



Victorian Farmers Federation

18 August 2008

The Secretary
Senate Select Committee on Agricultural and Related Industries
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Secretary

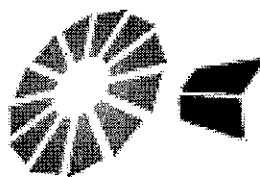
Inquiry into Food Production in Australia

Please find enclosed a submission from the Victorian Farmers Federation to the inquiry into Australia's food production.

I look forward to the committee's report on this important issue.

Yours sincerely

Simon Ramsay
President



Victorian Farmers
F e d e r a t i o n

Submission to the Senate Committee on Agriculture and
Related Industries'

**Inquiry into Food Production in
Australia**

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Preamble

Thank you for the opportunity to provide input into Australia's food production.

The Victorian Farmers Federation is Australia's largest state farmer organisation, representing 19,000 farmer members across 15,000 farm enterprises. Victoria is home to 25 per cent of the nation's farms, and despite farming on only three percent of Australia's available agricultural land, Victorian producers are responsible for 30 per cent of the nation's agricultural product. As the leading representative organisation for farming interests in Victoria, the VFF speaks on behalf of our state's dairy, livestock, grains, horticulture, chicken meat, pig and egg industries.

Queries in regard to this submission should be directed to Graeme Ford, Executive Manager Policy.

A handwritten signature in black ink, appearing to read 'S Ramsay', with a long horizontal flourish underneath.

Simon Ramsay
President

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Introduction

The VFF notes that the terms of reference for this inquiry are quite broad and at this stage will restrict comments to issues of principle rather than specific detail. However, the VFF may choose to take advantage of the flexibility offered by the Committee and submit a more detailed examination of issues at a later stage. Conversely the VFF will endeavour to respond to any requests for additional information from the Committee.

Terms of Reference

The terms of reference (TOR) established by the Committee of

Food production in Australia and the question of how to produce food that is:

- a. Affordable to consumers*
- b. Viable for production*
- c. Of sustainable impact on the environment*

are quite broad and in many ways apply conflicting pressures on the food production system. For example the impact on the environment may be lessened by moving towards less intensive form of agriculture but this would result in unviable farms or less affordable food for consumers.

While there are conflicting pressures in attempting to achieve the three points in the terms of reference, there are many steps the Government can take to move towards the three pathways simultaneously. The in-principle arguments revolve around efficiencies in the supply chain, removal of red tape and regulation, appropriate resource allocation framework, establishing transparent and fair markets, research and development and reducing the tax burden on food production.

The points outlined below are a general discussion on the issues with some indicative examples of the problem and potential solutions. It is not intended as a comprehensive illustration of the potential steps and actions that could be taken to work towards the goals outlined in the TOR.

Supply Chain Efficiency

Australian agriculture and the food production supply chain face challenges that producers in most other countries do not, in the large distances that produce needs to be transported from farm to processor and/or consumer. With increasing fuel costs the pressures on food prices will likewise increase unless greater efficiency in the transport sector can be obtained.

Rail Freight

The use of rail for the movement of bulk commodities is clearly preferable on efficiency, sustainability and safety grounds. The rail network in Victoria has become increasingly inefficient due to significant underinvestment in the network. The Victorian Government recently regained control of the network and commissioned a report into the freight rail network.

The report was prepared by a committee chaired by Tim Fisher, and contained a number of recommendations on improving the network and areas for investment. The Victorian Government has subsequently acted on the first round of recommendations which involved investment in maintenance of key elements of the existing network. However the VFF believes a fundamental move to bring the Victorian rail system into line with NSW and South Australia is necessary.

The majority of the non ARTC network in Victoria is broad gauge which effectively isolates the majority of the Victorian system from the interstate rail operators. The VFF has argued for some time that standardisation of the network is essential to the long term sustainability of efficient and competitive rail freight. Standardisation would allow the easy movement of rolling stock into Victoria allowing for higher usage of the rolling stock and create a more competitive market.

Road

The road to market begins at the farm gate, and not at the on-ramp of freeways or the major highways. The underinvestment in the road network, particularly the local road network adds costs into the supply chain that ultimately must be passed onto the consumer.

Victoria's rural road network is deteriorating faster than it can be repaired, resulting in increased safety risks to road users and inflated transport costs for farm businesses and individuals. Local councils, who are well aware of the poor state of Victorian roads, are having serious trouble maintaining local road infrastructure at safe and efficient levels. Councils which oversee significant grain, milk tanker, logging truck and heavy tourism movement are amongst the worst off.

Significant additional funding is required to maintain and upgrade local roads (managed by councils) as well as address Victoria's rural bridge crisis. In recent years, this problem has been exacerbated by the shifting of responsibility for bridges and structures over waterways and irrigation channels from the State Government to Local Government.

Bridges in regional Victoria are getting worse with the total number of bridges classed as being in very poor condition rising from 3.2 per cent to 3.3 per cent during 2004-05.¹ The cost of repairing these bridges is being placed squarely upon the shoulders of local councils who now face a rural bridge maintenance backlog estimated by VicRoads to be \$150 million state-wide.² 90 of Victoria's ageing rural bridges have deteriorated to the point that they currently face higher mass limit restrictions. 75 bridges have height clearance deficiencies and 25 do not meet desirable minimum width requirements. Most disappointing of all, over 250 bridges in Victoria are estimated to be subject to flooding limitations.³

Improving the road infrastructure and therefore allowing the larger, more efficient vehicles to access a greater part of the road network will remove cost out of the supply chain and reduce food productions' environmental footprint.

¹ VicRoads, 'Annual Report 2004-05', P32

² VicRoads, 'National Roads in Victoria – Forward Strategy 2003-04 to 2007-08', 2003, P19

³ VicRoads, 'Victoria's Arterial Bridges – Critical Links for Transport Efficiency', P12

Red Tape and Regulation

Regulations which have the effect of restricting growth and development in rural areas are escalating exponentially. The Victorian Farmers Federation is continuing to express concern about the growth of government regulation and its impact on farm businesses, small businesses and rural Victoria.

Regulations affecting native vegetation, farm management (right to farm), planning, industrial relations, farm safety, transport, water, health, animal welfare and indigenous affairs are having a significant negative impact on farmers, and on their ability to operate profitable farm business enterprises over the long-term.

In recent times we have seen a tidal wave of rules, regulations, impositions, taxes and charges crushing our farmers and their businesses. For example:

- Native Vegetation controls which are hampering environmental protection rather than improving it;
- Pest control regulations which put farm businesses and livestock at risk;
- Unfair and inconsistent regulations governing stubble burning, stock movements and basic farm expansion;
- Local Council and EPA regulations on noise and odours requirements which make Victorian farms uncompetitive;
- Green Wedges legislation that constrains farm activity;
- WorkCover regulations that ignore practical farming reality;
- Local Council overreach in regards to food safety regulations and permits
- Cultural Heritage requirements which impose heavy costs on producers
- Security Sensitive Material regulations such as applied to the control and licensing nitrogenous fertilisers

While many of the laws and regulations now in place have been developed with good intentions, the reality is many of these regulations are failing to achieve their objectives and producers are being overwhelmed by extensive regulation compliance costs. Regulations impact upon overall food production costs by increasing the time farmers spend producing paper rather than to the business of producing food. Consequently, the increase in costs of complying with government regulations is that of effort diverted away from developing and expanding viable farm businesses.

Regulation on farm business and throughout the supply chain should be minimised, as almost invariably regulation increases costs. It is heartening that both the State and Federal Governments have flagged an intention to reduce regulation, however the reality seems to be that the removal of regulation is being outstripped by the introduction of more regulations.

Reducing compliance costs and the impost on business operation of regulations is a key to achieving more affordable food and more viable farm businesses. A thorough review of all regulations impacting on the food supply chain should be conducted with the objective of removing unnecessary regulation, and regulation that stifles innovation. Further, the objective should also be to significantly reduce compliance costs of the remaining regulation.

Resource Allocation

Perhaps one of the greatest challenges facing food production in Victoria is access to the natural resources necessary for production. Competition for access and control of the state's water and land resources is posing challenges for food producers.

Competition for water is being driven mainly by the current scarcity and fears of this scarcity becoming a long term state due to climate change. Competition for land resources is more diverse and varies considerably depending on the location and quality.

Water

The pressure from urban areas for additional water and for increased environmental flows has impacted on the food production capacity around the state. Irrigated agriculture accounts for 30% of all Victoria's agricultural output (using less than 5% of agricultural land). Irrigation is one of the underpinnings of Victoria's economy and prosperity. The gross farm gate value of irrigated agriculture in Victoria in 2004-05, was \$2.677 billion.

Urban Water

The Victorian Goldfields Superpipe which takes water from the Goulburn Murray Irrigation District to supply water to Bendigo and Ballarat will see the removal of 20 gigalitres (GL) of water out of irrigated food production to augment urban water supplies. The North South Pipeline proposed to pipe water from the Goulburn river to Sugarloaf reservoir will see up to 75 GL moved from the Murray Darling Basin in order to augment Melbourne's water supplies. While the 75 GL is intended to come from water savings generated by infrastructure developments and not from the existing consumptive pool, the result is the loss of 75 GL that could be used for food production.

The loss of this water will reduce the supply of locally produced food to some extent. This impact could be reduced by finding alternative water sources for urban areas. Non-conventional sources that are fit for purpose, practicable and cost effective can help reduce our reliance on conventional water sourced from rivers and reservoirs. Considering the current scarcity of conventional water sources exacerbated by the impact of climate change and severe drought witnessed in the last ten years, the Government should investigate options to utilize alternative water sources rather than transferring water from productive agricultural usage. Recycled water and capturing stormwater are two such options that should be explored.

Environmental Water

Substantial volumes of water are being purchased from farmers by environmental groups and the Government. Recently there have been instances of rural properties with substantial water rights attached being purchased by environmental groups with the objective of taking the water to environmental flows. The Federal Government has announced a \$3.2 billion fund to buy water rights from willing sellers to return boost environmental flows. These programs will result in substantial movements of water from productive agriculture use to environmental flows.

The VFF does not support Government entering the water market to secure additional water for the environment. The VFF maintains that Governments should firstly explore investment opportunities in irrigation infrastructure. When Governments invest in infrastructure, agricultural production is maintained, the community maintains the economic benefits, and the environment receives the water savings without damaging the important economic contribution of agriculture.

Land use Change

The VFF is concerned about levels of water consumption by timber plantations coupled with the possible increase in area driven by emission trading and carbon offsets. Forestry has a significant impact on groundwater levels, both through direct use of groundwater and denial of recharge, as well as on surface runoff and subsequent catchments volumes. There is some debate over the correct estimates of how much water timber plantations use. CSIRO Forestry research into the annual uptake from groundwater expected from forested areas with a shallow water table is 4.35 ML/hectare/year.⁴ This figure can vary considerably. It would be lower for less densely-forested areas, for example. CSIRO states that in Natural Forest areas, 2.12 ML/hectare/year was used. If we assume 2 ML/hectare/year as an acceptable mean figure of groundwater use from forested areas, this means that the 65 000 hectares of timber plantations in the Northern Region identified in the NRSWS⁵ will use 130 000 ML of groundwater per year.

The VFF believes that groundwater use by timber plantations should be taken into consideration when assessing water availability. The VFF also believes that further research into this area is needed, to give more accurate statistics of timber plantation groundwater use.

The impact of plantations on water yields and subsequent agricultural water use should be carefully considered in Government policy matters.

Planning

There are a number of land use and planning issues that are also impacting on food production. Encroachment of non-farm resident into agricultural areas driven by population growth and expansion of urban areas; Greenwedge zones where agriculture is restricted in order to provide amenity values for community purposes; and the 'tree and sea change' phenomenon which is leading to fragmentation of rural land.

A Victorian Department of Primary Industries report has found that in many areas of the State farmers are struggling to compete in the land markets.

*'Rapid improvements in transportation and the urbanisation of Victoria's population have increased the demand for rural land for amenity rather than production purposes. Amenity purchases can include statement housing sites, hobby farms, rural residential properties, weekenders or bush retreats. Competition for farm land from amenity purchasers raises its price, in some areas higher than can be afforded by farm businesses. Farm businesses unable to compete in the local land market face a future of increasing economic marginalisation unless they can find a path.'*⁶

The factors that make agricultural land productive are the same factors that attract non-farming activities. Fertile soils in areas with reliable rainfall in the southern half of the state, or along the northern slopes of the Great Dividing Range appear to be the most sought after by non-farmers. These areas are also some of the most productive areas of the state and the encroachment of residents for amenity purposes cause substantial difficulties for commercial agriculture.

⁴ Benyon, R.G and Doody, T.M., 2004, Water use by Tree Plantations in South East Australia, Technical Report no.148, CSIRO

⁵ Discussion Paper Sustainable Water Strategy Northern Region, Pg. 35

⁶ Barr, N. (2005) Understanding Rural Victoria. Department of Primary Industries: Melbourne

There are additional costs borne by farmers who farming in the Melbourne Green Wedge and in areas where encroachment has occurred. To prevent unintended and counterproductive outcomes, it is essential that policies positively supporting agriculture be developed alongside the planning proposals.

The problems farmers face include:

- Limited opportunities to expand and objections from neighbours and councils to proposals to build new infrastructure necessary to expand
- High local government rates
- Complaints from neighbours about smell, noise and dust
- Weeds and vermin resulting from poor management of public land and absentee private landowners
- Vandalism
- Urban dogs attacking livestock
- Bureaucratic impositions on farm businesses by all levels of government
- Development of major roads through farmland, restricting movement of machinery and stock between properties

Protecting the most productive agricultural land from encroachment, where this has not already occurred, is an important step in maintaining efficient and quality food production systems.

Labour and Skills

The drought of recent years has led to a loss of skills and workers available to fill the needs of agriculture once a return to full production occurs. The loss work due to falling production and the opportunities provided by other resource industries has seen a movement of labour away from agriculture.

The innovation in agriculture has led to increasingly sophisticated production systems that require high levels of skill to operate and maintain. Access to these skills in many rural areas is difficult. The absence of skills and labour will ultimately result in agriculture being forced to pay higher wages in order to attract the necessary people. This will have the effect of increasing production costs.

The provision of skilled labour in rural areas needs to be addressed below is a summary of the National Farmers Federation submission to Skilling Australia for the Future which succinctly outlines the concerns of the VFF.

- The agricultural sector will need an additional 100,000 workers as it emerges from drought and production approaches pre 2002 levels.
- Regional development and a comprehensive population strategy should be explored as key solutions to the lack of labour and skills for farm occupations.
- Occupations requiring high education levels and experience are prevalent, particularly in the subsectors of grains, sheep and cattle. The horticultural sectors' needs are different in this regard, with major demands for entry level workers

without training or experience, whilst noting that horticulture offers many good training opportunities for this class of people.

- Six of the seven most needed agricultural occupations require trade-level qualifications or above. The average earnings across all farm managers are reported as \$84,911, with bonuses of between \$500 and \$200,000 per annum. Jackaroos are the most highly paid juniors across all sectors, including mining.
- There should be a focus on cooperation between VET stakeholders, and the need to broaden the involvement with other stakeholders to holistically address and respond to the training delivery needs of regional Australia.
- There are significant opportunities to engage regional and rural Australia with a new era of education and training delivery, however, there are significant barriers to achieving this without goodwill and recognition by Australian and State Governments.
- A demand-driven training delivery system that seeks to provide training flexibility is welcomed contingent on the program recognising the higher costs and difficulties associated with training delivery in regional Australia and to small business owners.

Research and Development

Australian agriculture is primarily a climate zonal production system.⁷ In general, industries and their technologies are geared to maximize production from the usable portion of long term average rainfall. Despite factors such as soil types and frequency of frosts, Victorian agriculture is driven primarily by average rainfall and rain patterns.

Climate change is expected to increase temperatures and reduce rainfall in the southern part of Australia. Such changes will put additional pressure on agricultural production systems and rural communities. If innovations in plant varieties, infrastructure and technologies cannot keep pace with changes in climate, whole regional food production systems may fail or face significant reductions in output.

The research and development into new plant varieties and production technology is a feature which allowed Australian agriculture to spread and operate across diverse climate zones successfully. An increased focus on adopting and implementing advances in the range of technologies applicable to agriculture is needed. These include:

- plant breeding;
- fertilizer use;
- soil;
- animal breeds;
- new crops;
- animal feeding systems;
- irrigation systems; and
- water storage.

⁷ With the exception of irrigation and some intensive industries where infrastructure development has allowed for the crop and animal systems to be located in areas that would have otherwise been difficult.

Reducing Taxes

The cost impost of taxes on agricultural production is substantial and in many cases unwarranted and distortionary.

Taxes on Insurance

The Victorian taxes on insurance, in particular the Fire Services Levy (FSL), are a prime example of counterproductive and inefficient taxation. Victorian farm businesses are suffering from a huge added tax cost on their insurance premiums under the current system. The tax on tax effect of stamp duty being added on top of the FSL and GST adds significant cost to farm operations.

For every dollar spent on insurance cover and additional \$91 in taxes is paid in FSL, GST and stamp duty. This is a substantial additional cost on food production.

Shire Rates

Local Government in rural Victoria is reliant upon an unfair and unsustainable rating system and has been forced to absorb cost shifting imposed by other tiers of Government. Local Government taxing powers are limited to a rating system based on land valuations. Valuation-based rating is meant to be equitable on the grounds that those who own the higher valued assets have a greater capacity to pay and benefit more from the services provided by Local Government.

Land valuations as a basis for taxation is an outdated concept. Land value is a poor indicator of both an individual ratepayers capacity to pay, and the level of service received. Land ownership is only one form of wealth, which has no regard to the owners' income or debt position. Its origins go back to a period when land ownership was a good proxy for both wealth and income and when the majority of services provided by Local Government were property related, for example roads, bridges and drainage. The emphasis of local government activity is increasingly shifting from property-based services to human services, but this change in activity has not been matched by an appropriate change in the rating system.

For the foreseeable future, Local Government will be reliant for a substantial part of its income on property based rates. Property based rating disadvantages farmers relative to other groups in the community. Farming is, by its nature, a land-based activity and farm businesses have a very large proportion of their total assets invested in land. This is rare in non-farm businesses. In addition, farms are generally located outside the main centres of population and farmers do not have equal access to the services provided by Councils. As a consequence of these factors, farmers pay a disproportionate share of the cost of Local Government.

Victoria's Local Government revenue collection systems are too narrow, and unfairly prioritise asset value ahead of income generation. Farmers across rural Victoria currently pay more than their fair share of rates to subsidise services for the urban and rural communities. It is likely that the prevailing level of rates is inhibiting long term investment in food production.

The two examples outlined above are just two of the inefficient taxes that increase the cost of food production. A review of taxes is currently being conducted by Ken Henry. The VFF

would argue that a particular focus should be applied to those taxes that cause increases in food production costs.

Fair Markets

The VFF is concerned by the vast disparity in bargaining power between small farm businesses and a concentrated buyer market. While the recent ACCC grocery price review found no systemic market problems at the farm gate, the report was focussed on the retail end of the market and the VFF is not convinced that the prices currently paid to farmers for many of the fresh products are a true reflection of what would be seen if there were significantly more buyers in the marketplace.

The concentration of the food and grocery market, with the two major supermarkets controlling between 70 to 80 per cent, undeniably places substantial market power in their hands. The VFF believes that without ensuring that farmers can be guaranteed fair markets, in the long term more farmers will choose to enter markets providing better returns or invest their capital elsewhere.

Conclusion

There are many factors that can affect Australian farmers' ability to provide affordable, viable and sustainable food production and it would be very difficult to capture them all. However, the VFF believes that some fundamental principles can be applied that could guide Government decisions on regulation and investment to assist the farm community meet the objectives.

These are

1. Minimise regulation
2. Where regulation is necessary minimise compliance cost
3. Invest in supply chain efficiencies particularly transport
4. Support farmer access to natural resources
5. Protect agricultural land
6. Develop rural skills
7. Support employment through regional development
8. Remove inefficient taxes and charges
9. Ensure fair market access both domestic and export

A number of examples have been provided to illustrate these points but these examples are by no means a comprehensive examination of the issues. The VFF trusts the Committee finds these comments useful, and will explore the matters raised in detail.