New South Wales

DEPARTMENT OF PRIMARY INDUSTRIES

DGO08/770

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Ms Jeanette Radcliffe
Committee Secretary
Senate Select Committee on Agricultural and Related Industries
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Ms Radcliffe

I am pleased to present the NSW Department of Primary Industries' submission to the Senate Select Committee on Agricultural and Related Industries Inquiry into Food Production in Australia.

Please contact Mr Scott Davenport, Chief Economist on (02) 6391 3629 should you require further information.

Yours sincerely

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Senate Inquiry into Food Production in Australia

NSW DPI Submission

Introduction

The NSW Department of Primary Industries (DPI) makes the following submission to the Senate Select Committee on Agricultural and Related Industries 'Inquiry into Food Production in Australia' and the question of how to produce food that is:

- affordable to consumers;
- viable for production by farmers; and
- of sustainable impact on the environment.

The approach adopted in the submission is to highlight a number of issues with the potential to either increase farm productions costs or to reduce farm revenue and in so doing reduce the competitiveness of Australian producers. Food industry competitiveness in turn influences the prices paid by Australian food consumers.

In summary, important to future food prices will be the adequacy of policy settings relating to resource access by the farm sector. Issues highlighted in this submission include (i) the need for a considered and efficient application of the Australian Government's proposed Carbon Pollution Reduction Scheme to agriculture, (ii) the importance of maintaining robust biosecurity arrangements, (iii) policy settings that reflect a balanced approach to water sharing between the environment and consumptive users, (iv) the need to adopt a similarly balanced approach in the development of biofuels policy, and (v) land use planning policies.

Two further issues identified in the submission as crucial to maintaining a viable farm sector are (vi) international trade reform that enables Australian farmers to more fully realise their production advantages and (vii) strong ongoing research, development and extension programs that maintain the economic, environmental and social credentials of Australian food products.

Carbon Pollution Reduction Scheme

The Commonwealth Government in its Carbon Pollution Reduction Scheme (CPRS) indicated it is disposed to include agriculture emissions in the scheme by 2015, and to make a final decision by 2013. The Commonwealth has sought stakeholder feedback on several issues relating to coverage of the agriculture sector. The Commonwealth has indicated that a white paper incorporating decisions on final scheme design and an exposure draft of legislation for the CPRS are scheduled to be released by the end of 2008.

NSW has made a submission to the Green Paper. In it, the Government supports the postponement of a decision on whether or not to include agriculture in the CPRS. NSW's full submission is available via the NSW Department of Environment and Climate Change's website.

The impact on food prices as a result of the CPRS will not be clear until the scheme design is finalised, and emission caps and the price of carbon is decided. However, it is likely that the CPRS will affect food production costs.

Should a decision on the inclusion of the agriculture sector be delayed until 2013, every effort should be made in the interim to develop a system of complementary measures. These measures could help mitigate the possible effects of the CPRS on food production by encouraging the adoption of best management practices, and the development of a wider range of farm-level mitigation strategies and low emissions enterprises.

The agricultural sector accounts for around 16 percent of Australia's greenhouse gas (GHG) emissions. Of that amount, the livestock sector generates 67 percent of emissions (methane), cropping generates 24 percent (nitrous oxide) and savannah burning generates 9 percent.

Given agriculture is characterised by around 130,000 'emitters' of varying size, it has been widely acknowledged that high transaction costs will be associated with the sector's inclusion in the CPRS. The costs of participation, including the costs of developing measurement, verification and accounting systems, are further increased by the limited range of currently available mitigation options, particularly if changes in soil carbon are excluded from calculations, as is presently the case under Australia's Kyoto commitment.

These factors explain why, internationally, agriculture has either been excluded from emissions trading schemes, or its entry has been delayed. Similarly, the Australian Government's Green Paper proposal is to delay agriculture's possible inclusion in the CPRS until 2015 to enable capacity building in emissions estimation and reporting.

The Australian Government, in its Green Paper, has also expressed a preference for the 'point-of-obligation' with respect to agriculture to be either 'upstream' or 'downstream' to reduce compliance costs, but with farmers able to qualify for accreditation where they adopt low-emissions technologies. Large farm businesses may also be given the option of managing their emissions obligations directly.

The establishment of the CPRS will significantly affect agricultural production costs whether the sector is 'covered' or not. The Australian Bureau of Agricultural and Resource Economics has estimated that agricultural production costs could increase by 15-20 percent due to increased input costs and the impact of a carbon 'price' on agricultural emissions.

The CPRS, depending on its final design features, therefore has significant potential to increase food production costs and potentially may favour production of some farm commodities over others. The introduction of certain complementary measures, however, could significantly reduce these impacts. The first objective of such measures would be to achieve the more widespread adoption of currently available, profitable, best practice in relation to carbon management at the farm level. Many available technologies, for example, may not have been adopted because some farmers do not have the relevant information, do not have the skills to apply those

technologies in a profitable manner, or face poor market signals in relation to those on farm practices that have potential to reduce emissions.

This could be addressed through the implementation of measures such as facilitating voluntary QA and accreditation programs focussing on best practice carbon management (analogous to existing environmental management, property management and supply chain management systems schemes such as Cattlecare, Cotton Industry Best Management Practices and management systems such as ProGraze and TopFodder).

A second objective would be to reduce the cost of mitigation through the development of a wider range of farm level mitigation strategies, and in so doing, minimise the impacts on profitability, food production and market share, and at the same time minimise the costs of agriculture's possible future inclusion in the CPRS. This would require fast-tracking research into (a) the development of new technologies which reduce methane and nitrous oxide emissions and increase carbon stocks on farm and (b) measurement and verification protocols, which could underpin the development of accreditation arrangements for agriculture. Potentially this could provide the basis for 'hard' offset credits, formally recognised within the CPRS post-2015, or alternatively, they could form the basis for 'soft' credits, not formally recognised by the CPRS (similar to those available on the Chicago Climate Exchange) that firms could voluntarily purchase to demonstrate their 'emissions neutrality' and gain market advantage.

The implementation of a suite of appropriate complementary measures would lay the groundwork for further capacity building and innovation through market based approaches, thereby reducing food production costs, or at least constraining cost increases associated with the CPRS. Such measures might also allow Australia to include the associated carbon emission reductions under its Kyoto accounting responsibilities.

Given that the Australian Government has committed to deciding whether agriculture will be a covered sector or not by 2013, it is important that complementary measures are established over the intervening period so that this decision can be informed by improved information and experience.

Biosecurity

Robust biosecurity arrangements at the farm-level and at our state and national borders are the major defence against outbreaks of emergency pests and diseases that have the potential to impose hundreds of millions of dollars of costs on agricultural producers with flow-on impacts in the form of reduced food supplies and/or increased prices to consumers.

While it did not impact directly on food production or prices, the recent outbreak of equine influenza highlighted the importance of maintaining vigilance and the integrity of these arrangements to ensure that other, even more devastating, events do not occur, which could, for example, potentially involve widespread destruction of livestock with significant impacts on the domestic supply of quality meat products and hence consumer prices.

Water

Irrigation water availability is of critical importance to food production in New South Wales, particularly for horticultural industries. The New South Wales vision for the Murray Darling Basin is one of healthy rivers and growing communities. Sound policies are required to manage the impacts of climate change, ensure water is used wisely, secure supplies for both critical human needs and irrigation, and support healthy rivers.

The NSW water reforms have included legislation and statutory water sharing plans that provide water for the environment as a priority, established clearly defined water entitlements and created a market so that water can be traded to where it generates the greatest return or for environmental purposes. This gives licence holders much more certainty about their future access to water. The reforms will result in more water for the environment and will facilitate the further development of high value irrigation industries.

However, there is more to be done. In July 2008, COAG signed an intergovernmental agreement (IGA) on Murray-Darling Basin Reform to establish new governance arrangements for the water resources of the Murray-Darling Basin. The IGA includes arrangements for providing water for critical human needs, comprehensive and consistent trading arrangements across the Basin and the transition of the Murray-Darling Basin Commission to the new Murray-Darling Basin Authority.

A key aspect of the IGA was agreement to establish Commonwealth-State Water Management Partnerships, including Basin State Priority Projects. The Commonwealth committed up to $1.358 billion (subject to due diligence) to NSW for a suite of projects to modernise and upgrade irrigation infrastructure. This commitment includes about $650 million to private irrigators (subject to due diligence) to support water saving upgrades of private infrastructure in NSW.

The NSW Basin State Priority Projects aim to realise, measure and secure water savings through infrastructure improvements by including a suite of projects that build on and extend the water planning achievements of the NSW water reforms. The proposed suite of water reform projects aim to:

- reduce water loss on farms by piping stock and domestic supply systems;
- modernise the infrastructure associated with direct river diverters;
- upgrade the accuracy of water metering, which is essential to the management of water resources; and
- improve the management of water on the floodplains through modifications to floodplain structures and extractions.

Biofuels

Increased use of biofuels, and in particular the blending of ethanol in petrol, has gained some impetus in recent years as a useful way of reducing greenhouse gas emissions and improving the environmental sustainability of our economy.

The development of the biofuels industry also has the potential to generate substantial benefits for the cropping sector through the provision of additional market opportunities for feedstocks such as grains and sugarcane. It also, however, has implications for livestock producers and the food sector.

With current production technologies, ethanol production competes directly with animal feed grade grains. To the extent that these grains are either bid up in price or are bid away from livestock industries, the cost of producing staple goods such as beef, pork, poultry meat, eggs and milk could be expected to rise and/or the quantity produced decline.

As an illustrative example, it is estimated that to meet the 2 per cent ethanol content mandate introduced in NSW in 2007, would (if supplied purely from local production and solely from wheat) require approximately 461,000 tonnes of wheat annually. This represents around 7 percent of the average tonnage of wheat in NSW and up to almost 20 percent in low production years.

The development of biofuels policy therefore requires careful identification and consideration of all the potential impacts to ensure that net benefits to the community are maximised.

International Trade

International market access is of crucial importance to the viability and sustainability of Australia's food industries. It underpins the quantity and value of exports and the strength of import competition on domestic markets. These factors in turn influence the economies of scale available to domestic food producers, which directly affects profitability and their ability to realise their true comparative production advantages.

While Australian farmers and food producers stand to gain from free international trade, the collapse of the Doha Round of trade talks in July 2008 has led to a questioning of whether further trade liberalisation progress can be made through World Trade Organisation sponsored multilateral trade negotiations. Doha's failure, combined with doubts regarding the wisdom of entering into numerous bilateral trade agreements, has stimulated developed countries to consider additional initiatives such as assisting and working with developing economies to assess and understand the benefits of both domestic and international regulatory reform including reform of their domestic agricultural commodity markets and marketing regulations.

Research and Development

Agricultural industries account for nearly 80 percent of the NSW land area and significantly contribute to the maintenance and improvement of the natural resource base. In addition they provide significant flow-on benefits to other businesses and provide significant amenity, environmental and social values to society.

Agricultural industries also have an impressive record of achievement in being innovative, with productivity growth running at around 2 percent a year in recent decades. This is greater than in most sectors of the economy. There is strong evidence that half of this growth has been due to research and development. Likewise, significant gains in environmental sustainability have been driven by research and development.

Public investment has played an important part in agricultural industries' innovation in partnership with industry through mechanisms such as producer levies, the Australian Government's Rural Research and Development Corporations, the

Cooperative Research Centres and state-based agencies like NSW DPI. This funding model is itself innovative in the sense of identifying investment opportunities that would not otherwise be undertaken and which provide a mix of industry and public benefits.

> *"The case is strong for public intervention to provide support for the development of innovative capacity and to aid the diffusion of innovations. Typically, markets either fail, or simply don't exist, when there is a high level of uncertainty about the future, as there often is in the case of innovation. In such circumstances, government can play a pivotal role in facilitating innovation and providing the basis for strong productivity growth and increases in the standard of living in the future."* (Department of Innovation, Industry, Science and Research (2008), *Venturous Australia*, Report on the Review of the National Innovation System, Cutler & Company Pty Ltd, Melbourne, p44)

Consequently, NSW DPI contends that Australia's agricultural industries innovation system should be maintained and strengthened in recognition of its central role in providing solutions to issues of national significance such as maintaining the sectors productive capacity in the face of:

- increasing public interest in resource access issues such as greenhouse gas emissions reductions and greater efficiency in land, water use; and
- growing consumer interest in the economic, environmental and social credentials of Australian food products.

Land Use Planning

Profitable farming underpins the vibrancy of rural communities, is critical for fresh food supplies in cities, enables farmers to generate wealth and allows the effective stewardship of much of the environment on behalf of the people of Australia. Land access and associated productivity growth is central to the economic viability of food producers and their ability to meet future competitive challenges.

While governments have traditionally sought to assist productivity growth in the agriculture sector through RD&E, they also play an important role in providing the legal, social and physical 'infrastructure' necessary to support the Australian economy, including the regulatory frameworks and property rights that affect agriculture, such as the planning system. It is imperative that these frameworks are efficient and do not unnecessarily impede industry access to resources, or its ability to innovate and compete.

In recent years, competition for agricultural land and water resources has intensified due to increasing population pressures and associated demand for urban and peri-urban development (particularly in coastal areas), the growth of other resource-intensive industries and increasing public concerns about environmental management. This competition for agricultural land will continue to intensify due to demographic changes, such as population growth, the aging of the population and the migration of people from cities to coastal and regional centres. It is therefore essential that planning mechanisms reflect the range of values held by society generally, rather than specific local interests.

Encroachment of agricultural land by urban development and subdivision leads to the potential for conflict between urban and lifestyle use and agricultural activities. Tensions can result at the interface between agriculture and residential or 'lifestyle' land uses that can have long term consequences for farm productivity. New rural land owners may object to routine agricultural practices, which may result in constraints being placed on farmers in relation to the use of chemicals, noise, light spill, odours, appearance of buildings and structures, clearance of vegetation, and access to water resources. Farmers may experience problems with issues such as lack of weed control and stray domestic dogs.

In addition to urban and subdivision pressure, there is also competition for land traditionally used for agriculture from other natural resource activities such as mining, plantation forestry, carbon sequestration and bio-energy plantings, and threats to ongoing agricultural use through contamination of surface and underground water supplies. In NSW, as in Queensland and Western Australia, such competition from both the forestry and mining sectors is significant. While all states have specific legislation to regulate mining, some, including NSW, also have separate legislation for plantation forestry.

Competition for agricultural land from other activities is an issue in most States, and it is necessary to balance the interests of agriculture with those other activities. In general, planning arrangements are not seen as a significant constraint on primary industry development. However, over-restrictive planning arrangements can reduce the ability of farmers to respond to market signals and to become more efficient and innovative. Governments need to be aware of this and to remove unnecessary regulation.

NSW has made significant improvements in relation to the regulation and protection of agricultural land over the past 2 - 3 years. The Sydney Metropolitan Strategy and regional strategies for other high growth areas in NSW include priority actions to identify significant rural and resource lands, as well as identifying urban growth areas and employment lands. The Department of Primary Industries is working with the Department of Planning and other stakeholders toward achieving the priority actions outlined in the Metropolitan Strategy. The recently introduced Rural Lands State Environmental Planning Policy applies to areas outside the Sydney metropolitan area and contains subdivision principles to reduce land use conflict and fragmentation and removes opportunities for unplanned subdivisions. The draft Mid North Coast Farmland Mapping Project also aims to identify important areas of farmland to be protected from urban and rural lifestyle development. There is also a clear trend in all States towards standardising land use planning provisions, such as the introduction of a LEP Standard Instrument in NSW, which aims to provide greater consistency and certainty for rural land uses.

There are also non-regulatory approaches, such as the NSW North Coast Land Use Conflict Management Handbook. The nature of land use conflict means that local solutions are often appropriate, and in many cases it is more effective to address this issue in non-regulatory ways. It is therefore expected that informal approaches will increase in future.

Land is a limited resource and competition for land and conflict over its use will always be present. Finding solutions to this conflict that will generate the highest long-term net benefits to the community requires good information and a balanced assessment of the full ramifications of the alternative options.

In this regard, it is relevant to note that agriculture and urban and industrial development are not mutually exclusive. The Sydney Basin, one of the most highly urbanised regions in Australia, also produces in the order of $1 billion in farm commodities every year.

Conclusion

The seven issues raised in this submission are examples of factors with significant potential to affect future farm production, costs and revenues, with potential flow-on impacts to consumers. They have been identified to highlight the immediate need for considered, well balanced and appropriate policy settings in relation to each of them, and to more broadly highlight the importance of government policy in influencing food supply and prices.

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