Let Them Farm

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This article from the October 2012 edition of the IPA Review is by Researcher at the IPA, Dom Talimanidis.

No one doubts that Australian farmers often do it tough. But their number one enemy is not supermarkets, it is big government.

In 2010, many agricultural businesses and households were in a precarious position. The drought saw years of financial reserves sewn into unsuccessful crops, while soil fertility, like personal reserves of optimism, was badly eroded.

When it finally came, the rain brought almost as many problems as it solved. Many lost crops to unseasonably late floods, while locusts caused yet more devastation.

Extreme weather conditions, however, are not the only obstacle farmers must overcome.

High input costs, overregulation and the strength of the Australian dollar continue to squeeze profits. They make viable farms unviable.

In terms of labour costs, Australia is not only uncompetitive with developing nations but increasingly with developed nations as well. New Zealand offers a clear contrast. Between 1996 and 2008, Australian worker productivity increased by 37.5 per cent when compared to their Trans-Tasman counterparts. Yet in this same period the difference in labour costs grew by an astonishing 151 per cent.

This major increase has affected the largest component of total costs in the industry. A 2012 report by the vegetable growers' lobby group AUSVEG found that the most significant cost encountered by farmers was hired labour. In their submission to the Senate Committee on food processing, the Food Industry Advisory Group of Western Australia agreed. The report quoted several Perth based food processors who stated labour costs were either the highest or second highest cost of production.

The mining sector and associated industries have a much greater capacity to pay higher wages for both skilled and unskilled labour. Like many other industries, Australian farmers and food processors have been forced to increase wages to maintain their workforce. The food industry also operates in a highly competitive environment with close substitutes readily available from overseas sources. The industry's ability to pass on costs is, consequently, severely limited.

The relative strength of the Australian economy has led to an increase in the Australian dollar. The strength of the Australian dollar has made exports more expensive relative to other countries and made imports more attractive alternatives to domestic products.

Those parts of the food processing industry that face both import competition and significant export profile are the worst effected. On the one hand they become less competitive in export markets; on the other their foreign competition for domestic sales becomes cheaper.

In this increasingly difficult environment, government policies are contributing substantially to the difficulties many farmers face.

For example, many businesses report labour costs rose substantially with the scrapping of individual workplace agreements.

There was no lack of irony when Julia Gillard came out earlier this year and asked for major supermarkets to treat farmers 'fairly'. Just months later her government introduced the carbon tax.

A study released by IBIS World in late June forecast that Australian farmers would be hit by a $3.2 billion jump in annual costs as a result. The study pointed out that carbon tax imposts would push down revenue for the agriculture sector by 6.4 per cent in the current financial year.

This cost is set to rise higher in 2014 when the temporary exemption on transport fuel costs will be removed, adding to costs in power, fertilisers, chemicals and packaging which have already been affected.

Once the government begins to tax farmers for the emissions caused by their on-road freight transport, full annual costs of the carbon tax are expected to grow to $3.7 billion a year, decreasing agriculture revenues by a further 0.8 per cent.

Rather than further burdening the industry, farmers should be given freedom to develop and innovate. They must be given the opportunity to use their land as they wish, without constant constraint by regulation.

Farming groups have long complained about the major burden of red and green tape, yet duplication of environmental regulation between state and federal government continues to hinder development.

Farmers wanting to alter the use of their land often require separate federal and state assessments and approvals. Major developments are being restricted unnecessarily at great cost as a result.

The development of a 6000 hectare cassava crop in the Burdekin region of Queensland is one such example.

Throughout the three year approval process, farmer Stewart Peters was made to bear the costs of a number of soil tests and property assessments, one of which cost $30,000. Many assessments needed approval on both a state and federal level. Ultimately it took the farmer four years of wrangling with bureaucracy and regulation for the first crops to be planted in May 2012, while the approval process is expected to drag on for years to come.

Summing up the experience, Peters said, ‘once you realise all this, you would never start.’

This is exactly the experience that leaves many farmers reluctant to change their land practices. Regulations are simply too onerous, costly and time consuming to allow farmers to adapt and take advantage of developments that would allow them to be more competitive and efficient.

While the Prime Minister announced at COAG that reductions in environmental regulations would take place, one doubts they will go far enough.

The substantial input pressures facing farmers have been all but ignored by the industry’s political supporters. Instead, the two major supermarkets have been the main target of attacks.

Recently, the hyperbole has reached new heights. Independent South Australian Senator Nick Xenophon has even called for supermarkets to be divested to increase competition. This criticism is unfounded.

A clear example of why is last year’s decision by Coles to sell house branded milk for $1, a move subsequently adopted by Woolworths.

The scare campaign that followed argued this was an attack on the Australian dairy industry. Several politicians and agriculture groups went as far as arguing that the move by Coles and Woolworths was designed to eliminate fresh milk from sale, leaving Australians to suffer with only the long life equivalent. The dairy industry, it was argued, would collapse. Rural communities would disappear.

Omitted from the discussion was the wide range of options that dairy producers had for their sales:

- 35 per cent of milk is used in cheese production
- 23 per cent is used for drinking milk
- 23 per cent is made into skim milk powder and/or butter
- 11 per cent becomes white milk powder
- 3 per cent becomes casein and/or butter ii 5 per cent is used for other purposes

If Coles or Woolworths demanded milk prices at less than the market rate, milk producers had the opportunity to offer sales to the 67 per cent of the industry that is not in fresh milk, or the 50 per cent of the fresh milk industry which is not supplying the house-branded market.

Furthermore, a large percentage of dairy produced is sent abroad. A 2008 ACCC inquiry found that around 50 per cent of milk produced domestically was converted into products for export, with around 68 per cent of total manufactured dairy products going offshore.

Cheaper prices for milk also led to more sales. In 2011, the Department of Agriculture, Fisheries and Forestry found milk sales increased 2.9 per cent as a direct result of the move to discount milk. The dairy industry also benefited from an increase in dairy cow prices, up 25 per cent.

It is no surprise that the Senate Economics Committee inquiry into supermarket milk prices found that price cuts were good for consumers. What may have surprised many was that there was little evidence that the major supermarkets had pushed price cuts down the supply chain.

Neither Coles nor Woolworths has any reason to destroy their producers. Yet despite the milk campaign being heavily overstated, the issue of buyer power has again been placed on the political agenda, this time concentrating on fruit and vegetables.

But just as with cheap milk, this is nothing more than a political solution being sought to deal with competitive pressures.

Fruit and vegetable farmers, just like their dairy counterparts, have a variety of options for selling their goods. In fact, fresh grocery sales are much less concentrated than packaged goods.

A 2008 Roy Morgan survey found that 42 per cent of fresh fruit sales and 40 per cent of fresh vegetable sales were concentrated in major supermarkets. A survey conducted by consumer group Choice found that the major two supermarkets only accounted for 32 per cent of fruit and vegetable sales. The 2008 ACCC report into groceries found that this number had actually dropped by around 4 per cent since 2003.

As well as selling to grocery stores and wholesalers, a large amount of farm produce also goes toward processing, including juice, canning, preserving and freezing or drying. Fruit and vegetables are also key inputs into many products such as sauces, jams, prepared meals and snacks.

Rather than pressure farmers to increase their own profits, the 2008 ACCC report found supermarket margins on fresh produce had in fact declined by an average of 1.5 per cent per annum from 2000 to 2007.

No one denies farming is a difficult business. However, no one is forcing producers to sell to the major supermarkets at below cost price. If the chains are demanding savings from producers, this is exactly what they should be doing; pressuring suppliers to reduce costs and find ways to be more efficient.

Many Australians are suffering from an increasing cost of living. But in the current political discussion, the consumer is often the first forgotten.

Australian farmers are already some of the most efficient in the world. This position has been reached through strong competition and minimal assistance from government, particularly since the 1970s.

A 2011 OECD report found that Australian farmers remain some of the least supported in the world. Continuing a tradition of minimal government intervention, Australian farmers had the second lowest amount of government support as a percentage of gross farm receipts in the developed world.

This approach to farming has seen Australia clash with major agricultural subsidisers. For many years, Australia's relationship with the European Union was characterised by disagreements over their Common Agricultural Policy.

Australia launched the Cairns Group in World Trade Organisation negotiations. This group of agricultural exporting nations was pivotal in having agriculture included on the WTO agenda, and it would be highly hypocritical if Australia was to begin subsidising our farmers.

Yet this is precisely what some politicians are proposing.

Instead of more government spending, or higher costs for consumers, it is time government started reducing the costs and difficulties it imposes on farmers. Cutting the substantial red and green tape, allowing more flexibility in the workforce and decreasing unnecessary costs associated with the carbon tax would be a good start.