

Safety Net Review 2003

C2002/2281 and Ors

**Submission by Western Australian Farmers Federation
Industrial Association**

February 2003

**THE WESTERN AUSTRALIAN FARMERS FEDERATION
INDUSTRIAL ASSOCIATION**

Postal address: PO Box 6291 East Perth Western Australia 6892

Safety Net Review

1. The following submission is made by the Western Australian Farmers Federation Industrial Association (WAFFIA) in reply to the Australian Council of Trade Unions (the ACTU) application for a 5.7% increase in award wages (C2002/2281).
2. WAFFIA opposes the application for an increase in award wages. The application for an increase follows the highest award wages increase ever in 2002, in a time where farmers and farming communities are suffering considerable adversity due to the worst drought on record, compounded by more than a decade of low meat and wool prices.
3. It is important that the Commission understand that we have not taken the decision to oppose any increases to awards lightly. We do it because, by and large, agriculture in our state of Western Australia and, we believe, in Australia in all agricultural industries most of the time from the late 1980's through the 1990's until 2001 suffered extremely low commodity prices. In recent years much of Western Australia has suffered from severe drought and soul-destroying frosts. Combine these factors over that period of almost fifteen years, return on investment to farmers has been very low. This has not only been devastating to the farmers and their families, but also to all the small businesses in country towns who provide the services. Many have had to close.
4. It is true that in the last season with wool and the last two seasons with grain, commodity prices have improved. However significantly reduced sheep numbers from 38.01million in 1995-96 to an estimated 24.5million in 2002-03 meant that the value in gross dollars to the farmer is not yet back to when prices were much lower. Equally with the grain industry the combination of drought and frost has meant many of our farmers have had very low gross returns and therefore in many instances no net return for

their hard work. All these factors apply virtually across all agricultural production in Western Australia. It is our very strongly held view that costs, whether it be wages, superannuation or the price of delivering services must be kept down by all. The farmers themselves obviously have a part to play in rebuilding their properties, increasing the use of fertilizer to claw back lost fertility, cleaning out dams, fixing fences, rebuilding sheds and yards and all the myriad of things that have been neglected for more than the last decade. The employees have a role to play in keeping these costs down so that their future as employees in the industry can be improved and increased. The service industries must also play their part and keep their costs down otherwise the producers will not produce significant net gains in their incomes to increase the turnover of these businesses so that those businesses themselves may rebuild and become strong again.

5. In addition to years of low financial returns, the Western Australian Farmers Federation (WAFarmers) President Colin Nicholl estimates the cost of the drought over the past two years in Western Australia to be \$4 billion lost in grain, wool and meat production, combined with costs such as fodder, transport and agistment.

6. The Commission must understand that any increase that can be contributed back to them as a result of this national wage case will only exacerbate even further the drift from the country to the city and the need to find new jobs so that they don't become victims of the social security round. Now is the time for us all to play our part by keeping costs down in the rebuilding phase in our various agricultural pursuits. We have a strong belief in our organization that higher commodity prices will be around for many years to come. Lets make sure that the farmers, their employees and the various service industry businesses are also there so that they can enjoy the changing world commodity markets.

Current Economic Climate

7. The Western Australian Department of Agriculture predicts that should the 2003 - 2004 seasons result in a poor financial return, a number of businesses will be under substantial pressure (Hartley 2003).

8. The nature of farming is a high capital outlay with an unreliable income due to factors such as seasonal conditions, market prices and the current economic climate. ABARE figures demonstrate that grain producers are experiencing one of the worst financial years on record. Winter grain production was 61% down on the 2001-02 season, and the national wheat production is estimated at 9.4 million tonnes, the equivalent of Western Australia's wheat production alone in the 1999-2000 season. In Western Australia, the drop in production is devastating. Total grain production is 5.153 million tonnes, down from 10.3 million tonnes the previous year, with mixed yields across the state. While some areas in the south west received reasonable yields, most grain growing areas of the state experienced poor yields due to drought conditions and frost damage (CBH 2003). Wheat was reduced by 51 percent from the previous year, equalling 3.9 million tonnes. ABARE estimated that the impact of the drought was reducing the rate of economic growth by 0.75 percentage points from what would otherwise have been achieved. While world grain, oilseed, cotton and wool prices are forecast to be higher in 2003-04, these are expected to be offset by a higher Australian dollar. (Sheales 2002).

9. While the drought has significantly affected grain growers in 2002-03, wool-growers and other livestock farmers have been facing adversity for more than a decade due to low prices. To emphasise this statement, the numbers of sheep shorn in Western Australia decreased from 45.56 million in 1993-94 to 24.50 million in 2002-03.

10. The 2002-2003 National Budget assumed average seasonal conditions, with farm production forecast to grow. The Mid-Year Economic and Fiscal Outlook revised this forecast, expecting total farm production to decline by 17 percent, with greater decline in grain production, and indirectly affecting other parts of the economy (www.budget.gov.au/2002-03/MYEFO/Downloads/PDF/Part_2.pdf).
11. Deputy Prime Minister John Anderson has stated that if the economic contraction being experienced in many regional areas now occurred across the entire economy, Australia would be in a full-scale depression (Lewis & Wahlquist 2003).
12. In 2001-02, wages were the biggest single cost component of Australian farm costs, being approximately 14 percent of total operational costs (ABARE 2003). This is a significant amount given that farming operations have a high annual capital outlay.
13. The drought has continued for three years in some areas, and is expected to detract 1.75 percentage points from Western Australia's export growth (Economic and Revenue Policy Division 2003). This year the drought has cost the Western Australian economy approximately \$1.5 billion. Western Australian farmers have received more than \$40 million of State and Federal Government assistance (Chance 2003), while on a national basis, more than 4500 farm families are receiving Federal assistance with an increasing number of applications being received (Truss 2003).

Capacity to pay

14. The current economic climate is not conducive to employers in rural Western Australia to pay any increase.

15. A number of shires in Western Australia have been declared eligible for Exceptional Circumstances funding, with 460 applications being approved. Applications have been made for a further twenty-one shires to be declared eligible for Exceptional Circumstances funding. Fifteen shires in Western Australia were predicted in December to receive yields in the lowest 10-30 percent ever in their regions.
16. ABARE has confirmed that this year is one of the worst financial years on record for farmers. Many farmers received little or no income from their grain crop. In this situation it is necessary to take out a loan to put in a crop for 2003-04, to the extent that it will take up to five years with average yields to pay the loan off.
17. Sheep and livestock farmers have also been affected by the current climate. Lack of feed and water has forced sheep farmers to agist their stock, or in a number of cases, sell their stock and agist breeding stock. Others have to buy feed and cart water on a daily basis. The current price of feed grain has risen by \$40-\$60 per tonne from last year.
18. Until recent wool sales, wool prices have been low for more than a decade, in conjunction with poor meat prices. This has forced farmers to diversify into unsuitable cropping programs simply to survive. Producers have had no option that to allow fences, shearing sheds and water supplies to be run down in attempt to reduce costs. Farmers have been living off their depreciation for far too long and the damage is massive, almost beyond repair. Most of the infrastructure, eg dams, fences, sheds and yards are in very poor order.
19. It is necessary to begin to rebuild the wool and livestock industry. Many farmers have shifted too far into grain, which is placing a number of jobs at risk, such as those of shearers and stock agents. Farmers require time to

rejoin and/or rebuild these industries. Increased costs such as labour and associated service costs will only discourage their participation.

20. The award wage increase last year was the most significant increase in recent years. Another increase while farmers are trying to rebuild stock after years of low prices and diversifying into other industries simply to survive, combined with the current drought will have a detrimental effect on farmers and the employment of workers.

21. The real cost of an increase of 5.7 percent to the award wage must take into consideration the addition of 9 percent superannuation, and at least 5 percent in workers compensation premiums. Effectively the cost of employing a worker is 14 percent in addition to the determined award wage.

22. Combining these factors, farmers simply do not have the capacity to pay any increase in award wages. If the industry is to be given the opportunity to rebuild, costs, including wages cannot be increased.

GSP/GDP

23. Information on this issue will be forwarded to the Commission as or when it becomes available.

Statistics

24. Following are various statistics that emphasis the adversity currently faced in the agricultural industry.

Exports

25. In 2001-02, the value of Australia agricultural exports totalled \$31 063 million. In 2002-03, the value of agricultural exports, in particular wheat and

flour, will be significantly reduced due to Australia receiving less than half the yield of the previous year. Exports of wheat, barley and other cereals have fallen 26 percent, from \$3.1 billion to \$ 2.3 billion (www.infarmation.com.au/news/03/02/article8437.asp).

26. The only rural industry to increase export and record gains was the export of live cattle, sheep and other livestock as farmers sold stock they couldn't feed. The total value of national exports fell four percent in the six months to December 2002 (www.infarmation.com.au/news/03/02/article8437.asp).

27. The value of wheat and flour exports totalling \$4 612 million in 2001-02. Australia produced 24.8 million tonnes of wheat, retaining 5.8 million tonnes for domestic use, and exporting 16.4 million tonnes. In 2002-03, the national wheat harvest totalled 9.4 million tonnes, drastically reducing the national wheat export (Abareconomics 2003).

Livestock

28. The numbers of sheep in Western Australia and Australia has decreased significantly in the past four years.

	1999	2000	2001	2002
Western Australia Million	28.378	25.481	23.849	Estimated 21.000
Australia Million	115.456	118.600	110.928	103.000

Table 1: Number of sheep in Western Australia and Australia (Abareconomics 2003).

29. These figures are expected to have decreased further in the 2002-03 period as livestock exports have increased in this time, due to lack of available feed and water, and high feed and agistment prices. The decrease in the numbers of sheep in Australia is also due to factors such as relatively low

profits in both wool and meat. Though the total number of sheep being sent for export has increased between 1995 and 2001, the value of the exports remained relatively static until 2001 (Abareconomics 2003).

	1995	1996	1997	1998	1999	2000	2001
Sheep Meat Exports	199.1kt	198.8kt	224.6kt	240.7kt	257.1kt	300.1kt	297.8kt
Value \$m	488.2	507.3	618.2	648.1	643.8	824	1089.7
Live Sheep Exports '000	5 896	5 643	5 163	4 980	5 026	5 421	6 812
Value \$m	220	207	187	189	180	206	355
TOTAL VALUE \$m	708.2	714.3	805.2	837.1	823.8	1 030	1 444.7

Table 2: Australian exports of sheep meat and live sheep, and the total export value (Abareconomics 2003).

30. The Australian wool price has also remained relatively static for a number of years, until 2001-02, resulting the number of sheep being shorn in Western Australia to decrease from 45.56 million in 1993-94 to 26.70 million in 2001-02. The total on a national basis has not decreased as significantly as Western Australia.

No. Sheep Shorn	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
WA (million)	38.01	37.75	36.00	31.37	32.62	27.80	26.70
Australia (million)	146.70	156.91	155.45	148.21	144.41	136.08	133.60

Table 3: Number of sheep shorn in Western Australia and Australia (Abareconomics 2003).

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Average price c/kg	386.73	403.01	444.30	323.39	357.28	450.09	526.67

Table 4: Average auction price for greasy wool in Australia (Abareconomics 2003).

31. These tables show that income from wool and sheep meat has been reduced in Western Australia. For a number of years it was not profitable to run sheep, and now prices have improved the industry needs rebuilding. While improving individual agricultural operations, this also has the opportunity to assist with economic growth and increased exports. Increasing the award wages will only hamper this process.

32. The total number of cattle in both Australia and Western Australia has not altered significantly over the past decade, except to increase gradually each year, however the number of cattle exports has increase significantly. The value of exports of beef, veal and live cattle also remained reasonable static until 2001, where it increased quite significantly (Abareconomics 2003). While cattle prices in 2001 were record prices, in 2002 they dropped on average 30-40 percent (Hagedorn 2003). Growth of the cattle industry must also be encouraged, and for this to be successful, the employment of workers must not be put at risk with increased costs in wages.

Unemployment

33. The Federal Government has acknowledged the effect the drought has on entire rural communities, not just farmers, by making Exceptional Circumstances assistance available to small businesses. The Mid-Year Economic and Fiscal Outlook 2002-2003 recognises that rural employment is weak due to the drought, and this is highlighted as a risk to the employment outlook (www.budget.gov.au/2002-03/MYEF0/Downloads/PDF/Part_2.pdf). The Government has also acknowledged that many drought regions face increasing unemployment,

and have introduced a number of measures to assist job seekers in drought affected areas

(www.pm.gov.au/news/media_releases/2002/media_releases2029.htm).

34. Deputy Prime Minister John Anderson estimates that more than 70 000 rural jobs will be lost due to the drought (The West Australian 2003). This estimate comes after rural employment exceeded 435 000 in 2001-02 for the first time since the early 1970's (Truss 2003). Any increase to award wages is likely to increase the estimate of jobs lost. One man's pay rise is another man's job.

Conclusion

35. In conclusion WAFFIA reserves the right to forward other relevant information to you as it becomes available. We have deliberately kept our submission short and to the point. We believe a succinct, direct demonstration through the figures provided is the best way to demonstrate that agriculture has been through fourteen or fifteen years of very depressed returns and as stated, living off depreciation.
36. We are also convinced that significantly better times lie ahead as the world changes, and in particular, the economy of much of Asia, Africa and South America continues to grow. Obviously there will be fluctuations, but those fluctuations will be on a higher plane. Our industries are very significant employers either directly or indirectly within the Australian economy and despite recent years have been and will become again, solid contributors to our GDP.
37. WAFFIA requests at this time that the Commission give respondents to the *Pastoral Industry Award* and associated industry awards significant breathing space to rebuild. The difficulties are highlighted by the significant amount of drought aid that has been required within Australia and Western

Australia in particular. In addition we have seen the necessity of the community at large to raise significant amounts of money very generously donated, through appeals such as FarmHand. This is and has been put to extremely good use providing for many rural families things that most of us take for granted such as food on the table, shoes for the children to wear to school and a chance for some people to have a break from the farm for the first time for many, many years.

38. We put to the Commission that there is a duty of care across the board to rural communities and the best way to responsibly deliver this duty of care is not to take action until such time as our farm sector has at least had the opportunity to rebuild. Farmers need to be able to tell their employees that they can still can afford their workers, and give confidence to our service industries that they do have a future.

References

'Exports dry up with drought', 2003, *The Age*, 21 February, p. 4, [Online], Available: www.infarmation.com.au/news/03/02/article8437.asp, [2003, February 23].

'Harvest drops to worst in two decades', *The West Australian*, 2003, February 19, p.4.

Australian Commodity Statistics 2002, 2003, Australian Bureau of Agricultural and Resource Economics, Canberra.

CBH 2003, 'CBH records fastest received harvest', [Online], Available: www.cbh.com.au/ContMan.nsf, [2003, February 19].

Chance, K. 2003, *Morowa meeting discusses methods of drought assistance*, Government of Western Australia, Perth.

Economic and Revenue Policy Division 2003, *Western Australian Economic Brief*, Department of Treasury and Finance, Perth.

Hagedorn, A. (ed) 2003, *Cattle Council of Australia, Yearbook 2002*, Walsh Media Services Pty Ltd, Adelaide.

Hartley, D. 2003, *Agricultural Resource Management Program Monthly Report, December 2003 – January 2003*, Department of Agriculture, Perth.

Lewis, S. & Wahlquist, A. 2003, 'Rains to Late to Save the Bush', *The Australian*, [February 19, 2003].

'New Drought Support' 2002, [Online], Available: www.pm.gov.au/news/media_releases/2002/media_releases2029.htm, [2003, February 25].

Sheales, T. 2002, *Drought cuts commodity export earnings*, [Online], Available: www.abareconomics.com/pages/media/2002/16dec.html, [2003, February 21].

The Commonwealth Treasury 2003, *Mid-Year Economic and Fiscal Outlook 2002-2003; Part II: Economic Outlook*, [Online], Available: www.budget.gov.au/2002-03/MYEFO/Downloads/PDF/Part_2.pdf, [2003, February 24].

Truss, W. 2003, *Drought tightens hold on nation's croppers*, Department of Agriculture, Fisheries and Forestry, Canberra.