

NFF Submission in Reply to the Safety Net Review Case 2003

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Introduction

1. National Farmers' Federation (NFF) received the ACTU submission in reply on 17 March 2003 in accordance with the directions of the Full Bench.
2. NFF seeks to respond to a number of matters raised by the ACTU in respect to the agriculture industry.
3. NFF maintains its position that the Full Bench should not grant any wage increase. However, if the Commission does not accept this position and determines that a wage increase should be granted, NFF continues to seeks the following:
 - i. That the detrimental impact of drought on rural businesses is given substantial weight in determining the quantum of such an increase; and
 - ii. An amendment to Principle 12 of the Statement of Principles – Economic Incapacity.

Drought Recovery

4. The ACTU has highlighted that the impact of drought is being felt now but if the drought breaks then the farm sector should experience a strong bounce back in 2003-2004 (*ACTU 17 March 2003 submission, R1.4, 5.44, 5.62*).

5. NFF agrees with the proposition of a bounce back in general terms for cropping if there are sufficient autumn rains. Only the crop sector will feel a quick bounce back. The livestock sector will take 3 – 5 years to get back to normal. There are also significant caveats that should be applied to such a proposition and it should be seen in light of the fact that the bounce (if the drought breaks) can only go in one direction if it hits rock bottom. Drought recovery is not as simplistic as the ACTU would like to consider.

Caveats:

- There are substantial costs associated with drought recovery that will need to be met that will have a negative impact on cash flow once income is received by a farming business (*reference NFF 26 February 2003 submission, paragraphs 63, 68, 72*).

- There may well be an extended period of time prior to the receipt of income for farmers particularly depending on the commodity of production.

- ACTU itself recognised that the livestock industry has a longer period of time to recover from drought that impacts on incomes and costs (*Reference ACTU R5.62 quote from ABARE*).
 - Australian farm incomes are not going to rebound this year or the next to anywhere near the levels achieved in recent years.¹ The production of almost all farm commodities is forecast to be lower in 2003-2004 than it was pre-drought in 2001-2002.
 - Income received in the next financial year needs to be considered in the context that the income is to make up for the previous 12 months of no or minimal income.
 - Drought may not break or alternatively it may not break throughout rural Australia.
6. The ACTU in paragraph R5.64 of the submission in reply is selective in the quote taken from the media release of The Treasurer, the Hon Peter Costello MP, of 5 March 2003. The previous two paragraphs to the one quoted by ACTU reads:

¹ ABARE, *Australian Commodities*, volume 10, number 1, March quarter 2003, p 22

“The drought continued to depress agricultural production and farm income. Agricultural production fell by 14% in the December quarter, and was more than 24% lower than a year ago.

Rural exports fell by 3.3% in the December quarter, following a decline of 5.0% in the previous quarter. This was mainly due to grain exports falling 30.8% in the December quarter. Employment in the farm sector fell by 19 700 persons in the December quarter, following a decline of 39 300 persons in the September quarter.”

7. Included in the media release of the Federal Treasurer were a number of graphs highlighting the impact of drought on agricultural production 2002-2003 (*as attached and marked 1*). The graphs show a dramatic decrease in farm production and that the industry will experience its biggest negative quarterly growth rate for the 2002-2003 financial year in the June 2003 quarter.
8. In responding to the ACTU generalisation of drought recovery, NFF refers the Full Bench to details contained within the ABARE, *Australian Commodities, March 2003* Report that highlights the long-term consequences of drought (*the broad agriculture industry sections are attached and marked 2*).

9. Agricultural export earnings are not looking positive even if the drought breaks. Reflecting the effects of the drought and the modest outlook for world economic growth, export earnings from Australia's agricultural commodities are forecast to decline from \$27.1 billion in 2002-2003 to \$26.8 billion in 2003-2004.²
10. While ABARE has forecast that the gross value of farm production will rise by 17% in 2003-2004, the value of production in 2003-2004 is set to be down 9.3% on last year (2001-2002). In addition, the value of production never reaches the \$39.46 billion from last year during the forecast period to 2007-2008. In 2003-2004 the increase in farm production will come from crops, while livestock production is forecast for a 6% fall in 2003-2004.³
11. While wool prices are forecast to remain relatively strong in 2003-2004, it is anticipated that there will be strong market volatility and prices are likely to fall over the next few years.⁴
12. Although grain production will increase with a break in drought, ABARE has forecast that:

“Increased [world] grain production and sluggish growth in demand are expected to result in weaker world wheat and coarse grain prices during 2003-2004.”⁵

² ABARE, *Australian Commodities* March 2003, p 21
³ ABARE, *Australian Commodities* March 2003, p 24
⁴ ABARE, *Australian Commodities*, March 2003, p 27
⁵ ABARE, *Australian Commodities*, March 2003, p 34

13. The length of the recovery for the livestock industry is of particular concern. This concern relates to livestock in respect to meat, dairy and wool production due to the costs associated with replenishing stock supplies. For example, in respect to cattle ABARE have stated that:

“Once the drought breaks cattle prices will increase sharply as producers withhold stock to rebuild their herds and restocker demand increases.... (Further), with over 60% of Australian beef and veal production exported, changes in international markets can have significant impacts on the Australian beef industry.”⁶

14. Drought has created a significant impact on the dairy industry with a significant fall to milk production. While forecasting that milk production will increase, ABARE believes the increase will be at a slower rate than that experienced in the 1990s. The value of milk production in 2003-2004 is forecast to be down 14% on 2001-2002.⁷
15. In considering the financial performance of farms in 2002-2003, ABARE reflected on some of the other impacts of drought on farms.

“The drought has had a serious impact on rural businesses, families and communities. Loss of ground cover resulting in soil degradation may have serious long-term effects on productivity in many areas.

⁶ ABARE, *Australian Commodities*, March 2003, p 58

⁷ ABARE, *Australian Commodities*, March 2003, p 68

*The 2002-2003 drought has been accompanied by critically low availability of irrigation water in a number of key storages after years of below average rainfall. Production of many irrigated crops such as cotton and rice has been substantially reduced and the dairy industry which has been relocating to irrigation areas in the past two decades has been severely affected.*⁸

16. The proposition that the agriculture industry will bounce back is dependent upon one significant issue – that the drought breaks. NFF welcomes the comments from the Bureau of Meteorology that there are likely signs that drought may break, however, this should be considered in the context that farmers need significant rain in a vast area of Australia for drought to break in all drought areas. The future requirement of rain to break drought requires in most instances the medium rainfall to be exceeded in significant terms. In some areas rainfall required to break drought would be 300% more than the usual rain received during autumn (*Refer to Bureau of Rural Science Map attached and marked 3*). The probability of exceeding median rainfall (let alone by 300%) in autumn is not highly likely in most areas (*refer to Commonwealth Bureau of Meteorology Map attached and marked 4*).

17. The Department of Agriculture, Fisheries and Forestry Australia commented at the *Agricultural Finance Forum* on 12 March 2003 that:

⁸ ABARE, *Australian Commodities*, March 2003, p 120

- *“Long-term deficits will need significant and sustained rainfall to return to normal conditions*
- *Unlikely that this will occur everywhere*
- *Likely to be some areas where drought continues*
- *Water storages are still a serious concern.”⁹*

18. EC drought declared areas have been extended since NFF filed the submission of 26 February 2003. An updated map of EC declared areas as at 21 March 2003 is attached and marked 6. A press release from the Federal Minister for Agriculture, the Hon Warren Truss MP, regarding the current status of drought assistance is attached and marked 7.

⁹

Slide from presentation attached and marked 5

Award Coverage

19. NFF reiterates that there are 380,000 jobs in the agriculture sector but acknowledge that a component of those are owner/operators as per ABS figures.¹⁰
20. NFF stands by its position that the agriculture industry is predominantly award reliant for those employees who are not owner/operators or managers.
21. Conditions of employment of are in the main covered by federal and state awards, (*as indicated in NFF paragraph 20*) or for some Victorian agriculture employees who are covered by Part XV of the *Workplace Relations Act (Cth) 1996*. All of these industrial mechanisms are directly or indirectly affected by the outcome of *Safety Net Review Cases*.
22. While it may or may not be the case that “*unregistered individual agreements are the largest form of pay setting method amongst small businesses*” (*ACTU submission in reply paragraph R2.21*), it is surprising that the ACTU did not go onto say that most of these informal agreements are probably underpinned by awards and may well be in breach of award conditions. NFF submits that arrangements may occur on an informal basis on farms but nevertheless in most circumstances Federal or State Awards or Part XV of the Act will form the safety net of the employees’ conditions of employment.

¹⁰ ABS, *Forms of Employment*, November 2001, Cat No 6359.0

Employment Growth

23. NFF wishes to reinforce the issue of substantive employment loss in the agriculture industry and industries linked to agriculture (*NFF submission paragraphs 73 – 78*).

24. NFF notes that the ACTU has glossed over this fact in looking at employment figures (*ACTU Submission in Reply paragraph R5.30 – R5.40*).

Impact of Drought on the Australian Economy

25. The ACTU belittles the importance of agriculture in the Australian economy in both direct and indirect terms and also the impact agriculture has on the sustainability of regional and rural Australia (*ACTU Submission in Reply Paragraph R8.5*)

26. NFF has outlined in its original submission that the agriculture industry has a significant contribution to make to the Australian economy. For example, agricultural production represents 20% of exports (*NFF paragraph 13*), a significant input into many other industries (*NFF paragraph 14*) and provides a substantial contribution to employment in rural Australia (*NFF paragraph 15*).

27. If drought were as insignificant as the ACTU suggests then it is surprising that the Federal and State Governments along with the Reserve Bank and ABS have taken the trouble to specifically comment about the drought at length in remarking on the Australian economy. For example:
 - *Federal Treasurer blamed weaker Australian growth mainly on drought.*
 - *Agriculture was largest negative contributor to GDP growth in September and December Quarters.*

- *RBA noted in Statement of Monetary Policy of February 2003¹¹ that, “the drought continues to have a significant adverse impact on the economy in general.*

Farming Employees

28. NFF totally rejects the assertion of the ACTU that NFF is seeking to penalise low paid workers because of the drought (*ACTU Submission in Reply paragraph R8.5*).
29. NFF is seeking to ensure that farming employees, particularly those who have lost positions as a result of the drought, are provided the opportunity as quickly as possible to return to work or return to full time work. As previously noted, there have been almost 80,000 jobs lost in the agriculture industry over the year to November 2002.
30. To facilitate re-employment it is critical that costs imposed upon a farming business are kept to a minimum to try and achieve this aim. It is vital for the success of the drought recovery process that employment growth occurs. This process should not be hampered by additional costs.
31. The statement by the ACTU that farmers are receiving government assistance but farm workers are not is totally incorrect (*ACTU Submission in Reply paragraph R8.6*).
32. As previously outlined, government drought assistance is tied to an exceptionally strict eligibility criteria. Government assistance provided to farmers is the same for unemployed persons that is the Newstart Allowance.

33. The Federal Government has also provided farming employees special assistance. That includes simpler access to income support and flexibility to be applied to activity tests for Newstart Allowance. Details of the package were announced by the Minister for Family and Community Services, Senator the Hon Amanda Vanstone, on 19 November 2002 as attached and marked 8. These measures are outlined on the Centrelink website under "*Help for Farm Hands*", attached and marked 9.

Application of Safety Net Review Case 2001

34. ACTU has raised the issue of NFF agreeing to an early operative date of the application of the *Safety Net Review 2001 Decision* in the *Pastoral Industry Award* and the fact that at no time was an economic incapacity to pay claim lodged in respect to that application (*ACTU Submission in Reply paragraph R8.7*)
35. NFF submits that the decision to agree to an early operative date (approximately 5 weeks) was due to exceptional circumstances pertaining to that particular award at that time particularly given the fact that employees had experienced a 3-month delay in the application of the *Safety Net Review 2000 Decision* in the previous year.
36. The agriculture industry had experienced a relatively good year in 2001-2002, therefore providing an opportunity to agree to a partial clawback of the timing of the implementation of wage increases in the award.
37. NFF undertook to agree to a position where employees were provided a benefit above the safety net due to better than anticipated results during the financial year when the Full Bench granted the \$18 per week wage increase. This action taken by NFF is something that the ACTU and its affiliates usually seek from employers in what they consider the good times.

38. NFF is now seeking the recognition by the ACTU and the Full Bench that farmers have experienced an exceptionally bad financial year that is going to have negative ramifications for a considerable period of time. As a result, NFF argues a wage increase should not be granted or at least the impact of drought on the agriculture industry should be given significant weight in determining the quantum of such an increase. This is particularly significant considering the ongoing drought conditions that did not break during spring and have continued throughout summer and into autumn.
39. The argument that because NFF agreed to a minor above award benefit in one year, a substantial wage increase should be awarded in another year regardless of extreme adverse financial difficulty is absurd. Circumstances are now fundamentally different and should, therefore, be treated as such.
40. It is acknowledged that no economic incapacity claims were filed in respect to agricultural awards last year. This is the reason why NFF is seeking an amendment to Principle 12 because members believe it is too difficult to pursue.

Principle 12

41. NFF wishes to clarify a number of matters that have been raised by parties in respect to the application by NFF to amend Principle 12. NFF seeks the amendment to the Principle if the Full Bench grants an increase to the minimum wage.
42. It is acknowledged that some agricultural awards will not have the application of an increase arising from *Safety Net Review Case 2003* included into the award until late 2003. NFF submits that the 12 month delay in the application of any wage increase for those who would be eligible for the streamlined process should occur from the date of the decision as opposed to the date of the application of a wage increase in an individual award.
43. Concern has been expressed as to the administration of such a streamlined process given that there are approximately 7000 farming businesses that are now eligible for government drought assistance. It recognised that a component of those businesses are located in Queensland where State Awards cover all agricultural enterprises and further that some of those businesses would not employ staff but rather are fully owner operated.