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Mr Cobb	Mr Wakelin

The committee met at 10.10 a.m.

Mrs Bailey took the chair.

CHAIR—I declare open this first public hearing of the inquiry by the Standing Committee on Primary Industries, Resources and Rural and Regional Affairs into the benefits of agricultural trade reform. We are going to begin our series of public hearings by taking evidence today from the National Farmers Federation. So far in this inquiry our priority has been to visit rural and regional areas for informal discussions with farmers, processors and exporters.

It has been very important for us to do this because the grassroots response will be a major factor in determining whether or not Australia takes full advantage of emerging trade opportunities. Farmers and food processors do not act alone and the efforts of peak bodies in providing support and information and in lobbying governments are also important. I look forward with considerable interest to the evidence that we will hear today.

Before proceeding, I must say that committee public hearings are recognised as proceedings of the parliament and warrant the same respect that proceedings of the House of Representatives demand. Witnesses are protected by parliamentary privilege in respect of the evidence they give before the committee. Witnesses will not be asked to take an oath or to make an affirmation. However, they are reminded that false evidence given to a parliamentary committee may be regarded as a contempt of the parliament.

The committee prefers that all evidence be given in public, but should witnesses at any stage wish to give evidence in private, they may ask to do so and the committee will give consideration to the request.

HOWARD, Mr Lyall, Director, Trade and Quarantine, National Farmers Federation, PO Box E10, Kingston, Australian Capital Territory 2604

McGAUCHIE, Mr Donald, President, National Farmers Federation, PO Box E10, Kingston, Australian Capital Territory 2604

CHAIR—We have received a submission from you and have authorised its publication. It was, however, some time ago that we did receive that submission, so I would firstly like to ask if you have got an opening statement that you would like to make, and you can mention in brief any changes that have occurred during the period since you made the submission.

Mr McGauchie—I was not quite sure what the procedure and the approach was here, given that a quite extensive report was presented by a previous Director, Trade and Quarantine, Robert Hadler. So I did not plan to go over all the detailed arguments contained there.

CHAIR—No, there is no need for that. The members have got a full copy of the submission.

Mr McGauchie—I thought I would make some very basic comments about the importance of trade to Australian agriculture. We export well over half of our total agricultural production. Many of our major industries export in the 75 to 80 per cent plus range of the products that they produce. We export between four and five times as much agricultural production as we import. Whilst we are in the top rank of exporters in a number of commodities, we are not a major producer of any of those commodities by world standards, with the exception of wool.

We are enormously dependent upon trade and, as a small nation, we do not have the economic muscle of the United States or Europe to do absolutely stupid things when it comes to trade. We actually have to be sensible, because we do not have the power to subsidise heavily or to be in counter- subsidy programs. So the approach that we have always taken in this is that we must have access to markets. The only way that we are going to do that is to have a set of international trade rules which are rules based, not a power based system. Of course, in that situation, we have to argue for those rules and it is in our interest to play by those rules.

That applies to the whole range of issues, not just to the major issues such as internal subsidisation, export subsidies and border controls; it goes to the issues that will extend beyond that. Non-tariff barriers of various sorts will emerge; in particular, things like quarantine, food safety and a whole range of other standards—labelling standards and so on—will emerge as people in various parts of the world attempt to provide some form of protection as the rules based system extends.

This is a never ending game in which we are placed and Australia's best interest is in having a rules based system that is based on sound economics and sound science. That is the principle on which all of our approach to trade is based. Getting agriculture on the GATT agenda in the last round was a great achievement. Whilst probably the most damage to our agricultural trade that has ever been done was done in the last three years of those negotiations, when the Europeans and the Americans engaged in a competitive round of export subsidies, which did enormous damage to a number of our industries during that time and made it harder to get an agreement that gave us great gains in that first round, even so, we have seen already significant gains coming from the result of the Uruguay Round. Those changes are moving through the system slowly. We are obviously looking at another round.

We think Australia is taking the right approach in pushing for another multilateral round as quickly as possible. We want to see us hit that 1999 date running rather than have the start of discussions being about the discussions. The approach of the trade minister and the department here, DFAT, has been along those exact same lines and we are very supportive of that process. So we think we are on the right track. We have a lot to do internally as well as externally and there is no doubt that what we have seen since the end of the Uruguay Round is something of a phenomenon that I call trade reform fatigue.

A lot of people are being unenthusiastic about yet another round of trade reform and another round of changes to their lives and the way things happen. What they do not understand is that that is going to happen to them anyway, and we are better to be in front of that game rather than behind it. That is happening in various parts of the world. The Americans certainly made significant gains in terms of that freedom to farm legislation. Our approach there will be to keep the Americans focused on that, to try to persuade them not to backtrack on that if problems emerge and indeed to recognise that their best interests lie in further reform, not winding back. That is about all we would want to say at this stage. They are very general comments, but I will be interested to see which issues you want to take up in questions.

CHAIR—I would like to tease out a couple of issues that you have raised in your opening statement in your support for the rules based system. As I said in my opening statement, the committee has been travelling around the country talking to producers, processors and those marketing agricultural products at the grassroots level. I am sure it would not be a surprise to you to realise that there is not the same enthusiasm for the rules based system at the grassroots level, as you have expressed here this morning. How do you think this can be overcome, especially, as you have said, in coming into the new round of negotiations, that we actually face a trade reform fatigue? How do you think that this can be overcome at the grassroots level?

Mr McGauchie—That is an excellent question. We have all thought long and hard about that particular issue. We probably got trapped a little in thinking that much of this

debate was over because the whole process had bipartisan support through the Uruguay Round. There were very few voices raised in opposition to what was going on and it seemed to us that all we had to do was continue to look forward and try to work out ways in which we could push that agenda faster. Around behind us have come some arguments that are anti-trade. I remember having this discussion with the previous minister for trade, Bob McMullan. He made the point that most good trade policy is counter-intuitive.

People do not necessarily, as a matter of course, believe that good trade policy, and particularly trade policy which is in the interests of the nation and in the interests of particular industries, is necessarily in their personal best interest. Certainly the process inevitably involves one of significant change to people. The world is in constant change and most people do not like change. A very small percentage of the population actually enjoys seeing things and changing themselves to match that.

Often trade reform is a very easy target for people to use as a criticism for a whole range of things that are happening to their lives that they do not particularly like and the disruption that it causes.

The other thing is that there is a natural inclination for people to believe that you should protect your own and, as we have moved from tribes to city states, to nation states, to now a much more global world, I think most of our people are between city states and nation states somewhere in their thinking, without understanding their interests. And you can trot out all the statistics you like on where an industry is heading and where it is going and what the benefits of trade reform are, but a piece of television footage of somebody losing their job because there is change taking place tends to rub out a lot of the support for that very quickly. So, in my view, it is an issue that we have to address, and we have to do a great deal more work in explaining to people the benefits of trade reform. Certainly the department has started to do that by putting out a lot of publications.

CHAIR—You said in your own submission that you were calling for specific initiatives on education and awareness raising.

Mr McGauchie—Yes.

CHAIR—What responsibility do you think that you have, as a peak farming body, in this regard?

Mr McGauchie—I think we have a huge responsibility; I think it is very substantial. It would not be proper for me to be putting a policy position that was not supported by my membership. Now, these issues have been debated within the NFF over and over again, and the current trade policy is the one that has emerged from that, with overwhelming support of our membership. But we have to continually explain lots of the issues to what I think is a noisy minority of people.

CHAIR—How are you going to improve on what you have already been doing, given that there is widespread scepticism about the opportunities and benefits of trade reform?

Mr McGauchie—We do not have enormous resources to put out lots of publications, so we have talked constantly with the Department of Foreign Affairs and Trade about the sort of research material that they can produce that we can distribute and use—and that they can produce, which they have been doing. One of the furphies in this is that Australia has been reforming its trade policy faster than other countries.

We recognised early on that that was a problem. DFAT have produced that little blue and orange pamphlet, which is excellent. It shows in graphic picture form what the situation is, that Australia has not been a faster reformer than many other countries, and that we are in amongst the pack. So we have talked and encouraged the department to do a lot of that work. There is a barely a speech that I make to our member organisations—

CHAIR—But, with respect, encouraging the department to do that is one thing; getting the message across to your own commodity councils and—

Mr McGauchie—Oh sure, but I think it is part of that. The fact of the matter is that we do not have the resources to produce that sort of material, so we have asked the department to do it so that we can distribute that kind of material to our people.

CHAIR—Do you have any way of discussing with members of your commodity councils, for example, better ways of disseminating information?

Mr McGauchie—We talk about that constantly.

Mr FITZGIBBON—First of all, let me preface my question by saying that I agree with your approach and do not have any problem with that, but the reality is that within trade reform you have winners and losers. And while education and the dissemination of information is important, I think what is more important is assisting those who are the losers. I do not think anyone is doing enough about that, and I am just wondering what your organisation is doing. I know you have already mentioned that your resources are limited. But when I say assistance, I mean advice on restructuring or advice on becoming more export oriented and those sorts of things. Is government doing enough, are you doing enough and do you have any ideas about what more can be done?

Mr McGauchie—I guess you can never do enough in these areas but, equally, one of the dangers of some of the approaches is that they tend to lock people into a time warp and that they then, when the pressures are on them, resist change rather than adapt to it. The citrus industry is probably as good an example as any we have at the moment of an industry which is struggling to understand what is happening to it, where the benefits lie, the things that they need to do to adapt.

I have talked to our members in the citrus industry on a number of occasions, and we have offered to look at and assist them with those areas where we think they can expect some assistance from government, particularly in the adjustment area, particularly in further pushing market reform, opening up markets to get product in. What they have not recognised is that the biggest problem for the pure juice producers is a structural one in terms of the fact that lots of them are on very small orchards that were soldier settlement blocks; they are locked into a situation where it is hard for them to change so there is a need for significant assistance. It is a long-term exercise to replant an orchard; you cannot just do it overnight.

The changes in tariff structure are not the problem. They could have the same tariff as they had 10 years ago and they would not be one jot better off, and yet it is an easy thing for them to focus on. When you talk to the senior people in the industry, they understand that. But they go out into the bush where there are people who are bleeding, and bleeding badly, who run a simplistic and easy line that, 'If only we had what we had before everything would be okay.'

They were not members of NFF when the Uruguay Round was signed off at Marrakesh, and they only came to us quite late in the process to try to get some help then to negotiate assistance packages for reform and so on. Robert Hadler did a great deal of good work with Bob McMullan in that area. You could argue, certainly, that more money was needed, and I think it is an argument that more money is needed to assist those people through. But we were brought into that process very late, unfortunately, so it was hard to do much for them. You have got to look at these things in the long term and anticipate the sorts of changes that are coming. Trying to pick up the mess after the jug has been broken is never an easy exercise, and that is a classic case.

It is why in other industries, like the wheat industry—I have personally been involved in reforming in that industry for the last 10 years, or up until the last three or four—where the changes that are clearly occurring in that industry need to be forward thinking, those there should position themselves in a way that they take over their own affairs. I think that industry is doing reasonably well. It is having a bit of a scrap at the moment and cannot quite make up its mind, but it has made significant changes in terms of capitalisation of the industry and so on.

That is the approach that we have taken, but it has been hard for those in the citrus industry because they came to us late. Then, when a miracle was not performed, they have walked out. So it is pretty difficult to keep those people satisfied, but we will continue to do what we can to look at opportunities for them to take account of those massive changes that are occurring.

Mr FITZGIBBON—What do you say to industries like the chicken growing and processing industries who have not really been propped up by tariffs, have been growing—

Mr McGauchie—No, but they have had 100 per cent protection.

Mr FITZGIBBON—That is right.

Mr McGauchie—And they paid the price for that in not reforming much of what they need to do to get that industry internationally competitive.

Mr FITZGIBBON—To make it more export oriented, you mean?

Mr McGauchie—To be at least internationally competitive. They can stay as an import competing industry if they like, but I do not think they will survive at that. They really ought to be gearing up to be internationally competitive. The pork industry has gone through it. The pork industry faced the same issue, and now I am seeing in the senior people in the pork industry a real desire to get on and be internationally competitive and start to focus on the issues that will make them competitive. I think they will get into that mode reasonably quickly.

Mr CAUSLEY—How many are left?

Mr McGauchie—In the pork industry? The pork industry is like most of the others. Once you start to move down that path, it becomes a very differently structured industry, as the dairy industry is.

Mr CAUSLEY—The dairy industry is not totally deregulated yet anyway.

Mr McGauchie—No, but it will be. It is moving down that path very substantially.

Mr CAUSLEY—In 1999.

Mr FITZGIBBON—But you support industry restructuring packages for industries such as the chicken growing industry?

Mr McGauchie—If that is necessary. I am not sure whether it is necessary in the chicken industry. Again, those people have not been members of NFF.

Mr FITZGIBBON—Yes, I understand that.

Mr McGauchie—Whilst they have been members of the state organisations—in fact the chicken people have joined us in the last few weeks, which is good—it does not give us a great deal of opportunity to look at what they might need. They are way behind in genetic material in this country. Some of the people who are the leaders in that industry smuggled genetic material into this country early on to get them into a lead position and they have sat on their hands ever since. We are way behind in terms of genetic material to

make that industry competitive.

There are a lot of things that have to be done to bring it up to scratch. There are some concerns they have about the cost of feed stock into it. I think we have to have a very close look at what their problems are there. If they are not getting feed at internationally competitive prices for artificial reasons, then we need to look at that and address it.

Certainly they are not going to get high protein meals in this country at a low price because we do not produce them here. So that will be a problem for them, but there are other alternatives to that. I think we need quite a deal of research being done in alternatives to high protein meals for that industry. So there is probably a range of things that need to be done that I think are the province of government to give some assistance to, if ultimately they are going to have to face international competition, which I think they probably will.

Mr FITZGIBBON—Do you also support the use of a legitimate and temporary tariff for industry restructuring in the chicken growing industry?

Mr McGauchie—I would be very reluctant to go down that path. It is a difficult path to go down anyway under WTO rules.

Mr FITZGIBBON—It is legitimate; it can be done.

Mr McGauchie—It is a difficult path, though. I do not have a direct answer to that question. I do not know whether that would be the best way of assisting that industry to adjust. I do not know, but my gut feeling is no. I would be interested to see whether it was a good argument.

Mr ADAMS—I think most of us agree that it is a world out there and it is a globalisation thing, but the information flow to your members and to farmers generally seems to be the issue. We went to New Zealand recently and saw that the meat board made up of producers in New Zealand sends a video to its members—I forget the figures, but it is an enormous number.

CHAIR—I think it is 28,000.

Mr ADAMS—It is 28,000 videos and over 85 per cent of the farmers hit the video and take information. An Australian working in the farmer's organisation there said to us that New Zealand farmers are 50 per cent more informed than Australian farmers. He said they work harder as well—I do not know if that will go down very well, but he said that. He said they were better informed and understood the issues.

They are getting the information out and they are participating in it. That is not

happening in this country. We are a bigger country, more diverse and everything else, but I wanted to focus on that. I do not think a pamphlet out of DFAT is going to do what needs to be done out there.

Mr Howard—Your timing of mentioning a video could not be more extraordinary. Yesterday, Wendy and I were sitting in someone's office in Sydney talking about the production of an NFF video.

CHAIR—This is a dorothy dixer, is it?

Mr Howard—It must be. But I have never met Dick before so it cannot be. We are very aware of that issue. We get the comment that we are not in touch with the grassroots and we have got some excellent examples. Donald has just been flying around the whole country with Niree, our PR person. If we had videoed that, that would have been good material to demonstrate that we are in touch. We are addressing that issue.

We are planning to put out a booklet at the beginning of next year written for farmers, in the language of farmers, on why trade liberalisation is good for agriculture. This time we are thinking of taking a different approach. Rather than present the economic arguments again, we are going to get someone like Hugh Mackay to actually hold some panel discussions or in-depth interviews and probe why people have this fear and misunderstanding and try to get to those underlying feelings that people have and then address them.

CHAIR—Surely one of the differences is that farmers in New Zealand are totally export focused and have been now for many years.

Mr McGauchie—Not that long, they have had a hell of a shake-up. They were very protected.

CHAIR—They are certainly ahead of the thinking of Australian farmers.

Mr McGauchie—The leap has been enormous and the shake-up has been enormous too. A lot of those who have been sitting on their hands looking backwards have disappeared from New Zealand farming.

Mr COBB—I just want to be clear on these feeding lots. If the science and the quarantine stack up, the NFF has got no objection as a matter of consistency to chicken meat, pork and frozen orange juice coming into Australia. Is that a fair comment?

Mr McGauchie—If the science stacks up.

Mr COBB—Has the NFF compiled a list of the benefits that have flowed through to agriculture as a result of the slow freeing up of trade in the last few years?

Mr McGauchie—Yes, we have. We produce that sort of material on an ongoing basis. I could not say to you right now that we have one particular document that sets all that out, but we have produced that sort of information on a regular basis.

Mr COBB—Do you have a list of non-tariff barriers that are particularly harmful to Australian agriculture?

Mr McGauchie—I have to confess I did not look at all of that submission before I came here today, but I would have imagined Robert Hadler would have put a hell of a lot of work into it. A great deal of research went into it.

CHAIR—If I could interrupt there on that point, you do mention in your submission about the PECC recommendation for a more comprehensive survey. Can you tell us what has been done about that?

Mr Howard—I would have to go back to Robert—I am not aware of that specifically.

Mr COBB—Are there any particular tariffs that are harmful that Australia puts on—one that comes to my mind is wool fabrics coming back into Australia. Does the NFF have a position on these?

Mr McGauchie—Yes, we have a general position on that as well as a specific one. The general position is that we want to see all trade barriers in this country moved down, particularly any of those that add cost to our operations—and most of them do because, if they do not add costs directly, they add costs indirectly to us. But in many areas we have quite specific tariffs of that sort which mean that we probably have not developed those sorts of industries to the extent that we should have.

We had five motor vehicle manufacturers in this country and very little food processing. That is a function of the fact that we have very significant import tariffs. I still get farmers who write to me and who think it is a good thing that they should be paying \$20,000 a year more for a Mazda motor car than they would pay for the same car on the road in the United States. I find it difficult to reconcile people's fears in that respect, but I think it goes to a deeper dislike of government and bureaucracy generally more than anything else. They dislike government and they dislike bureaucracy, they see these changes as being government and bureaucracy driven, and therefore they must be wrong.

Some of them also believe, quite rightly, that their own position in the world was more comfortable in the 1950s and, therefore, everything that was done in the 1950s must have been right. They do not recognise that the damage that they are suffering now is a result of some of the decisions taken in those years.

Mr COBB—You mentioned costs a little bit earlier. Are there any particular cost

structures in Australia that should be jumped on to assist Australian agriculture, particularly value adding?

Mr McGauchie—In terms of trade protection areas?

Mr COBB—What is the NFF's position on abattoirs, waterfront and matters like this?

Mr McGauchie—Those are areas where quite clearly further reform is necessary. The Australian economy is a funny mixed bag. In some areas we are very competitive and in other areas reform just has not flowed through. In much of our food processing sector in the last seven or eight years, we have seen quite significant reform, and we have seen a lot of those factories getting up towards world's best practice.

Mr ADAMS—In food processing?

Mr McGauchie—In food processing, yes, certainly. A result of that has been that we have seen significant investment. Northern Victoria has seen close on \$1 billion of new investment in dairy and horticultural food processing in the last few years which has been very much a result of a whole range of reforms—not the least of which was the acceptance by the Food Preservers Union of Australia that they had to have those factories up to a level. Yet, on the other side, in the meat processing sector, we are at the bottom of the list. There is nobody much worse than we are.

On the waterfront, in bulk grains we are as efficient as just about anywhere in the world. If it comes to moving containers, where a high value added product is moving out of the country, we are at the bottom end of the line. So we have some pockets of reform yet to be addressed, and they are a significant cost barrier to Australia's competitiveness in a number of these industries.

Mr COBB—Can you put an order of magnitude on the cost?

Mr McGauchie—I am reluctant to do it. James Ferguson had some figures this morning which he was talking about, which I have not heard him use before, as to what the impact of some of those costs are. I have not got them with me, but I can send them back to you.

Mr HAWKER—Don, I want to come back to this business of communication. You talk about reform fatigue when it comes to trade barriers and so on, notwithstanding a lot of work the NFF has done over many years, including commissioning some of those reports that were done by Stoeckel and others, which were excellent. It seems to me that one of the problems you are facing—which he keeps hinting at—is that you are going to lose members with this reform; they are going to have to go out of the industry. There is the problem of soldier settlement which created units which may have been viable at the

time but which, in many industries, no longer are. Have you asked the ‘and/or’ or ‘what if’ type of questions? For example, ‘If we do not keep doing this reform, we are going to lose a third or whatever; if we do, it will be a quarter.’ I know that is pretty blunt and it is fairly difficult when you have a lot of smaller farmers nowadays who have really been battling for a long time and hanging on in some sort of hope that somehow the good times will come again. Maybe, at some stage, someone is going to have to say, ‘Listen, there is an alternative—the readjustment,’ there are things there that you are well aware of. When is that going to be communicated? Is it not being able to say that this reform still is going to be better than the alternative as it is on the ground, so to speak, rather than just in the big figures?

Mr McGauchie—Yes. One of the things I have been saying to the NFF Council and our staff over the last two years is that I think the biggest issue for farm organisations is the fact that 30 per cent of our farmers are producing 70 per cent of the output. We have always had a percentage of people at the bottom end—we will call it that at the moment, for want of a better description—who are winding down in agriculture, who may be running small farms in conjunction with other jobs and so on, and most of those people sit quite comfortably in what they are doing.

Mr CAUSLEY—They could be going the other way, too.

Mr McGauchie—Some of those are young people starting, certainly. There are not many industries where that opportunity exists. It is mainly in the dairy industry where that is the real option, but it is also in some of the horticultural industries and some of the better emerging industries. There is a big group in the middle, that is becoming bigger if anything, getting into a position where their future without change is almost certainly to no longer stay in the industry.

We have to develop a policy framework to deal with those people. We have concentrated very substantially on education, training and research and development because those are fundamental issues for many of those people. The supply of good consulting and services out in the bush is something that has been a big issue to us. We have fought vigorously to retain the level of government funding in R&D. The task is bigger than, I think, any of us imagined a couple of years ago. It has got worse in the last couple of years rather than better, which means the effort that we have applied to it needs to be increased at an even greater rate.

A number of these things have rather taken us by surprise in the severity of the occurrence in perhaps the last three or four years. Yet some of the industries that have been through the most difficult periods are the ones that are emerging in better shape. For instance, the grain industry has been going through a lot of reform, and it still has a lot to come. It has been through the hit of the US and European export subsidies, yet it has maintained on-farm productivity growth at the top of the list. We probably have less people in trouble in that industry than in some of the others that have seen very low levels

of productivity growth—like the wool industry. The problem has grown at a faster rate than any of us anticipated and we have got a hell of a lot of work to do to deal with it.

CHAIR—Following on from that, do you think that there is an in between position? You make mention in your submission about the importance of size, especially in regard to food production, but I think the principle applies right across the board in agricultural products. Do you think that one of the essential elements of the problem is overcoming the nature of the individual culture of farmers and that somehow that could be overcome with almost a cluster approach to farming, a more cooperative approach by farmers? There are some notable examples in the South Australian Horticultural Export Company with citrus growers who have all banded together to market a product. Do you think that there is scope for that principle to be extended?

Mr McGauchie—I do not think there is any doubt about that. In fact some of the survey work that has been done, and the material that we have been looking at, shows that the level of farm profitability has a direct correlation with the level of education. If there is some sort of tertiary education within the family group then, almost invariably, the operation of the farm is better.

CHAIR—That must be why there is an increase in the number of female farmers.

Mr McGauchie—No, I do not think it is. What we are seeing is the fact that the female portion of the rural population is better educated than the male portion. Almost overwhelmingly, the girls of the generation that are now taking over agriculture were either sent off to get better education and came back, or they are people from outside agriculture who came into rural areas and married into the land. Without a doubt, the level of education is considerably better. We produced some figures for World Rural Women's Day, in a speech I gave to the Press Club, which were really quite interesting. Equally, where you have got a tertiary education of some sort within the family or there are people involved in continuing levels of education, even if they have not had a tertiary education themselves, they attend field days, seminars and training courses and there is a very clear relationship between farm profitability and that kind of activity either past or present and, particularly, continuing.

For instance, in the dairy industry in those areas where high levels of productivity gain have been achieved, the concept of discussion groups, where people benchmark themselves against their neighbours and they bring in outside advice through those discussion groups, is well known. There is almost a competitive culture there to get into the best discussion groups. That is seen very much as improving performance.

One of the interesting things is that it is not necessarily the bigger farms that have the best return on capital. People who run relatively small farms, but run them very well, can produce excellent returns on capital. If they use the capital that is available to them wisely and well, they can get very good returns and make quite a reasonable living. They

will work hard doing it; no-one is going to tell anyone that they can make a good living out of farming unless they work bloody hard, and a lot harder than in a lot of other businesses. That is a fact of life. But many people who are doing that, are doing quite well; they are producing returns on capital of 10 per cent or better. We run a Poll Merino stud and one guy who buys rams off us, who is a fine wool producer, told me that he had produced a seven per cent return on capital last year. Certainly, this correlation between education and continuing education is something which we need to put a greater emphasis on; it does come back into that culture. Mostly, those people in that top 30 per cent are involved in those activities. What we have got to do is get more and more of that next group involved in that activity.

Mr NAIRN—Changing the subject, have you got any particular comments to make on the NFF's relationship with, and the views of your members on, some of the government authorities that you are involved with—AQIS and Austrade, from an exporting point of view. In particular, when the original report was produced, the Nairn report—no relation—was still—

Mr McGauchie—The spelling is a bit different.

Mr NAIRN—No, it is the same.

Mr McGauchie—It is the same, is it?

Mr NAIRN—Yes. We are probably long lost relations from many generations ago, but I know Mal Nairn quite well—

Mr McGauchie—Same convict ship.

Mr NAIRN—But that was still in the process of getting a response. Have you any particular comments that you want to make?

Mr McGauchie—Let me touch on Austrade first. Very few of our people would have many dealings with Austrade—only a relatively small number would actually deal directly with Austrade. But I talk to a lot of people involved in the next part of the chain who do deal a lot with Austrade and, on balance, it is a pretty mixed response. Some people have got good results out of Austrade and other people do not speak terribly highly of Austrade. I find it a bit difficult, as you get such a mixed picture, to make a genuine assessment from anecdotal evidence of that sort.

Mr NAIRN—That is pretty much what I think we could say we got as a committee from a lot of the grassroots.

Mr McGauchie—AQIS has a very bad reputation with the rural community. I think it relates as much to transparency as anything else. There is this appearance that

AQIS does an assessment in what I will call private rather than secret. They make a decision, and then AQIS puts that decision out for discussion, but it spends its time defending it.

There is this appearance of them being judge, jury and executioner and not being prepared to listen to what other people have to say. So you then get into this situation where there is a bloody great row before any of the information that people want in this system is properly assessed. And it is not seen to be assessed independently.

We were very supportive of Malcolm Nairn's recommendations, including the establishment of an independent statutory authority. I think that would have been of benefit. It will be much harder to convince people of AQIS's transparency and the independence of AQIS if it remains within the old department. It would have been a good opportunity for a significant culture change in AQIS as well, had a complete break been made.

The government has made a decision about that. We have chosen to register our view that that was not the best way to have done it, but we accept that that is the approach on the basis that it can be made to work, but it will be much harder to make it work. The need for transparency and people's ability to get their views into the decision making process before any decisions are made will probably have to be slightly overdone. You will actually have to make that so open because of the nature of the decision to keep it within the Department of Primary Industries and Energy.

Mr NAIRN—The perception that we have picked up, I think, in talking to a number of agricultural exporters is that they feel that AQIS is overly bureaucratic, overly strict on the produce that leaves Australia—

CHAIR—The exports.

Mr NAIRN—But the complete opposite on stuff that is coming in.

Mr McGauchie—I do not think that is true. I do not believe that is true. People say that, but I just do not think that is right. I think AQIS, in that respect, is quite professional.

Mr ANDREN—Picking up on the AQIS thing, you say in your submission that you have adopted the vision for quarantine restrictions on agriculture on environmental grounds that are in place only where the case is warranted and precautions justified. Have you got any examples of unwarranted or unjustifiable precautions in recent times?

Mr McGauchie—I would really want to take it on notice as to whether I think there are any. Some of these things are being assessed at the moment. We were basically making a statement of principle there. The scientific arguments around imported chicken

meat at the moment are probably a good example of how that needs to be dealt with. But I do not know of any off the top of my head.

Mr Howard—We could have a look.

Mr ANDREN—Have you got a view on fire blight, for instance—that drama that has been going on?

Mr McGauchie—That was an appalling embarrassment for this country. One of the things we have to be able to do, and it is always difficult to prove a negative, but we have to be in a position if we say we are free of something to be sure that we are. We were protesting our freedom from fire blight, and it is clear we were not. That does not do our reputation a great deal of good, and it certainly does not do the reputation of—

CHAIR—Does that say something about lack of monitoring processes by industry as well?

Mr McGauchie—I do not know that industry has ever conducted monitoring processes outside the confines of the industry itself. I just do not know whether they could or should. It would seem to me that it is a responsibility of government to do those sorts of jobs. But it is fairly clear that there are other people who knew more about fire blight than we did. Obviously, they have lived with fire blight and therefore you could expect they would know a bit more, but it just seemed to me that we were not minding our backyard as carefully as we should have been. I was in Paris at an OECD conference on agriculture just after that whole issue blew up and the Americans said, ‘Oh, we knew you people would probably have fire blight in those areas, but no-one was particularly interested.’

Mr ANDREN—The committee heard from growers that not only was there not enough advice and back-up, both here and overseas, on accessing export markets, but also critical mass appears to be a problem with a lot of producers. Apple growers in the Orange area, for instance, have seen a market in Thailand, I think it was, obliterated by huge and unlimited supply from China where a joint US-Chinese venture of a million trees, I think it is, has recently been put in. How do we compete against this sort of thing realistically, and how can we help growers access and maintain markets and achieve that critical mass?

Mr McGauchie—One of the issues that DFAT brings up quite often is priority setting in terms of actions on market opening. We have developed a much closer consultative process with DFAT in recent times to see that the issues that industry see as important are the ones that DFAT sees as important for market opening work—particularly bilateral work—and, equally, that DFAT is able to feed back to industry those areas where they think progress can be made quickly so that industry can have a chance of gearing up.

It will always be a problem that nobody is going to go out and plant an orchard years ahead of an opening of a market on the basis that it might open. Most people want an open market before they will start to build. So in some cases we are going to have that kind of disconnect, and I do not know that there is a lot that we can do about it.

There is no substitute for as much information as possible being available to people. What I find with a lot of people who are involved in exporting is that they run up against the first barrier that they hit that is a problem, and they do not know where to go to get information about how to deal with it—whether it is a commercial problem or a government to government problem.

Again through consultations with DFAT in recent times, we have produced another little booklet that gives people a market access guide. It was done under the supermarket to Asia banner. That shows people a sort of step by step process that they can follow. And the trick then—it is like the comment that Dick made—is that we can produce all this stuff at this kind of level. It is a question of getting that out to people and getting them to use it. But I think the Supermarket to Asia process is a good one for giving a focus to people to know where to go and seek that kind of information.

A lot of people are involved. There is a lack of an export culture amongst a lot of people. The first barrier they hit, they give it up. Some of them will find it difficult to get through all of the barriers that are out there because it is not easy and resource rather than size is very important for people to be able to get through all this.

If you can sell something down at the local market it is a hell of a lot cheaper and easier than it is to spend years travelling backwards and forwards to a foreign country and learning the language and the culture and working your way through a whole lot of government regulations, both at home and overseas, and trying to match everything together—for example, if you have had a set of food standards that were based on a state requirement and now you have got an international set that are different, and they are not harmonised.

A lot of work has been done in these areas but there are still some real problems that need to be overcome. Some people throw up their hands in horror very early on in the process and do not push it on and then come back with terrible stories about how impossible it is to export to country X or Y.

If there were easy answers to these things, we probably would have found them a long time ago, but there is no doubt that there are a lot of those problems out there that we need to address. I think DFAT is doing a lot of very good work, but getting that back to the small and medium enterprises and the individuals that are looking to get involved in exports is a substantial task.

CHAIR—Do you think there is high enough priority given to exporters in the

expectation of consistency of supply and the quality of their goods?

Mr McGauchie—The exporters themselves give enough priority to that.

CHAIR—We have been talking about the problem of information. Do you think those exporters who actually do manage to access some of these niche markets for the first time go in with enough information? Do you think they know that they must be able to produce consistency of supply and their goods must be of the highest quality if they are to retain those niche markets?

Mr McGauchie—There are two issues: one is safety and the other one is quality. The answer is almost certainly: no, there is not a full enough understanding by enough of the people involved. The worst thing that can happen is people who produce a surplus of a product think they can dump it on an export market somewhere and just get rid of it because it is an embarrassment to their local production. They go and put the product out without due consideration to any kind of long-term approach to that market. Then the next time they go back they have a bad reputation. The next time they have something to get rid off, their reputation is not flash. There has been quite a deal of that amongst a number of Australian companies in almost any area of production, not just in agriculture.

I think most of those things are improving considerably. We have never had a quality Australian brand. I do not mean individual brands but an Australian brand. We started to do a bit of that work under Simon Crean, with the Clean Food Marketing Australia approach. That was fundamentally flawed—I was on the board and I saw it at very close hand—because there was no quality assurance system underpinning that process. What we have done now under supermarket to Asia is learn from that experience. The Australian brand marketing proposal that Reg Clairs has brought through Supermarket to Asia will have a quality assurance underpinning to it. So I think we have picked up the problem there.

That proposal is aimed very specifically at the small and medium enterprises that do not have internationally recognised brands. It really is not an issue for Kraft or Nestle or Mars or any of those corporations. They have an international brand. They have a brand of their own which they protect with their lives, and that is recognised worldwide. They make their product wherever the raw materials are available, and they will ship it wherever it is suitable to them. So they do not really want an Australian brand specifically on a lot of that material. This will be a very valuable initiative for the small and medium enterprises that do not have an internationally recognised brand.

The fundamental problem we had with Clean Food Marketing Australia will be overcome in having a quality assurance backing to it. That means that has to be taken right back to on-farm, and we have a great deal of work to do there to get quality assurance programs that are workable, manageable and affordable in a farm situation. The meat industry has done some very good work on that. They are probably the most

advanced. The grain industry is currently looking at it. The dairy industry has probably had it by default in terms of testing milk off-farm, but there is more work that can be done there as well. So we are building that up from those experiences in the last few years.

CHAIR—Do you want to add something, Mr Howard?

Mr Howard—One other comment is that the change in international business is now moving towards what they call a ‘connected corporation’. It means there are closer relationships being built between customers and suppliers, and that is happening because of new technology. When a producer on a farm can actually use the Internet to talk to his customer in South-East Asia and find out exactly how the shipment outturned and what the specification is that he wants, then you are getting the development of this relationship that enables them to provide consistent guaranteed supply of specification product. New technology is allowing that to happen.

CHAIR—Our problem is getting the producer there to talk to his supplier.

Mr McGauchie—Another one of the initiatives under supermarket to Asia is an electronic marketing system of that sort, which has gone some considerable way. We have had enormous support from IBM, National Bank and Telstra to develop that. So we have had very heavy support in developing that work. Gary Ringwood from AMCOR has taken responsibility for much of that, and the demonstration we had of that in Sydney a couple of weeks ago was quite impressive. The technology is not the difficult part. The difficult part is getting people to actually understand it and use it. So there again we come back to the words we have been using all the way through here. It is part of developing a real export culture in some of these things in a professional way that needs to be heavily supported to get people up to speed and using these things.

CHAIR—Just as an aside, you may be interested to know that there is a Centre for Export Excellence in Healesville, which is tapping directly into this electronic dissemination of information and electronic trade.

Mr WAKELIN—I will just go through the export culture, and I will lead off with an example. Singaporeans are very quick to remind me as an Australian that, ‘We have nothing but a small piece of land, yet we generate a \$14 billion surplus. We have no unemployment, and we have economic growth rates,’ et cetera. So, in terms of the national export culture, I will just make the comment that there is a view around this place, and across the country, that farmers are not particularly good at exporting and that they are a little bit tardy in certain areas. My observation is—and I confess some conflict of interest—that your worst farmer exporter is probably a hell of a lot better than your average Australian.

What I am really trying to say is that there is a problem of a national export

culture. I am not sure whether it is your responsibility to focus on agriculture through the National Farmers Federation. It seems to me it is a real anomaly that we as a country point the finger at farmers and other exporters and say, 'Lift your game here; lift your game somewhere else.' Yet there seem to be whole areas of government and whole areas of our economy which just do not have an export culture. I just want to draw out that, to me, that is a very important principle.

Farmers in agriculture have been exporters almost since year dot, and certainly there will always be an ongoing issue of improvement. It seems to me that the issue of trade reform is much wider than just agriculture, coal mining or gold mining or anything else. It is about Australians understanding the importance of it. Every other penalty we put on our exporters essentially is a problem that we create for the country at large.

So that is the first part. I have a couple of other supplementaries. You might like to comment about how the NFF is responding to these wonderful words we are using like 'meltdown' and all the wonderful rhetoric that is flying around about the issues with Asia at the moment. The last one I would touch on is the issue that your submission referred to in 1995 from the Rural Industries Research and Development Corporation, that the big food corporations would probably be the best option to maximise their opportunities in the years ahead, which obviously relates to the supermarket to Asia concept.

Mr McGauchie—This question of export culture is one that comes up in a number of forums. I am on both the Victorian Premier's Food Industry Advisory Committee as well as the Supermarket to Asia Council with the Prime Minister. In both of them we have quite a focus on export culture, that is, not just on people who might be exporting, themselves, but on the broader community having an understanding that exporting is a very important part of their standard of living. There seems to be a disconnection with a lot of people between their individual standard of living and their job and the fact that Australia has to export.

There is almost a belief that imports are a bad thing rather than recognising you export and you import, the same as you do in your own daily life. We do not live a subsistence life; we get other people to do things for us, we do things and we do what we are good at, so there is a need. Of course, Australia's exporting in the past has been done by a handful of organisations. In the mining area it was ultimately a very small number. In agriculture, if you ask most farmers if they are exporters they will answer, 'No'.

Tim Fischer has been hammering the Wheat Board recently to get out and put signs on some of the local silos saying 'Where your wheat goes to' so people understand that it does not just disappear down a hole out at Boree Creek, but actually ends up in Egypt, the Middle East, the Philippines or wherever. With a lot of these things we have taken people for granted too much in expecting them to understand what these matters are. In terms of the problems in South-East Asia—

CHAIR—A division has been called in the House of Representatives—sorry.

Mr McGauchie—You are it? The greater god calls.

CHAIR—We will return, though.

Mr McGauchie—Okay, we will wait.

Short adjournment

CHAIR—Our apologies for that interruption. Do you have any more questions, Mr Wakelin?

Mr WAKELIN—We had a brief chat earlier about the national export culture, and Don was just talking about Asia and the recent upsets. I have a supplementary point. Are big corporations the best vehicle for export product transfer, particularly in Malaysia?

Mr McGauchie—Looking at the situation with respect to the immediate South-East Asian countries that are suffering the most economic difficulties at the moment and our agricultural exposure to those, probably the industry that is going to be most hit—in fact, it already has been hit with exports down on a month by month basis by nearly 50 per cent—is the live cattle trade. That is the first one. It is the most discretionary area of expenditure a number of those countries have and overwhelmingly it goes into those areas. There is a bit of a development in the Middle East for live cattle, but certainly not out of the north. So that industry has been severely hit.

The beef industry, more generally, will not be too badly affected, provided the problems do not spread to North Asia—to Korea and Japan. Even then, Korea is probably the bigger risk than Japan. The dairy industry is substantially exposed to the South-East Asian countries and obviously they are going to be looking at that situation. The view is that it is likely to be a bigger influence next year than this year, if the problems are deep-seated and go longer. The grain industry is probably going to benefit from the exercise because—priced in US dollars with the Australian dollar moving down against the US dollar—grain prices are actually moving up in response to the current crisis. Wool will probably suffer the same upward movement unless the problem gets far worse and spreads across the world economy.

The figures that we have put together from other sources show that even the worst affected countries are only going to have a slowdown in their growth. The only one that could, potentially, go into recession is Thailand. But the growth rates of the others will drop to figures that we would find attractive in this country. It just remains to be seen, but the movement in the Australian dollar is certainly going to offset some of the damage.

Mr ANDREN—It is back to 70c, though. I just wonder whether they may start

buying Australian dollars, and strengthen it, rather than go the other way.

Mr McGauchie—Who knows? In a situation like this, market sentiment will move on a short-term basis. It is where all of this settles out.

CHAIR—I have a couple more questions. One is about the possibility of a full-time commercial negotiator in terms of getting better market access. What if we send some questions to you and ask for a response in writing?

Mr McGauchie—A written response would be fine. I am quite happy to do that.

CHAIR—All right. Thank you for your attendance today, and thank you to Hansard.

Resolved (on motion by Mr Adams):

That, pursuant to the power conferred by paragraph (o) of standing order 28B, this committee authorises publication of the evidence given before it at public hearing this day.

Committee adjourned at 11.38 a.m.