



National Farmers'
F E D E R A T I O N

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SUBMISSION TO THE AUSTRALIAN FAIR PAY COMMISSION

GENERAL WAGE REVIEW

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LIST OF ABBREVIATIONS

| | |
|---|-------|
| Australian Bureau of Agriculture and Resource Economics | ABARE |
| Australian Chamber of Commerce and Industry | ACCI |
| Australian Industrial Relations Commission | AIRC |
| Australian Fair Pay Commission | AFPC |
| Bureau of Rural Science | BRS |
| Consumer Price Index | CPI |
| Department of Agriculture, Forestry and Fisheries | DAFF |
| Department of Employment and Workplace Relations | DEWR |
| Department of Primary Industry | DPI |
| Exceptional Circumstance | EC |
| Exceptional Circumstance Interest Rate Subsidy | ECIRS |
| Genetic Modification | GM |
| Institute of Trade Skills Excellence | ITSE |
| International Labour Organisation | ILO |
| Labour Shortage Action Plan | LSAP |
| National Agricultural Monitoring Service | NAMS |
| National Farmers' Federation | NFF |
| Organisation for Economic and Cooperative Development | OECD |
| Reserve Bank of Australia | RBA |
| Rural Industries Research and Development Corporation | RIRDC |
| Standard Federal Minimum Wage | SFMW |

EXECUTIVE SUMMARY

- ❖ **The National Farmers' Federation (NFF) is the peak representative of agricultural interests across Australia and the major commodity groups.**
- ❖ **The NFF makes its third submission to the AFPC which sets out general observations regarding the SFMW, and a report on the uptake of the option to defer the 2007 increase granted by the AFPC in its 2007 decision.**
- ❖ **Agriculture continues to hold a significant role in the growth and sustenance of Australia's economy and workforce. The sector's ability to largely endure throughout the ongoing drought is clear evidence of its resilience, flexibility, adaptability and willingness to adopt new technologies, approaches and strategies.**
- ❖ **The quantum of the July 2007 wage decision was moderate, allowing for the implications on productivity and output caused by the drought. The real impact was further mitigated by the fact that due to labour shortages, a large number of employees in the sector are paid well above the SFMW. As a result, the deferral was only adopted by a minimal but significant number of farmers facing the most serious circumstances, in accordance with the intention of the NFF and indeed the AFPC.**
- ❖ **The deferral provided for by the July 2007 wage decision has allowed marginalised farmers to maintain a significantly higher level of employment in the sector in a targeted way, which the NFF submits has not been misused whatsoever. Conversely, many said it was not enough to prevent the termination of staff, citing in particular cash flow problems as a result of drought.**
- ❖ **The NFF seeks an adjustment to the SFMW of no more than the CPI. However, the NFF does not seek the option to defer any 2008 wage increase.**
- ❖ **Labour supply will remain unaffected by even a generous increase to the SFMW due to many rates already falling well above the SFMW. The main impediment to labour supply is a deficiency in regional development, rather than rates of pay and competition from other industries. The NFF and the MCA have entered a Memorandum of Understanding to jointly address this problem.**
- ❖ **For some time, the key priorities for the NFF have been the drought, water supply, volatile climatic conditions and natural resource management. In particular, the NFF continues to advocate for the transitioning of farm relief and support, to sustainable modern farming through drought management, preparedness and drought proofing.**
- ❖ **The NFF is particularly concerned about rising interest rates and inflation on account of their relationship with wages growth, and believes this represents concerns to both employers and employees given the current state of the economy.**

1. INTRODUCTION

1.1. The NFF is the peak advocate for agricultural interests in Australia, representing the interests of producers in each State and for major commodities federally. The NFF is chartered with responsibility for issues which affect more than one State or commodity.

1.2. Current member organisations of the NFF are:

State Farm Organisations

AgForce Queensland

New South Wales Farmers' Association

Northern Territory Cattleman's Association

Tasmanian Farmers' and Graziers' Association

Victorian Farmers' Federation

National Commodity Councils

Australian Cane Growers Council

Australian Dairy Farmers Limited

Australian Dried Fruits Association

Cattle Council of Australia

Cotton Australia Limited

Grains Council of Australia

Ricegrowers Association of Australia

Sheepmeat Council of Australia

WoolProducers

1.3. The development of workplace relations policy has been a major priority for the NFF throughout its history. The NFF has been the key advocate in the AIRC for the agricultural industry, particularly in the context of its former capacity as the primary federal wage-setting body. The NFF has continued its involvement in this process by making submissions to the 2006 and 2007 wage decisions of the AFPC.

1.4. The NFF seeks to again participate in the wage-setting functions of the AFPC and makes its submissions to the 2008 General Wage Review pursuant to section 22 (a) of the *Workplace Relations Act 1996*.

- 1.5. The NFF again makes its submissions in this capacity the AFPC. The submission seeks to address matters relating to the general wage decision and further, to report on and consider issues specific to agriculture. The latter aspect of the NFF's submission includes a comprehensive outline not only of drought combative policies, but of policies and initiatives established to achieve growth within the sector and the advancement of available resources, techniques and approaches in the conduct of farming business. It also seeks to analyse the AFPC's previous and future wage decisions in the broader context of those policies, and within a planning framework for managing the drought which has not only persisted, but increased in its severity exponentially in many areas. The framework to achieve a transition from drought relief to sustainable farming practices necessarily involves extensive reform and work on the ground in key areas such as research and development, technology, regional development and infrastructure, education and training.

2. STATE OF THE ECONOMY

- 2.1. The NFF seeks to highlight some significant developments in the state of the economy since the AFPC's 2007 wage decision, together with the consequent impact on federal minimum wage fixing arising from these developments. Since the July 2007 wage decision, the economy has experienced a sequence of events which have made it more susceptible to a vast downturn, with speculation as at 14 March 2008 that although further interest rate rises may be less likely, a recession may be imminent. The Subprime disaster in the United States, triggered largely by speculative borrowing and high-risk lending directly led to domestic lenders for the first time lifting interest rates independently of the RBA. This in turn has contributed to upward pressure on inflation which has now reached critical levels after underlying inflation had lingered in the top half of the RBA's medium-term target band of between 2 and 3 per cent. Further interest rate rises have continued into 2008. This has been further exacerbated by China's reliance on the United States.

2.2. Notwithstanding relative containment to the end of 2006, domestic wages growth is presently contributing to pressures on interest rates and inflation, and the NFF is concerned that coupled with the present international economic climate, it could be the trigger for a major downturn in the Australian economy. The NFF further supports its concerns in this regard with reference to the fact that the labour market has rarely been as competitive as it is at present and in this regard has fuelled significant actual wages growth.

2.3. Despite efforts to constrain and reduce its commitments, the pervasive and significant amount of spending to which the Federal Government remains committed will indubitably impact heavily on inflation and interest rates, creating further cause for concern within the Australian economy, in addition to pressures from international economic circumstances.

3. IMPACT OF THE GENERAL INCREASE IN THE JULY 2007 WAGE DECISION

3.1. In July 2007, the AFPC announced increases of \$10.26 for wages below \$700 per week, and \$5.30 for wages above \$700 per week. The NFF announced its view that these increases were moderate and reasonable in the circumstances¹. The NFF's view was based on a multitude of factors, including the medium-term inflationary pressures stemming from the tight labour market, the short period of time since the inaugural wage decision and the impact of the drought on both the agricultural sector and the economy as a whole. The NFF stated that the latter of these considerations was not only reflected in the quantum of the decision applying to the economy as a whole, but more precisely through the AFPC's decision to grant a deferral to a limited number of eligible, drought affected farmers. Importantly, the NFF notes that despite the positive outcome of the AFPC's responsible approach to the quantum of the increase, international pressures have intensified the volatility of inflation to a now critical level.

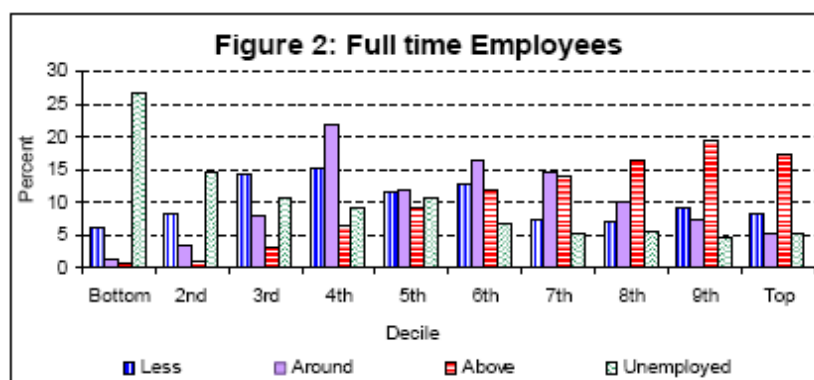
¹ NFF Media Release, 5 July 2007

- 3.2. The NFF submits that whilst clearer indicators are available regarding the impact of the July 2007 decision than for the October 2006 decision, it is important to approach an analysis of the impact cautiously on the data subsequently to hand. The NFF strongly believes that the continued decrease in unemployment has largely stemmed from the moderate approach adopted by the AFPC in its 2007 wage decision, particularly in view of the broader international and domestic economies and the presence of numerous countervailing inhibitors to employment growth. The NFF also believes that the deferral has contributed to the preservation of employment levels, and arguably even resulted in a mild increase in employment levels, within the sector. To this extent the NFF believes that the retention of employment has resulted in maintaining the rural and regional population, which is of primary importance in addressing regional labour supply, together with regional communities and their economies. The NFF addresses labour supply and regional development issues in section 6 of this submission.
- 3.3. The NFF argues that there are three crucial considerations in terms of looking at the direct impacts of past and future wage decisions, being the impact on employment levels, the impact on hourly wage rates and the situation of minimum wage earners, that is, the spread of such people across the spectrum from the lowest to highest of total family income households.
- 3.4. The elasticity of demand for labour with respect to the minimum wage as surveyed and cited by many and varied sources is resoundingly negative. Daley et al state it as - 2.0 to - 5.0, Lewis as - 0.55, and Leigh as - 0.29. Junankar, Waite and Bellchamber state a broader range of - 1.6 to - 23.1². Lewis estimates that elasticity of demand for labour within the agricultural sector in Australia lies between - 0.2 and - 0.5 in the short run, and - 0.5 and - 1.3 in the longer term.
- 3.5. The first statistics on employment levels in agriculture following the AFPC's inaugural wage decision indicate that the number employed in the sector was 303,000 in 2006-07.

² Dr Andrew Leigh, *Minimum Wages and Inequality*, University of Melbourne

The first statistics in 2007 following the announcement of the 2007 wage decision period indicate that the number of people employed in agriculture rose to 308,000, by 5,000 people (1.65 per cent). The NFF is of the strong view that this increase, notwithstanding the drought becoming more severe, is reflective of both the efforts within the sector to remain sustainable, and the AFPC's second, more moderate wage increase.

3.6. Across the economy, the typical minimum wage earner is situated in a middle-income household and further, there are more minimum wage earners in the wealthiest 20 per cent than the poorest 20 per cent of households³. This distribution is outlined for full time employees in the following graph.



3.7. The Deputy Director of the Melbourne Institute of Applied Economic and Social Research, Professor Mark Wooden (1 April 2007) states:

Provided they remain in employment, the vast majority of low-paid workers have experienced earnings increases that are well in excess of the rate of increase in the minimum wage. Indeed, the HILDA Survey data indicates that about 80 per cent of adult employees in the bottom decile of wage earners who were also in work three years later experienced earnings increases in excess of the rate of growth in the Federal Minimum Wage over the same period. For most low-wage workers the minimum wage is largely irrelevant.

³ Dr Andrew Leigh, *Minimum Wages and Inequality*, University of Melbourne

This is especially true within agriculture where labour shortages have caused upward pressure on market rates of pay. The NFF reiterates the importance of differentiating between market rates and the minimum wage, two different and completely separate concepts altogether.

- 3.8. The difference between the minimum wage and market rates of pay allows the actual rate of pay in a given area to be fixed by local conditions, thus decentralising wage fixing in favour of tying wages to productivity. The difference also provides crucial scope for bargaining by employees and employers and consequent competition on the labour market. They also set an important benchmark for rates of pay for those new to the industry or who are undertaking technical, practical or academic studies relevant to agriculture, with scope to adjust towards prevailing market rates commensurate with experience and competency developed on the job. This process for employees in training reinforces the material value of that training to the value of the worker and their ongoing and increasing worth on the labour market, and the NFF considers this a crucial attitude towards career development within any industry.
- 3.9. Neumark and Wascher (2006) recently completed a detailed international survey on the correlation between minimum wage increases and employment levels over fifteen years. Eighteen of the nineteen found conclusively that minimum wage increases had a negative impact on employment levels.
- 3.10. The ILO defines a minimum wage as the *minimum* amount of wages that must be paid to the majority of employees, which is ideally fixed to ensure the needs of that employee and their family are met, *in light of prevailing national economic and social conditions* – the drought is indubitably one such relevant condition. Further, the current critical state of interest rates and inflation are also an important economic condition, which also stands to directly impact on the wellbeing of the low paid. Similarly, the NFF argues that the actual net gain of larger wage increases must be thoroughly analysed. For example, the impact of higher wages on prices and the cost of living for employees may absorb the increase in

wages to the detriment of the employee and indeed the economy. In addition to the needs of the employee, the ILO clearly sets out that consideration will be lent to economic factors, such as the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment. Notably, these considerations are enshrined in section 23 of the *Workplace Relations Act* as the key considerations for the AFPC in its wage-setting function.

- 3.11. The NFF asserts that Professor Wooden's comments regarding the prevalence of rates of pay exceeding minimum and indeed award rates of pay are strongly supported by above award payments throughout a vast proportion of agricultural employment. The need and common practice to pay in excess of the minimum wage and indeed any award rate, was anecdotally, but consistently communicated to Commissioners during the farm visits conducted in Roma and Wagga Wagga in 2007. It is further consistent with the NFF's clearly announced policy that wage rates should be tied with productivity gains in the workplace.
- 3.12. Any negative impact of the 2007 wage decision on agricultural employers was minimal, and coupled with access by eligible farmers to the deferral, allowed a modest but notable growth in employment. As highlighted, the labour shortages in rural Australia have ensured that employees frequently receive well in excess of minimum rates. The impact on employees has therefore been two tiered. Those working on severely drought affected farms have remained in work, albeit in some cases at the deferred rate of pay, rather than being subject to termination or redundancy. The NFF outlines its submissions regarding the impact of the general wage decision on labour supply in agriculture and regional development issues generally in section 6 of this submission. The NFF strongly believes that the concern and solidarity of farmers for their employees' wellbeing evidenced in responses to the survey outlined below and in meetings in rural communities is reciprocated by employee loyalty to a similar degree. In this regard it is submitted that access to deferred rates is arguably perceived as a solid indicator of the severity of the drought and not simply a means of minimising the cost of labour.

3.13. The significant majority working on those farms which are enjoying moderate to greater productivity are being paid well in excess of the minimum wage in any event and consequently face no impact from the decision, other than higher wages tied to their employers' productivity. This reflects the AFPC's estimation in 2006 that only 13 per cent of wage earners gain from minimum rate increases.

3.14. The NFF strongly supports the operative date established in the July 2007 wage decision, in particular on account of its synchronicity with the corresponding decision of the AIRC. The NFF further notes that the AIRC affirmed its decision in its 2006 Wages and Allowances review, that it is bound to substantively follow the wage decision of the AFPC by various provisions of the *Workplace Relations Act 1996*. In this regard, the AIRC stated:

In summary, and conscious of the guidance in cl.8(4)(a) of Schedule 6 to the Act, we have not been persuaded to depart from the AFPC decision.

The NFF supports the above interpretations of the legislation, together with the practical approach adopted by both the AFPC and the AIRC to achieve the greatest possible consistency between Australian Pay and Classification Scales and awards.

3.15. The 2007 decision again effected an increase to piece rates by an amount proportional to the general increase applying to the SFMW.

4. IMPACT OF THE DEFERRAL AWARDED IN THE JULY 2007 WAGE DECISION

4.1. The AFPC granted a deferral of the general wage increase in its July 2007 wage decision to farmers in receipt of ECIRS for all Pay Scale employees except those in receipt of the

SFMW or employed under a classification for which the rate of pay is equal to the SFMW. The NFF initially sought a broad deferral of any increase, solely in consideration of the widespread impact of drought on the entire sector. However, the NFF clearly expressed concerns that eligibility for a deferral should first and foremost be based on evidenced hardship:

“...the NFF submits that eligibility would be limited to a group of identifiable employers that are in the same situation. That is, their severe economic circumstances as a consequence of drought have been recognised by the Commonwealth Government through a significant and substantial eligibility process.”

The AFPC's decision has resulted in a very limited and targeted number of farmers being eligible for the deferral. The NFF stresses that this was not a decision relating to the entire agricultural sector intended to benefit even those sustaining large profits; rather, it was tied specifically to those who are not only the hardest hit by the conditions, but who had also demonstrated sound prospects of long-term sustainability.

- 4.2. The NFF strongly argues that the only agricultural employers who are constrained to paying the minimum wage rates despite the current labour market are also those most likely to need and in fact utilise the deferral awarded in last year's wage decision because of their dire circumstances in the midst of the drought. This has allowed the most devastated employers to maintain levels of employment, rather than terminate employees during the current one in one hundred year drought event, although clear evidence has emerged that some farmers have been forced to resort to downsizing their workforces, notwithstanding access to the option to defer the increase. The AFPC's 2007 wage decision to grant the option to defer its 2007 increase did not open the 'flood gates' – therefore, the deferral has only been adopted necessarily by those who most genuinely require it in accordance with the intentions of not only the AFPC, but the NFF.
- 4.3. The NFF reiterates that the deferred rates, as a minimum wage rate based firmly on the principles of the *Workplace Relations Act* as a safety net amount rather than actual, market

rate, have not resulted in greater difficulties obtaining labour. Employers have remained entitled to pay above these rates, and indeed often do so. The NFF believes that the most prevalent factors influencing the ability to attract labour are regional development, education and training. To the extent that rates of pay are material to securing labour, the market rates, and not a statutory minimum safety net amount such as the SFMW address this issue in any event.

- 4.4. The NFF released a survey through its member organisations in December 2007, and now reports on the responses received to 14 March 2008. 176 responses were received by the NFF after widespread distribution to the memberships of its State member organisations as they stood in October 2007. Approximately 30 per cent of all respondents were in receipt of ECIRS payments, and 21 per cent of all respondents stated they had adopted to pay employees at the deferred rate, or would do so if eligible. Some respondents who were ineligible indicated that they would pay at deferred rates if eligible, although of these respondents a number stated that they were unsure about what eligibility entailed, and of all respondents, many were unfamiliar with what the deferred rate is. This class of respondent represented a small class of respondents. Looking specifically at those who were eligible and actually adopted to defer the increase, the survey results show that approximately 38 per cent of those eligible adopted to defer the increase. Although the sample size is notably small, extrapolating from the total estimated to be eligible of 13,000, this suggests that up to 4,940 (with margin for error both ways) adopted to defer the increase. Those who were expressed the noteworthy view that whilst they would utilise the deferred rates if they were eligible, they would pay well above minimum rates upon entering drought recovery.
- 4.5. The majority of farmers eligible for the deferral indicated that they had paid the increase, notwithstanding their eligibility to defer it. Some key comments provided by respondents include:

“My employees are valuable assets to my business and the increase in rate was deserved and I am happy to pay it.”

“No everyone is doing it tough, people we employ also have land and family. Shearers probably wouldn't shear for any less. Hard enough to get them as it is.”

“We had to pay increase. No choice.”

“Thought it was the right thing to do for my very loyal employees.”

However, a number of eligible employers who opted not to pay at the deferred rate outlined other measures, such as reducing staff numbers, which they had utilised in response to the severe drought conditions, with comments such as:

“Increased rates for seasonal workers, as we had to let our farm worker go due to drought and we made savings this way.”

“Had employed our son as an apprentice – Put off due to drought but if things were different would pay extra as wage very low for hours worked.”

Comments from ineligible respondents reflected only two key reasons for not wishing to adopt the deferred rates, even if eligible. The first was a need to be competitive in a tight labour market, particularly for occupations such as shearers, who are in short supply. The second was an overwhelming concern for the wellbeing of farm workers and their families. Some key comments to this effect were:

“There are many alternative places of employment. If we do not pay competitive rates we lose our employees. In Canada for example casual rates are less than \$10 per hour. Here they are \$17. Internationally we compete on similar markets with our fruit, although at different times of the year.”

“We pay our employees well above award rates. We expect and receive loyalty and good performance. They are happy and so are we. I accept that this may not work at all farm operations.”

"I feel that everybody has the right to a fair and equitable rate of pay. If I wouldn't work for that wage I will not ask an employee to work for that amount either. Shearing in particular is a case in point. With shearers becoming increasingly hard to get and with nobody taking up the work, we need to encourage people into the industry, looking for savings in other areas."

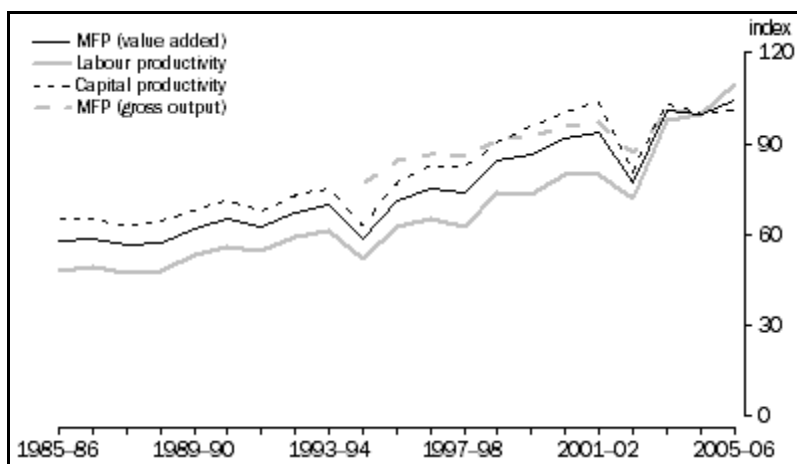
- 4.6. The NFF submits that these statistics and comments demonstrate that the deferral was not only highly targeted by way of the eligibility the AFPC determined in its decision, but is further constrained by labour market conditions. Even those adopting to utilise the deferral indicate that if they were in a position to pay more outside of drought, they would do so. The NFF highlights to the AFPC that those who are ineligible for ECIRS are very likely to be considerably better placed to pay not only minimum rates, but a competitive market premium. The deferral was not intended nor structured to broadly benefit employers of this class. Rather, to temporarily assist long-term sustainable farmers presently experiencing the most hardship, particularly in that they have typically depleted their resources, accrued vast debt (for which ECIRS is granted in the first place) and exhausted all cost reductions in their businesses. Conversely, the NFF commends the AFPC for clarifying that eligible farmers may opt to pay the increase in any event in the reasons for its 2007 decision.
- 4.7. The NFF believes that the formal survey results, together with feedback from discussions conducted during widespread travel across all States in late 2007, reflect a significant number of farmers opting to terminate permanent employment in favour of casual labour, independent contractors and the increased use of family labour to supply their farms with the necessary human resources during the prolonged drought. Some have opted to leave the sector altogether. As highlighted, such decisions very often occur after every other form of saving has been explored and implemented across all business outgoings and following a lengthy reliance on borrowings for both business and personal financial subsistence. The NFF further submits that short-term incentives not to do so, including the option to defer the 2007 increase, has been crucial to constraining the alternative of terminating and downsizing staff numbers and consequently, to preserving a stable rural workforce and strong regional communities. The NFF makes further comment on these matters in section 6 of this submission.

5. THE STANDARD FEDERAL MINIMUM WAGE

- 5.1. In its submission to the 2007 wage decision, the NFF outlined the above views regarding the importance of a direct correlation between wage increases and productivity gains at the workplace, and further, that wage increases should not exceed the relevant increases to CPI. The NFF outlined how by March 2007, the capacity for the low paid and unemployment to obtain and remain in work had reached unprecedented levels across the economy. The NFF believes that in conducting the 2008 General Wage Review, these considerations have become vastly more pertinent and essential to the broad determination of the SFMW, alongside the emerging inflation crisis and continuing interest rate rises.
- 5.2. The ABS asserts that multifactor productivity in agriculture has steadily increased over the last two decades, with multifactor productivity growth on a value added basis of 3 per cent per year⁴. Whilst this is notably stronger than the 1.2 per cent growth in the market sector, the ABS observes that:

Given agriculture's susceptibility to variations in rainfall, it is not surprising that the story of Australian droughts manifests itself strongly in the labour productivity and MFP data presented in this chapter. Indeed, the marked falls in the various productivity measures in 1994-95 and 2002-03 relate directly to the droughts that occurred at those times.

⁴ 5260.0.55.001 – *Information Paper: Experimental Estimates of Industry Multifactor Productivity*, September 2007



- 5.3. The CPI to the final quarter of 2007 reached 1.9 per cent across the preceding twelve months, with an increase in the price of food being the most significant contributor to the annual rate. Between January and November 2007, unemployment fell from 4.6 per cent to 4.3 per cent, with employment increasing to 10,532,100 and the participation rate remaining steady at 65 per cent⁵. This demonstrates the clearly strengthening trend over the economy as a whole and in particular, that one of the direct results has been growth in employment. The ability to obtain and remain in work is necessarily strengthened by such continued growth in employment levels.
- 5.4. The NFF submits that in the current climate, with continued tightening of the labour market, a further wage increase, coupled with increased costs and other factors associated with growing interest rates, will fail to reduce, or indeed increase unemployment across the economy. The deferral of last year's wage decision for eligible drought-affected farmers has contributed to the maintenance of employment within the sector, as the moderate increase across the nation maintained employment levels across the economy.
- 5.5. Employment and competitiveness across the economy has continued to thrive, and notwithstanding a historical drought of devastating proportions, agriculture has maintained

⁵ *Labour Force Australia*, October 2007, Catalogue Number 6202.0

long term productivity growth at an average of 3.8 per cent over the past two decades, ahead of other sectors within the economy. This soundly evidences the sector's resilience, adaptability and sustainability, but is also indicative of the importance the sector now places on climate change, preparedness and modern sustainable farming practices. It is also intimately tied to farmers successfully linking their cost base to productivity gains – a break in this linkage would severely affect the ability of the sector to remain both sustainable and competitive.

- 5.6. In its 2007 submission, the NFF highlighted the standing of Australia's wages as the highest across the OECD countries, factoring in purchasing parity, citing the British Low Pay Commission's 2007 Report. These figures continue to demonstrate Australia's pre-eminence in having the highest minimum wage in the OECD.

Table A4.1
 Comparison of Level of Minimum Wages^(a) Across Countries, End 2006

| | In national currency expressed as hourly rate ^(b) | In UK £, using: Exchange rates ^(c) PPPs ^(d) | | Date of last uprating | Age full minimum wage usually applies ^(e) |
|--------------------------|--|---|------|-----------------------|--|
| Australia ^(f) | Aus \$13.47 | 5.41 | 5.88 | December 2006 | 21 |
| Belgium | €7.12 (€1234.20/month) | 4.79 | 5.09 | August 2005 | 21 |
| Canada ^(g) | Can \$7.57 | 3.58 | 3.85 | ^(m) | 16 |
| France | €8.27 | 5.56 | 5.73 | July 2006 | 18 |
| Greece ^(h) | €3.50 (€27.96/day) | 2.35 | 2.94 | September 2006 | 15 |
| Ireland | €7.65 ⁽ⁱ⁾ | 5.14 | 4.32 | May 2005 | 20 |
| Japan ^(j) | Yen 673 | 3.02 | 2.94 | October 2006 | 16 |
| Netherlands | €7.41 ^(k) (€296.45/week) | 4.98 | 5.19 | July 2006 | 23 |
| New Zealand | NZ \$10.25 | 3.61 | 4.15 | March 2006 | 18 |
| Portugal ^(l) | €2.23 (€385.90/month) | 1.50 | 2.05 | January 2006 | 16 |
| Spain ^(m) | €3.12 (€540.90/month) | 2.10 | 2.56 | January 2006 | 16 |
| United Kingdom | £5.35 | 5.35 | 5.35 | October 2006 | 22 |
| United States | US \$5.15 ⁽ⁿ⁾ | 2.75 | 3.23 | 1997 | 20 |

Sources: British Embassies and High Commissions. OECD Minimum Wage Database. LPC calculation of exchange rates and PPPs. PPPs derived from CPLs, OECD Main Economic Indicators, October 2006. For exchange rates, Bank of England monthly average spot exchange rate, October 2006.

- 5.7. On 7 November 2007, the RBA lifted interest rates to 6.75 per cent, up by 0.5 per cent from 8 November 2006, and despite restraint in considering a further rise in December 2007, further increases were then announced on 5 February 2008 and 4 March 2008. The

NFF maintains its concern that further increases to the SFMW will exacerbate the already critical levels of long term inflationary pressures. The impact of such inflationary pressures is likely to reduce or negate any marginal or nominal benefit to employees from a wage increase in any event. In addition, most banks have now for the first time in history increased interest rates even further in response to the Subprime disaster, independently of the RBA.

- 5.8. In December 2007, the Australian trade deficit had risen to \$2.98 billion, well above prior market expectations. Australia and New Zealand Banking Group economist Alex Joiner said on 4 December 2007 that the drought was a key contributor to the poor trade performance, together with exchange rates and falling prices.
- 5.9. Notwithstanding the massive inequality of the global trading environment within the sector, agricultural exports earned Australia \$27.7 billion in 2005, representing 21.7 per cent of all merchandise exported from the country. Australia exports 64 per cent of its agricultural product, representing 75 per cent of its total value. With the highest minimum wage in the OECD and third highest of 182 leading economies worldwide, further disparity in Australia's labour costs will be difficult for farmers to absorb. The potential for a resulting contraction within the sector stands to impact on farming businesses, most immediately in terms of the levels of employment they require and indeed can even sustain. The NFF affirms the views of Professors Wooden and Leigh that capricious increases are most likely to be detrimental, rather than beneficial to low income families. In this regard, the illusory value to employees of such arbitrary increases should not be underestimated, and the value of other safety net measures should be afforded considerably more weight.
- 5.10. In its 2007 wage decision, the AFPC highlighted that the SFMW is but one facet of the broader safety net protections in Australia, stating:

In the Commission's view, statutory minimum wages are not, first and foremost, an anti-poverty device. This is in part demonstrated by the distribution of low-income earners across all household types, including high-income households.

The Commission does, however, consider that statutory minimum wages, along with the tax/transfer system, have a significant role to play in providing a safety net for the low paid. This role is better understood in the context of s. 23 of the WR Act as providing a statutory minimum to protect low paid workers whilst minimising the negative impact on the demand for labour.

In considering interactions with the tax/transfer system, the role of statutory minimum wages is also important in the context of 'the capacity for the unemployed and low paid to obtain and remain in employment'. The relationship between the government tax/transfer system and statutory minimum wages has the potential to affect labour supply.

The NFF believes the pervasive and generous tax cuts announced by the Federal Government of \$31 billion over three years, following on from the 2006-07 budget tax cuts delivered by the previous Federal Government, must be factored into the broader consideration of safety net measures for the low paid and unemployed.

- 5.11. The NFF believes that given the current economic climate, in particular considering the RBA interest rate and inflationary pressures, it is both economically and socially difficult to justify a wage increase which is not highly contained. The NFF's submission to the AFPC and its specific direction is strongly based on its belief in this observation.

6. LABOUR SUPPLY IN THE AGRICULTURAL SECTOR AND REGIONAL DEVELOPMENT GENERALLY

- 6.1. The NFF has conducted extensive analyses of labour supply issues in agriculture, and will shortly release an update of its LSAP, first released in September 2005. Specifically, the LSAP sought to address perceptions of the agricultural industry, particularly the notions that it predominantly involves manual labour and that limited career paths are available.

The LSAP also sought to investigate key issues giving rise to labour shortages such as remoteness, environmental concerns and the extent to which competition with other industries impacts on employment within agriculture.

- 6.2. The NFF identified that human resource management is a key area in which the agricultural sector must improve in order to attract labour. The NFF has strongly advocated consideration of working conditions such as the transportation and accommodation of employees, flexible employment relationships and other incentives. Similarly, the need to ensure farmers are informed of packaging options for remunerating staff in the scope afforded them between minimum and market rates of pay, is a key issue the NFF and its member organisations have sought to address and promote in seminars and activities with farmers on the ground. The NFF can report that there has been a significant increase in flexible packaging for employees, for example through paid family days, flexible hours and fringe benefits such as allowing personal use of vehicles. Such initiatives provide farmers who cannot pay high market rates the opportunity to reward employees in other more accessible ways. For those who can afford both, these represent appealing additional benefits to most workers. The NFF reiterates its belief that the loyalty of both employers and employees goes beyond cash remuneration, and is in fact determined more notably by other factors in the employment relationship.
- 6.3. The NFF has strongly advocated these measures not only on account of their importance to labour supply, but due to their greater importance in creating the growth of regional and rural populations. The NFF believes that the “tree change” culture amongst other things, is more readily embraced when there is greater access to services in rural and remote communities such as transport, accommodation, education, the internet and entertainment. The ABC AM programme interviewed Professor Margaret Alston from Charles Sturt University⁶ in 2005, who stated there has been a notable increase in the metropolitan population moving to regional areas to avoid traffic and crowding, and instead experience a friendlier and easier environment in which to both live and work. She further noted the

⁶ Wednesday, 17 August 2005, Reported by Nance Haxton

appeal of larger houses at lower costs than within major city and suburban areas. Finally, Professor Alston stressed the importance of putting in place infrastructure such as telecommunications and transport as fundamental pillars in building the appeal of this process. The NFF has been a key advocate for policies and initiatives to expand telecommunications in regional and remote Australia, as well as transport infrastructure.

- 6.4. In October 2002, the NFF released its Regional Business Development Analysis, a report comprehensively outlining the core issues facing all businesses situated in regional areas and making recommendations on each. Specifically, the report set out a thorough analysis of issues relating to regional economies, trade, quality assurance, research and development, natural resources, hard and soft infrastructure, human resources and Government.
- 6.5. Key economic recommendations arising from Regional Business Development Analysis include tax reform particularly in terms of tax zoning, to address the distortions and long-standing biases against country living generally. Government incentives to stimulate institutional investment in regional areas, coupled with business development assistance were concurrently endorsed to both redress these distortions and boost regional commerce and industry.
- 6.6. The Regional Business Development Analysis identified the farming sector at the leading industry of research and development in Australia through the various research and development corporation constituents of RIRDC, recommending investigation into whether their success could be replicated on a broader level for all regional development. It also recommended that the broad impact of climate change on regional business be considered and detailed in a comprehensive report, in particular in the context of risk management strategies.
- 6.7. The NFF has repeatedly emphasised the importance of overcoming both perceived and actual remoteness in regional areas as an inhibitor of their growth. Further, the NFF strongly asserts that perceived or actual remoteness is one of the most significant deterrents

to attracting sufficient labour. In this regard, the role of hard infrastructure including the internet, digital communications and more accessible transport in overcoming the issue cannot be underestimated. The NFF sought, and continues to call for reliable and equitable access to telecommunication infrastructure at metro-comparable pricing and standards, as well as a national freight transport strategy, increased investment to the Roads to Recovery programme and support for the viability of regional airlines. The NFF continues to strongly advocate these measures in its current policies.

- 6.8. Soft infrastructure such as education and health care also featured heavily within the issues the NFF addressed in the Regional Business Development Analysis. In consideration of the vital role that education and training plays in building competitive, modern and innovative agricultural and regional businesses, the NFF advocated incentives and allowances for tertiary students to achieve a more equitable access to education. This is particularly important given the far greater costs students face relocating to metropolitan areas for the duration of their studies. A greater focus on introducing agricultural education into the general educational curricula was also advocated and has subsequently been progressed as a result of the NFF's increased focus on education and training policies and initiatives. Most importantly, the growing relationship between the internet and the delivery of education via online teaching provides an invaluable and vastly less expensive mechanism to expand on the levels of education in regional areas.
- 6.9. The NFF also believes that domestic and foreign travellers are more likely to visit well-resourced regions, but also provide a vital injection of both expenditure and labour, to name a few, into these local economies. Working holiday makers and indeed grey nomads are more readily attracted to regional areas by a desire to gain a broader experience of Australia, and the NFF continues to explore many and varied initiatives to harness this phenomenon as one of the many facets the NFF believes are necessary to comprehensively address labour shortages. However, itinerant travellers, whether foreign or sourced domestically from cross sections of the community such as "grey nomads", despite the injection of funds to regional areas, do not establish long-term growth in these populations

nor extended expenditure there. Further, reliance on their labour has caused staff turnover to become a major issue and cost burden on regional businesses. For this reason, the NFF believes that such workers can only ever form one facet of a more comprehensive solution to labour shortages and regional depletion.

6.10. Agricultural education has been widely identified as a key issue in attracting labour onto farm businesses. In November 2006, RIRDC analysed trends and mechanisms providing for securing and retaining human resources in agriculture⁷. It highlighted that:

“The future efficiency, sustainability and innovativeness off the farm sector depend on the continuing entry of appropriately skilled and motivated people to develop and operate farm businesses. While education of the next generation of farmers is available from a wide variety of institutions, there are several aspects of the entry process that can create barriers to the smooth transition of suitably skilled and motivated people to full involvement in the management of farm businesses.”

6.11. In January 2007, the NFF engaged a dedicated Education and Training Officer to vastly develop policy as well as on the ground initiatives, in conjunction with the Government and bodies such as ITSE, promoting and developing skills and training in the sector. This was in direct response to the LSAP's focus on the role of education and training, together with broad feedback from farmers and State member and commodity groups.

6.12. A key objective of ITSE has been to develop initiatives which raise the profile and status of trades. In 2007 it launched SkillsOne to do this through various media promotions and through profiling numerous success stories in agricultural employment, such as Dwayne Black, a champion sheep shearer who abandoned a combined business/law degree to become a shearer, and Matthew Aitken, a former chef lured to the sector by a passion to pursue viticulture and winegrowing.

⁷ Reeve and Stayner, *Preparing Entrants to Farming: Scoping Programs and Strategies*, November 2006.

- 6.13. The NFF has therefore developed the strong view that attracting suitable labour must be achieved by a variety of interlinking factors, but most significantly, that attracting a greater population and thus pool of labour to regional areas was the paramount priority. Therefore, on 17 July 2007, the NFF and the MCA, in conjunction with the Federal Government, entered a Memorandum of Understanding to form a partnership promoting regional development and the availability of local, highly skilled workforces across regional Australia. Although the mining sector typically pays higher rates of pay than the agricultural sector, agriculture enjoys the lowest employee turnover, as opposed to the highest rate of turnover within the mining sector. This low turnover further advances the argument that loyalty between employers and employees within agriculture is strong in the sector. The primary common issue for both sectors was a lack of sufficiently sized local labour pools. Further, both sectors generally heavily utilise what could be described as itinerant workers – agriculture relying on foreign or “grey nomad” travellers, and mining and minerals relying on “fly in, fly out” workers – neither which provide sufficiently to regional growth, and neither which sufficiently address labour shortages in either sector.
- 6.14. The Memorandum of Understanding therefore seeks to respond to growing labour shortages in regional areas generally, in both industries. Whilst competition between the industries continues to exist, the overwhelming cause of labour shortages in both industries stems, as mentioned, from a general regional depletion and a lack of skilled local workers. This has been strongly evidenced by studies into the mining sector’s heavy reliance on ‘fly in, fly out’ labour referred to above, and equally, by noting agriculture’s increasing reliance on working travellers, also referenced above, who unlike a large number of metropolitan Australians, perceive experiencing rural and remote Australia as highly appealing.
- 6.15. A recent University of Queensland study⁸ was commissioned to provide detailed analysis of the 21.7 per cent rate of turnover in the mining industry, the highest of any industry.

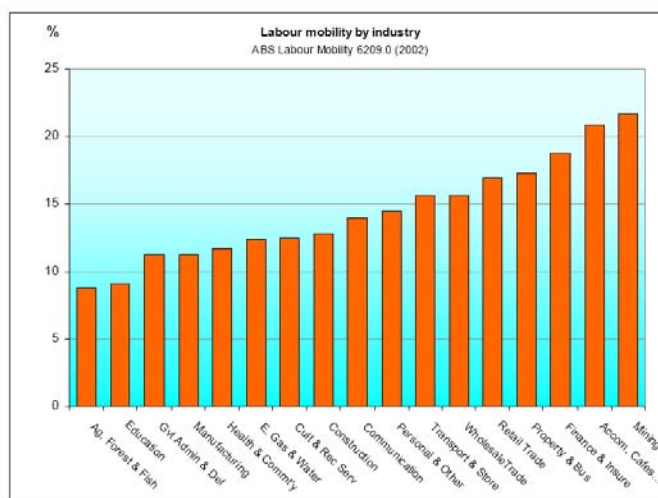
⁸ *Workforce Turnover in FIFO Operations in Australia: An Exploratory Study (Summary Report) 2003*

This is especially significant in that participants in the study asserted there is no return on recruitment investment for rates in excess of 20 per cent. The study references the following table of key industries, which notably lists agriculture as the industry with the lowest employment turnover. The study further reports that a high level of remuneration has not by itself been sufficient to ensure workforce stability. A University of Ballarat study supports this finding⁹ and further asserts, in relation to the agricultural industry, that:

Due to the low employment turnover within the industry however, entry level training will not be as essential as re-skilling of the current workforce, using flexible training packages, licensing and regulated work functions, recognition of current competency and recognition of prior learning.

The conclusions regarding a need to focus on re-skilling were supported by the Institute by the following chart depicting labour mobility by sector.

Figure 1: Labour mobility by industry, Australia



6.16. The NFF and the MCA have embarked on a venture to stimulate regional communities in recognition of the fact that the depletion of regional and rural populations and consequent absence of a local labour supply is the single most significant cause of labour shortages in

⁹ Institute for Regional and Rural Research, University of Ballarat (2004), *Regional Research Framework – Position Paper No. 2 – Critical Issues Facing Regional Regions*

both industries. Further, in 2007 the NFF has developed education and training as a key priority in the agricultural sector. This responded to the need to attract youth into the sector, the need to re-skill existing and potential employees for the sector and the broader need to promote the breadth of careers available to farm employees, ranging from low-skilled positions through to those requiring a postgraduate university degree.

6.17. The NFF submits that any increase to the SFMW would not attract a sufficient and stable labour supply to the farming sector due to the fact that many farmers pay well above the SFMW or award classifications, and due to the fact that regional depletion is far more influential on labour supply than salary. This is evidenced by the need for the Memorandum of Understanding with the mining sector which further supports the assertion that even extremely generous market rates of pay have been largely ineffectual in combating regional labour shortages in that sector. In this regard, the NFF reiterates its strong view that the SFMW is not a market rate of pay, nor is a minimum wage intended to be considered, set or adjusted as a quasi-market rate, as outlined by the ILO's clearly drawn distinction between the two. The benefit of sustaining employment levels in agriculture through moderate wage increases tied to productivity gains, is infinitely greater than the illusory benefit of paying more to attract and indeed retain employees, which in fact is more likely to see substantial reductions in the level of employment and a consequent abandonment of regional areas.

7. REVIEW OF DROUGHT CONDITIONS AND CLIMATE VARIABILITY, AND THE IMPACT ON AGRICULTURAL EMPLOYMENT

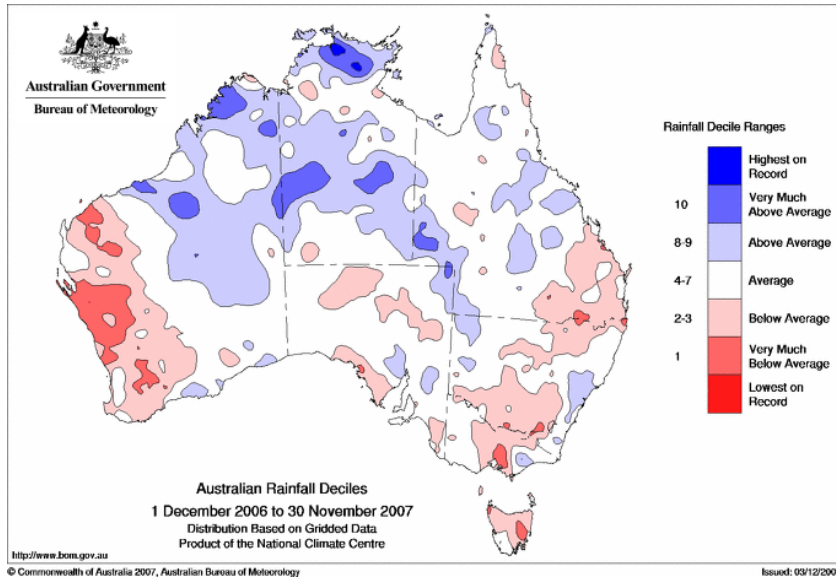
7.1. In its submission to the 2007 wage decision of the AFPC, the NFF submitted that drought across southern and central Australia would reduce farm incomes to their lowest level in thirty years, and that farm receipts would fall by over 20 per cent in 2006-07¹⁰. ABARE

¹⁰ Paragraphs 9.1, and 9.3-9.4

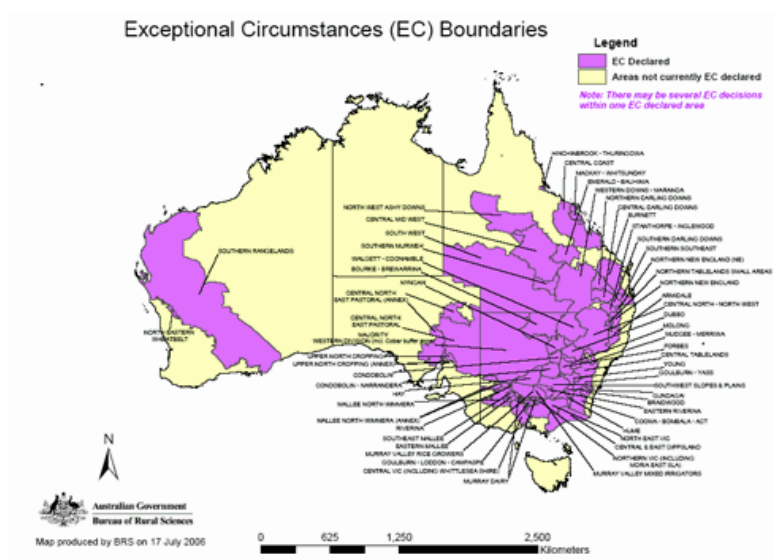
has reported that the gross value of farm production to the final quarter of 2007 was \$33 billion, down by 14%. The decline of farm income for all crops fell by 28%, on account of their greater susceptibility to continuing and worsening drought conditions. Treasury predictions of an 18 per cent upturn in production were premised firmly on the arrival not only of improved rainfall generally, but within the right timeframe prior to the winter crop harvest, during 2007 which did not eventuate. Not only did rainfall fail to arrive at the necessary time ahead of winter harvest, it failed to arrive for the most part with a few exceptions by region in November 2007. The Bureau of Meteorology described the implications of the trend during 2007 as follows:

Short-term rainfall deficits remain over SA and south eastern parts of the country as a result of widespread below to very much below average October rainfall. Unless November is wetter than average, 2006-07 will be one of the very few instances in history where the Murray-Darling Basin (MDB) has suffered a winter-spring drought in successive years.

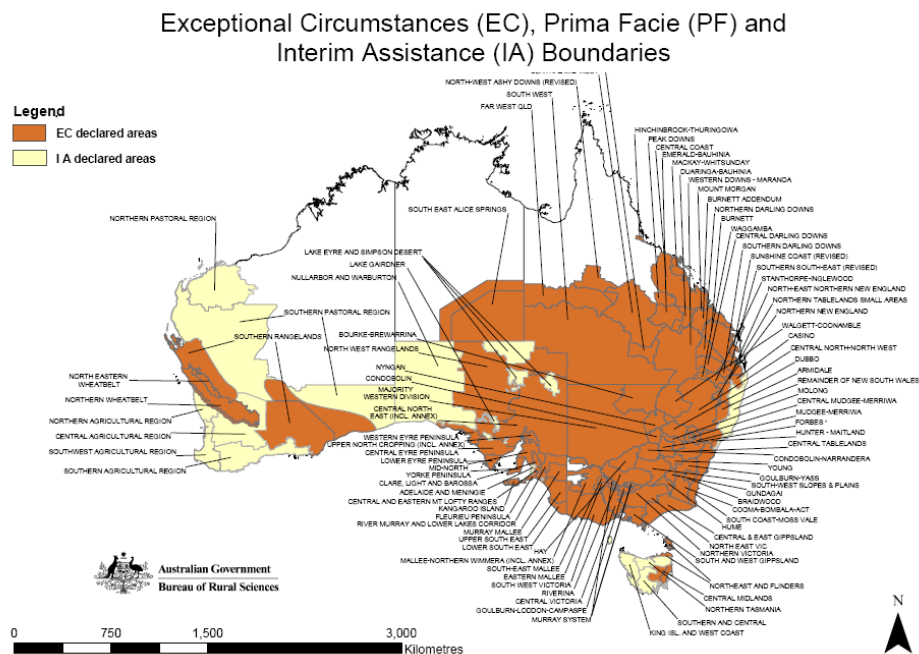
Indeed, despite flash flooding in Queensland in early 2008 and minor rainfalls to the south in this crucial area, the annual average ending December 2007 indicates that vast tracts of land within the key agricultural belts of the eastern States, Western Australia and Tasmania experienced rainfall significantly below average, or the lowest on record, as indicated on the map below.



7.2. The NFF provided the AFPC with detailed information on drought declarations and the EC in its 2007 submission. Further, the NFF provided the following map outlining the extent of EC declared areas across Australia.



By way of comparison, the NFF now provides the national map of EC declarations as at January 2008. Notable trends include the expansion of EC declarations into Tasmania and the Northern Territory for the first time, significant expansion of affected areas through south-west Victoria and east South Australia and an increase to the density of affected areas in Queensland. The extent of EC declared areas, whilst relenting in particular portions of the country, has expanded on the whole. Further, extensive areas in Tasmania, South Australia and Western Australia are now Interim Assistance declared areas. Together, this change in circumstances represents a notable increase in the severity of conditions and the state of farming operations across the country.



7.3. The broader issue of climate variability, and the intense, rare drought event currently affecting Australia and the farming sector, in particular, has been exacerbated by increasingly volatile climate variability. Neville Nicholas further attributes Australia's climate extremes to La Niña's southern oscillation¹¹, which gives rise to the polar climatic

¹¹ *El Niño: Droughts and Flooding Rains*, published at the Bureau of Meteorology website, http://www.bom.gov.au/bmrc/clfor/cfstaff/nnn/nnn_el_nino.htm

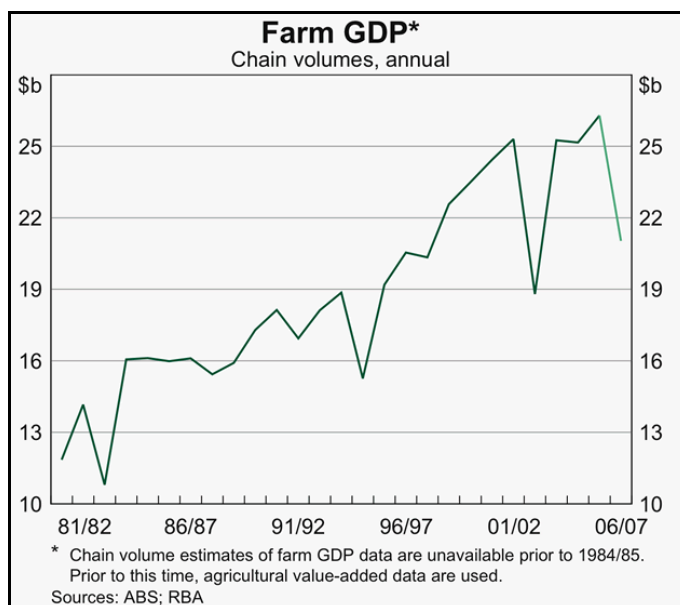
experiences of severe drought and severe flooding. The NFF submits that the flooding in Queensland in January 2008 clearly evidenced this phenomenon and further, that both could represent the above referenced broader issue of worsening climate variability. The NFF is concerned that uninformed and oversimplified views that flooding instantly resolves drought events, and in particular a once in a century drought event, do not gain traction.

- 7.4. The NFF has previously provided the AFPC with information relating to EC, including the initial process for EC declarations. There continue to be three key requirements for an EC declaration. First, the drought event must be a one in 20 – 25 year event and sufficiently severe. Second, there must have been a significant downturn in farm production over a prolonged period, usually twelve months, for many farms in the relevant area. Finally, it must not have been a predictable or a part of structural adjustment, for example due to a downturn in commodity prices. The NFF seeks to highlight that drought, both in a vernacular understanding and in terms of its definition in the context of EC is not merely an absence of rainfall. In the most basic sense, it is a long term event tied to productivity depletion, the impact and consequent extent of the lack of rainfall and the timeframe needed to recover. These factors are carefully weighed in the initial declaration process, and due to the period of time giving rise to declarations, events such as flash flooding rarely result in an abatement of drought. Indeed flash flooding typically aggravates the already vulnerable farming population, with reports that the Queensland floods resulted in \$50 million damage to Federal and State infrastructure, stock losses including approximately \$500,000 worth on a single property, and damage and crop loss of \$1.5 million to \$2 million on single properties.
- 7.5. ABARE forecasted that cessation of the drought in early 2007 would result in Australia's economic growth increasing by 1.25 per cent in 2007-08, highlighting the extent to which the impact on the agricultural sector has affected national growth levels. NAMS, like all other major authorities, has subsequently reported that far from abating, the drought has intensified significantly, with rainfall in November 2007 having fallen nationally to 36 per

cent below average¹². GDP growth in fact fell by between 0.5 and 0.75 per cent, despite the prediction of a 1.25 per cent increase.

- 7.6. Some regions have experienced notable improvements in conditions. Notwithstanding those improvements continuing throughout 2008, most farmers in this situation are unlikely to see financial returns until 2009 following the 2008 winter harvest. The lag in financial upturn is further magnified by the need for widespread livestock herd rebuilding and the maintenance of massive long-term debt, which currently stands at \$45 billion.
- 7.7. NAMS further referenced the late onset of a La Niña event in 2008 and further, the absence of any significant forecasts for rain. Consequently, NAMS cites numerous consequences, countervailing early predictions that the drought could break in 2007. In South Australia, Murray River allocations are set to remain at 16 per cent well into the second half of 2008. In the third quarter of 2007, the NSW DPI forecasted a yield across all winter crops of 4.67 million tonnes, but by the end of 2007, had downgraded that forecast by around 40 per cent to 2.82 million tonnes. ABARE has reduced the wheat forecast by 3.4 million tonnes to 12.1 million tonnes, giving rise to the combined wheat, barley and canola output falling to 42 per cent below the five year average. Despite improved conditions in some regions, albeit poorly timed, at the end of 2007, over 60 per cent of all broadacre farmers in Australia remain affected by drought conditions.
- 7.8. Drought conditions continue to cause major impacts on the agricultural sector, with the impact being exacerbated exponentially by the absence of recovery periods between peak drought events. Farm GDP has experienced a sharp decline throughout 2006-07.

¹² *Climate and Agricultural Update – National Report*, November 2007

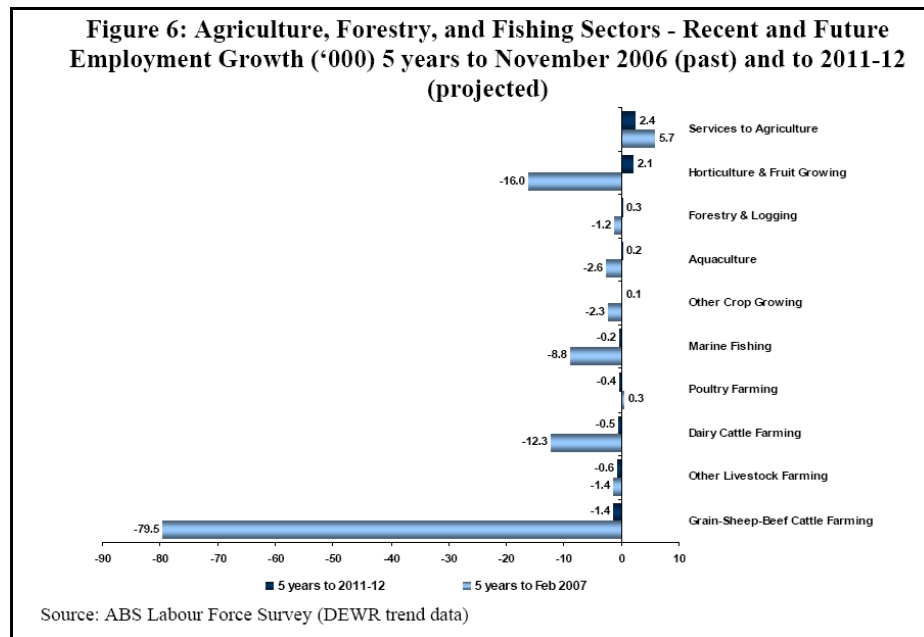


7.9. In December 2007, the Murray-Darling Basin Commission confirmed the widespread analyses outlining the continuing decline in rainfall and consequent aggravation of drought conditions. On 10 December 2007, Chief Executive Dr Wendy Craik AM stated that hot temperatures of 6 degrees above average arrived early for much of the southern part of the basin. Further, Dr Craik highlighted that storage was 550 gigalitres down from December 2006, at just 1885 gigalitres, being the lowest level since 1940. This followed on from inflow during 2006 and 2007 reaching a mere 55 per cent of the previous minimum on record. The Commission also highlighted that even with average rainfalls at the right times, gains would be significantly offset by the higher levels of evaporation arising from higher and more protracted average temperatures across most of the basin.

7.10. DAFF asserts that employment in agriculture, forestry and fishing is extremely elastic to environmental circumstances, citing drought and cyclone Larry, amongst other things, supporting this assertion with historical analysis¹³. Specifically, the analysis references the 28,800 (or 6.6 per cent) downfall in 1992, the subsequent recovery of 21,700 (or 5.4 per cent) during 1996 and the regression of 75,900 (or 17.9 per cent) during the particularly

¹³ *Outlook for Employment in Agriculture, Forestry and Fishing 2007*, October 2007

severe drought period of 2002-03. These movements show a direct correlation between employment in the industry and acute drought periods. The chart below sets out the fluctuations by subsector, and forecasts continued general downturns in employment. Although services to agriculture and horticulture are projected to experience mild growth, employment in the latter will still have suffered a net depletion of circa 14,000 from 2001 – 2011-12.



7.11. The Bureau of Meteorology has opined that the current La Niña event will not lift until the middle of 2008 and further, that even following the lifting of the event, rainfall is far from assured. The RBA's 12 November 2007 decision to lift interest rates also trimmed its predictions on economic growth to the year end June 2008 to reflect the impact of the drought. Treasury has further confirmed that irrespective of rainfall, farm production was not expected to recover to pre-drought levels on its 2007 forecast horizon of June 2009.

7.12. In December 2007, ABARE provided detailed forecasting on the impact of climate change and drought on agricultural commodities and trade¹⁴. Key findings include forecasts that

¹⁴ *Climate Change – December Quarter 07.4*, ABARE Project 1163

production in wheat, beef, dairy and sugar is set to decline below the 'reference case' by 9 – 10 per cent by 2030, and 13 – 19 percent by 2050. Consequently, agricultural exports of key commodities are set to decline by 11 – 63 percent by 2030, and 15 – 79 per cent by 2050. The 'reference case' represents a level of production attainable but for the impact of climate change and drought on the sector. ABARE specifically references BOM research and forecasting which foreshadows 20 per cent more drought months across Australia by 2030.

- 7.13. Notwithstanding the massive impact of climate variability on the agricultural sector, the Australian Greenhouse Office advises that primary industries have lead Australia in the reduction of greenhouse gas emissions with an industry-wide 40 per cent reduction over the last decade and a half¹⁵. The NFF has elevated climate change to a major priority among its policies in particular, due to its relevance to more frequent and severe drought events and other extreme climatic conditions and the role this must play in future sustainability and planning within the sector.

8. SUSTAINABLE FARMING - TRANSITIONING DROUGHT ASSISTANCE AND RELIEF TO DROUGHT-PROOFING AND PREPAREDNESS

- 8.1. Throughout Australia's history, few industries have had to adapt, evolve and deploy their resilience to endure changing climate, economic and social conditions, changing markets and ultimately, globalisation to the same extent as the agricultural sector. In recent years, the NFF has overwhelmingly adopted as its priorities the issues of climate variability, natural resource management and water resources. In doing so it has long been a proponent of the need to transition farmers towards more effective, long-term drought preparedness and drought proofing. Prior to the federal election in 2007, the NFF's efforts in these new

¹⁵ Department of Environment and Heritage, *National Inventory by Economic Sector 2004*

focal areas culminated in its advocacy for the endorsement of, and commitment to this transitioning:

The NFF proposes Climate Management Grants – based on mutual obligation – to help farmers prepare for, manage and recover from drought, with the intention of alleviating the impact of future severe droughts. Eligible farmers must match the Australian Government's funding with either cash or in-kind support – effectively a partnership to better drought-proof the sector.

This mirrors the desire – both within the broader community and within the farming sector – to, over time, shift the policy paradigm from drought relief towards drought preparedness and management.

- 8.2. The severity of the current drought is unsurpassed throughout Australia's history. Although recent decades have seen the necessary rise of government assistance, through such initiatives as EC, this assistance only comprises 6 per cent of farming income. This is in stark contrast to the United States (11 per cent), Canada (23 per cent), Europe (32 per cent), Japan (53 per cent) and Korea (63 per cent), and the average across all OECD countries of 29 per cent¹⁶. Despite the significantly smaller amount of assistance afforded to Australian producers and moreover, the greater impact of drought on Australia, the NFF has for some time been committed to further transitioning the sector from relief to preparedness.
- 8.3. Drought proofing and drought preparedness refer broadly to measures designed to preserve productive farming operations through climate change and in particular, future drought events. The measures are typically explored from the perspective of the current relief and assistance base in the context of, over time, transitioning away from this model in a largely incentive-based fashion. This calls for a cooperative and innovative approach to the issue by all stakeholders, including in particular from Governments and regional communities.
- 8.4. ABARE reports that the most widely accepted drought preparedness strategies for future droughts include livestock destocking strategies and fodder management strategies in the

¹⁶ *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2007*

livestock subsector, and water use efficiency for irrigation-reliant producers such as those within the horticultural sector¹⁷.

- 8.5. Risk management in farming business should target the five key areas of business risk, namely production risks, price/market risk, financial risk, institutional risk and human risk. The first three are particularly pertinent to preparedness in that respectively, they involve the uncertainty of nature, uncertainty of prices and the need to borrow (and consequent susceptibility to interest rates) to maintain business operations.
- 8.6. In response to the NFF's call for a shift in the drought policy paradigm, the Australian Labor Party responded supportively. In Government, they reaffirmed to both support farmers through drought, but also to develop programmes to better assist farmers to prepare for such events¹⁸. On 20 November 2007, the Australian Labor Party committed \$130 million to assisting farmers to adapt to climate change and harness new economic activities in a broader bid to prepare primary industries for climate change. This commitment was part of a broader plan to reprioritise \$190 million over five years for the purposes of investing in the development and growth of the primary sector across Australia.
- 8.7. The NFF submits that its prioritisation of drought management and preparedness, drought proofing and the broader issues of climate change, water resources and natural resource management represent the paramount issues for modern agriculture in Australia, and that the current Federal Government has clearly affirmed a commitment to support the transition from relief to sustainable farming. However, the NFF believes a firm caveat is necessary to such plans in that such a transition is not only complex generally, but vastly more difficult given the historically devastating drought conditions. In this regard, a well-planned and considered transition is essential, rather than a sudden or cursory raft of reforms. The need for this approach remains at the foreground of the NFF's assessment and

¹⁷ *Managing Farm Risk – The Role of Preparing for Farm Drought*, April 2006

¹⁸ *National Platform and Constitution*, 2007, paragraph 64

assent to any broader Government, scientific or other initiatives focusing on drought-proofing.

- 8.8. The BRS, a division of DAFF, has for some time been closely involved with policy and scientific development aimed at assisting farmers to become more self-reliant and better equipped to risk manage future drought events. Specifically, BRS is conducting pervasive research into improving long-range weather forecasting, drought monitoring, simulation modelling of changes in soil moisture and vegetation growth, and developing decision support systems for farmers and regional managers. Key outcomes of the research include detailed information and advice on property Management Planning, including the use of risk management, is being used to aid farmers to be more self-reliant in developing and applying farm plans, strategies and tactics. Specific information on numerous initiatives and policy for drought proofing and sustainable farming practices follows in this section.
- 8.9. In January 2006, the NFF highlighted the importance of the role of Government in developing drought prepared farming enterprises. Specifically, the NFF called for the provision of financial incentives for on-farm assets and infrastructure to assist in drought-proofing farms, predominantly through tax incentives. Under this proposal, such investment would be 100 per cent tax deductible in the year of expenditure under the *Income Tax Assessment Act*.
- 8.10. The NFF has also vigorously advocated for scientific policy developments that will be crucial to the sector's ability to adapt to long-term drought conditions. The NFF's advocacy for the cautious lifting of the GM moratoria is one key example in that appropriately modified crops may be significantly more drought-resistant and better suited to the mid to long-term changes facing the Australian and global climatic landscape.
- 8.11. The NFF believes that the farming sector has throughout history been one of the most dynamic and adaptable industries in the nation. Whilst the challenges of drought have grown beyond measure in recent decades, so too have the opportunities for farmers to

continue to develop modern and effective solutions. The NFF recognises that a number of farmers have benefited from the option to defer the 2007 increase. However, the NFF does not seek from the AFPC the option to defer wage rates in its 2008 decision, despite being mindful of the potential impact on those utilising this option granted in the previous decision. The NFF believes that the strength of the industry, together with the commitments of Government not necessarily to relief frameworks but rather, broader issues surrounding the growth and development of regional and remote Australia will at this stage offer the sector vital assistance in this difficult time.

9. CURRENT PROFILE OF AGRICULTURE

- 9.1. The NFF provided the AFPC a detailed profile of the agricultural industry in its submission to the 2007 General Wage Review. The overview of economic and climatic developments, together with the analysis of the impact of the 2007 wage decision outlined above, serve as a detailed update on the state of the sector. By way of contrast, the NFF seeks to highlight both the severe downturn in the industry through a snapshot of the year in review since the AFPC's 2007 decision, and the state of change from which it believes a stronger and more robust industry will emerge. The state of major change through transition is the definitive profile of the nature of agriculture in early 2008.
- 9.2. In 2007, the ABS states that there were approximately 147,000 businesses engaged in farming with an estimated value of agricultural operations exceeding \$5,000 per annum in Australia¹⁹. More than half of these businesses have an estimated value of agricultural production of below \$99,000 per annum, representing a notable decline from the 2004-05 production values of around \$124,000 for the same sample. Agricultural operations utilise around 60% of Australia's landmass.

¹⁹ *Australian Farming in Brief 2007*, Catalogue Number 7106.0

- 9.3. The major agricultural commodities measured by gross value of production coming into 2007 were cattle and calves (\$7.69 billion), cereals for grain (\$7.6 billion), whole milk (\$3.34 billion) and fruit and nuts (\$2.51 billion). Beef, wheat and horticultural produce again constituted the main export produce in 2007.
- 9.4. By the beginning of 2007 employment in agriculture had declined to below 330,000, in stark contrast to an estimated 412,000 in 2002. The ABS asserts that the steepest decline was predominantly the result of the exacerbation and persistence of extreme drought conditions²⁰. DEWR figures affirm the quantum of the decline, citing it as down by 81,600 from 2002 to 2007, albeit having enjoyed a marginally increase in the final quarter of 2007, despite continuing drought conditions.
- 9.5. Agricultural employment during 2007 consisted of 38 per cent of employees working in grain, sheep and beef cattle farming, 22.5 per cent in horticulture and fruit growing and approximately 10 per cent in services to agriculture.
- 9.6. The current profile of the sector indicates significant downturns in production and productivity, however the trends suggest that further climate and drought-related downturns are inevitable. The NFF highlights that a fundamental element of the industry's current profile is that of major restructure and change in order to deal with these inevitabilities.
- 9.7. The agricultural sector has traditionally been a pillar of the national economy. Whilst the current state of the industry reflects prolonged deterioration in output, the prognosis but for drought or the presence of drought-ready enterprises continues to be positive. Treasury predicted an 18 per cent increase in productivity with improved rainfall during 2007. Lengthier improvements would see an exponential increase to agriculture's contribution to the national economy. In addition to the likelihood of a rain-induced resurgence within the industry, pervasive measures to better prepare farmers for drought continue to improve the drought susceptible nature of the industry. It has previously been estimated that the sector

²⁰ *Year Book Australia 2007*, Catalogue Number 1301.0

will require approximately 50,000 additional employees once the longer-term drought breaks, providing a massive opportunity for employees both skilled within the industry and for those seeking to enter the industry.

- 9.8. The above statistical and analytical data clearly indicates a further and marked deterioration of drought conditions, together with consequent downturns in productivity, exports and the output of the agricultural sector generally. ACCI's 2007 Annual Report and Business Review supports the downturn in agricultural output, citing it as declining by 26.4 per cent during 2007, in contrast to growth in output of 8.5 per cent in mining, 7.1 per cent in construction, 6.6 per cent in finance and insurance and 7.4 per cent in communications.
- 9.9. The profile of the agricultural sector on a static analysis, reveals an industry which has continued to feel the adverse effects of climate change and long-term drought. However, the evolution and adaption within the industry's history, together with the modern focus on preparedness into the future notwithstanding the re-emergence of drought events in coming years, are indicative that modern farming continues to engage new technologies, systems and approaches to achieve an even more globally competitive and climate resistant industry, making a vast contribution to both the domestic and international economies.