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Senate Standing Committee on Agricultural and Related Industries
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Australia

Inquiry into food production in Australia

Senate Standing Committee on Agricultural and Related Industries

Submission from Richard Bovill
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Thank you for the chance to make this submission.

I would welcome the opportunity to provide testimony to the Committee when it convenes in Devonport on October 6th if the Committee feels that would assist its deliberations.

By way of background, I am a fourth generation Tasmanian farmer; I grew up on a mixed farming enterprise near Devonport.

With my brother we have continued to grow that business.

At various times we were engaged in large scale vegetable and beef production, while maintaining sheep, shelter belts and timber as a way of keeping economic, unproductive land which we are responsible to manage. Unfortunately, like people, not all land is equal in its productive capacity.

In a joint venture with Woolworths' supermarkets I managed the buying and distribution of all fresh produce to their Northern Tasmanian stores for 16 years. In 1997 for three years I was their Tasmanian buying and distribution manager for all Tasmania.

I left Woolworths in 2000 and returned to farming. In 2004 when it became apparent that Australia's food processing industry was dying, I organized the *Fair Dinkum Food* campaign in an attempt to draw attention to this fact.

My experience has given me a unique perspective from which I can view the supply chain from all sides.

This inquiry poses three value-based questions which cannot be answered in an economy which has no mechanisms to recognize value, other than the price signal.

Under the competition policies laid out by Treasury which govern decision making in Australia price is the only signal.
Let's rhetorically put that in perspective.

Food which is affordable to consumers.

Which consumers? Do we mean people on incomes like those conducting this inquiry, or low income earners? If you don't have any money nothing is affordable, just ask a drought stricken farmer.

Are we talking about today's meals or are we prepared to consider how our grand children will feed their families?

Our competition policy guidelines suggest we should import all our food from countries with no regulations. Every regulation imposes a cost which reduces the affordability of our food; but we know these regulations are there for a reason. They imply there is something we VALUE, something we think is worthy of protection. Yet after having imposed the cost which comes with protecting that value we turn a blind eye to import product from competing countries that are made increasingly competitive because we see price as the only signal.

A level playing field is where everyone is on the same terms. If the conditions we regulate for are so important, why do we not insist imported goods are produced under the same conditions?

If we don't, we effectively import the lesser standards from the other country.

This will be a case in point with carbon trading; we will impose a charge on Australian industry for carbon usage, which will render them to be less competitive against products from other countries which haven't had to meet the Australian standard.

We demonize industries as polluters and talk about taxing them, industries have only ever existed to produce the products which consumers demand. It is the demand of the consumer which creates the effect. If the consumer gets a discount every time they buy a product produced in a system which disregards working and environmental conditions, we have effectively regulated to support the lower standards.

This was the essence of triple bottom line accounting; we will never change our carbon footprint or any other condition, if we are not prepared to find a new system to account for value and still support genuine competitive behaviour. In times of high value for the Australian dollar we see our markets flooded with cheap imported processed food. This food at the time is the most affordable. The local industry shuts down, a community becomes dislocated at huge social cost to health and education and the tax payer (consumer) picks up the tab. The skills are lost to Australia and the desire to put capital into that industry evaporates.

Some years later the dollar may drop, the imports become much more expensive but the local industry and its skills and capital are gone.

The architects of competition policy are none the wiser, they still have their jobs but possibly a generation of Australian are left with less affordable food and that assumes there is not another threat to the food supply in the country we are now dependent on but have no control over.

This is the reason so many countries will not open their markets to our narrow notion of free trade. They are aware that the security of food supply and affordability are one and the same.

We need to recognize that food supply is a security issue as so many other countries do and ensure we have policy settings which look beyond our own short term needs.

In the latest economic crisis we have spent 18 billion dollars, via Australian consumers to support retailing in Australia. By any measure it was a subsidy to retailers.

Maybe in future other sectors of the economy could be given similar consideration.

Australia is currently negotiating a selective trade agreement with China. This will be an agreement negotiated in a similar manner to previous agreements which have been deceptively labelled free trade agreements.

It is worth noting that if these agreements were products being advertised as free trade agreements, they would be tossed out by the ACCC for misleading advertising. Why is it we do not place the same English language standards to public documents as we do to consumer products?

These agreements play one industry group off against another. They seek to gain open access for one industry at the expense of another.

China has implemented a range of support measures for its food industry, which by any measure would breach our interpretation of WTO rules. Under the proposed trade agreement and with our current attitude in Australia, Australia's food processing industry will be wiped out.

I don't think the Australian public can afford to lose a domestic food processing industry, nor will it do anything for farm viability.

We could learn a valuable lesson from the Chinese in the way they have positioned their farm sector to underpin the viability of their regional communities and ensure their long term food supply.

This is why in the current negotiation; Australia is having little luck in gaining open access to the Chinese food market.

The Chinese Government has actually set out to address the terms of reference of this enquiry in their own country; they have done it by making the viability of the farm sector their number one priority.

I refer to **GLOBAL COMPARATIVE ANALYSIS – CHINA; HAL Project No VG07150 May 2008.**

Many manufacturers acknowledge that they are provided with free factories and services to set up in China. Some are given help with production input materials. While I don't suggest we do that here, if we are going to allow their products free access to this market produced under such a system, we guarantee the failure of the food production sector in Australia because we recognise price as the only signal.

Farm viability and environmental sustainability are interdependent. Globally, we see the greatest environmental damage done where agriculture takes place at a subsistence level.

The responsibility for maintenance of the environment must be a cost to the community if we expect the farm sector to respond to every price signal. Our competitors are either disregarding the environment, as in most developing countries, or being compensated for it as is the case in the EU.

How do we ensure the long term viability of our food industries in cyclical times?

Competition policy informs us that down-turns are opportunities to create a more efficient market place.

This is based on the myth that all markets are free and equal but if all of your less efficient competition in difficult market conditions receives assistance, either as export grants, subsidies or tariffs on competing imports, we in fact risk allowing our efficient industry to become unsustainable.

You cannot turn these industries on and off like a tap.

Like an elite athlete to compete at the top level they are finally tuned, we cannot expect them to go into limbo and return in the same form. When one of our elite athletes suffers an injury or form slump, we don't turn our back and say if we starve them they will come back stronger. We firstly make the effort to fully understand the problem and then we ensure assistance is in place to ensure a full recovery.

This assistance doesn't automatically imply we are going to give illegal drugs to an athlete.

The equivalent conversation in industry policy would commence with the statement we cannot do anything because we cannot administer illegal drugs. With our athletes we look for every legal means to ensure they are in a position to return to peak performance, we focus on what is necessary, we don't launch into a philosophical debate about whether it is anti-competitive to assist their recovery.

Our dairy industry is not much different to an athlete, maybe closer to an equestrian as it involves both humans and animals and is amongst the best in the world, but look at the contrast in our attitudes to helping when there is a form slump.

The consequence of no intervention to help the dairy industry is long term deterioration in the performance of the herd and a range of serious human and animal welfare issues. The industry will find it harder to attract capital so it ultimately loses its competitive advantage.

Farming in Australia is the foundation of our regional communities. We already are one of the most heavily urbanized countries on the planet, yet overall we have one of the lowest population densities. It is in Australia's long term strategic interest that we keep a better population distribution in regional Australia. This will not happen if we have made our regions a land without opportunity.

Farms are mainly small businesses, unlike the money market or the IT industry; they are in the physical process of creating food. Farming is a tactile form of management. Unlike most other businesses the farm manager is engaged on a daily basis in physical pursuit away from the office environment. Many who don't understand this are critical and say they need to spend more time on the management of their business; therein lies the dilemma, in a small business to do so means nothing gets produced.

Small producers are vulnerable to those who recognize this as a strategic weakness, who see it as an opportunity because they can deal with individuals not organized in a marketing group, who do not have the time to challenge the complexity required to deal with global corporations.

Global corporations make profit by sourcing from the cheapest source of supply; many do not care for communities, environment or sustainability. Their statements of concern are for marketing not intent. They will push the boundaries of the regulatory environment. This is evident in the chocolate and cigarette industries. Respectable global corporations work within the confines of the regulatory environment in any given country; if it does not exist few choose to impose any standards of their own.

This is the real free market, it does not respect values only opportunity.

Global companies use organizations like "The Institute for Public Affairs" in Australia to entrench the idea that price is all that matters and we should value nothing else.

If we don't have a regulator with the power and will to protect small producers and businesses from abuses of market power and unconscionable conduct, we fail to protect true competition and the innovation of new small businesses. This area of law must recognise the inequality before the law of small operators with limited knowledge who, by the nature of the charge are threatened and intimidated. They have comparatively limited financial resources and cannot survive the normal legal time frame for resolution. History shows cases in this area currently have virtually no chance of success. We need laws similar to the Unfair Dismissal Laws, that acknowledge the potential weakness of one party against the other and puts a weighting to support the weaker party. Small business has a limited understanding against a large corporation whose profit is built on testing the limits of every rule to achieve maximum "efficiency". We will not have a fair market place and will never have viable, vibrant regional communities if we are not prepared to redress the balance of power.

It should not be possible that the ACCC who makes rulings which create excessive market power is also the policeman who should control it. An abuse of market power ruling would be an acknowledgement of the ACCC's own regulatory failure.

We recognise in the Australian Fair Pay Commission and award structure a set of values built around the Australian cost of living and lifestyle.

We won't accept a global market place for labour which would see Australian wages set by the lowest cost labour in the world.

Is it fair then that those who produce the food we eat in Australia under Australian cost conditions should be asked to accept the lowest global price which results in conditions under which they cannot possibly survive?

It is time to understand we no longer live in the free market described by Adam Smith in "The Wealth of Nations" with equal numbers of buyers and sellers delivering the maximum efficiency and equality in the market.

The new economy requires a strong umpire, with the power, will and penalties to ensure that social and ethical behaviour are not just marketing slogans but enforceable instruments to protect small producers and allow them to get on with the valuable job of producing our food and keeping regional Australia alive and vibrant.

Richard Bovill
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