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Submission to

Reserve Bank Amendment (Australian Reconstruction and Development Board) Bill 2013

Australian rural policy has for decades suffered from no real understanding of a price taking market by economic analysts and the fact that it must be balanced by vigorous competition in the acquisition of product.

Our ACCC operates under weak legislation and budgetary constraints and it has allowed our biggest processors and supermarkets to continuously consolidate to the point where 54% of the red meat kill is carried out by the 5 largest abattoirs (only two of which are actually large).

Australia wide agricultural producers are wondering why, after decades of poor policy and policy neglect where alarming signs of real crisis should have been visible to all, the Liberal dries still believe that only the poor managers will fail. Why have successive Governments including sections of the present one wanted Australian producers gone?

With due respect to the Standing Council on Primary Industries (SCoPI) which agreed in May 2013 on national drought program reform, their conclusions and argument just adds to the knowledge that they are out of touch and have ignored the statistical evidence and policy failures over a broad range of issues.

The Council's reform program seeks to enable farmers to manage business risks and prepare for future challenges rather than their reliance on direct Government business support

that includes the likes of previous Commonwealth exceptional circumstance (interest rate subsidy) assistance.

With the best "enabling" available it ignores the fact that in order to prepare for exceptional circumstances there needs to be a sufficiently long run of good seasons and prices (which they are not) need to be sufficient to be able to make a profit.

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All sorts of excuses abound as to why the industry has lost profitability such as the older demographic remaining in agriculture and consequent failure to adopt innovative technology. I do not buy that for a minute. The current generation of older farmers are still the same farmers who were the innovators of previous decades and those who have taken on off-farm investment demonstrate that they still have the ability to acquit themselves well in an industry which has the potential to be profitable.

The failed economic theory that believes that increases in productivity are endless and that only poor managers fail should be swept aside. Apart from the fact that it was ever a fashionable theory in a price taking market, the only unbelievable thing about it is that it still remains fashionable in some quarters.

The causes of a decreasing increase in productivity can be laid squarely at the feet of poor profitability, poor legislation, organisational structures that take a great deal of our money but are constrained from advocating on our behalf and some very stupid decisions of government.

Environmental legislation in all states has been and still is the greatest brake on increased productivity.

When the community wants to take all or part of a property owner's land, no matter how small, for infrastructure there is a process in place through the various State Acquisition of Land Acts to compensate them for the actual costs, the inconvenience and the involuntary nature of the acquisition.

When the community wants to lock up part of a farmer's land or productivity potential for environmental purposes they get nothing. The estimated cost of uncompensated environmental services is in the tens of billions (with a B) of dollars. The mining industry, with its high margins, claims not to be able to afford this sort of impost so why would any government think a pressed farming community can afford it?

The decision to suspend all live exports was a government decision that put a wrecking ball through the Northern beef industry and has had significant knock on effects through the rest of the country. No responsible government should destroy overnight any legal enterprise. Sovereign risk should be a feature of third world dictatorships, not first world democracies.

Significantly, Cattle Council of Australia who are tasked with advocating on behalf of the beef industry have consistently blamed the drought for poor prices through 2013 when all of us on the ground know that the live export suspension exacerbated the situation significantly. It is purely logical that the cattle which were destined for live export and their descendents had to go somewhere. That "somewhere" was a drought induced stressed cattle market.

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It was also a consequence known to significant, monopsony processing interests who not only vetoed the votes of the other peak councils of the Red Meat Advisory Council which advises the Minister and did advise the Minister differently to the livestock councils in the case of the live export ban, but actively participated in precipitating the ban.¹

We give credit to MLA Chair Michelle Allen for recognising the part played by the live export ban in making a drought induced situation significantly worse.

Prices paid for red meat in the US in 2013 reached record high levels but Australia had near record low levels paid for livestock. The market is all too easily manipulated.

If there are no figures available to put around this extra loss it is simply another measure of the powerlessness of the rural community.

We recognise that the argument of the economic dries would be that if the present generation of farmers was just brushed away they expect a wave of foreign investment to sweep through to revitalise the industry.

Not only is this trashing the experience, knowledge and expertise built up over generations (there is no hint of entitlement-just duty to fellow Australians) of how to farm in notoriously difficult conditions but it runs contrary to the experience in other countries.

There are various third world countries, particularly in Africa, where governments offer foreign investors free land, almost no regulation, certainly not environmental legislation, unlimited access to water and a very cheap labour force. Still these farm end up deserted and in ruins.²

The debt situation is dire and a significant analysis has been made by economist Ben Rees.

We ask that you support the Reserve Bank Amendment (Australian Reconstruction and Development Board) Bill 2013.

This however is only the first in a series of steps.

The Australian Competition and Consumer Act needs strengthening to ensure that no further consolidation of acquiring agricultural entities takes place and divestiture should be considered. Continuously selling into a market where the buyer (or one or two large buyers) sets the price is a recipe for long term market failure and this position has already been established and matured in the Australian market and particularly the beef industry which has had no protection from competition failure for a very long time..

¹http://qld.amieu.asn.au/files/2012/07/APRIL_2010_MEATWORKER.pdf page 2

² "the Landgrabbers", Fred Pearce, Transworld Publishers UK.

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Section 10BB (2) (b)

(b) the task (the ***development task***) of contributing to the development of Australian agriculture, associated industries and infrastructure by:

- (i) developing and offering financial arrangements; and
- (ii) reviewing financial arrangements;

The Board needs to recognise that in many agricultural industries “associated industries” and “infrastructure” owners are often meant to be in competition with the primary producer and that any assistance to those sectors should not be taken as de facto assistance to the primary production sector and should not disadvantage the primary production sector in any way.

Section 10BB(c)(iii)

(iii) market, organisational or informational failures;

gives the new Board the power to, hopefully, make recommendations on amendments to the Competition and Consumer Act and its enforcement .It could also recommend legislation to ensure that necessary market intelligence was gathered and disseminated to agricultural producers.

In spite of many dollars put into various “marketing and research” organisations the state of market intelligence has not improved in most industries for decades.

It is clear that rural organisations, including statutory organisations have mostly failed their industries. Hopefully they can be reformed.

Section 16 subsection 11(1)

It should also be necessary , not only to inform the Government of the Board’s policy but to have in place a mechanism for reporting policy to the public and taking submissions from the public so that they may influence policy for their industries in much the same way that a Senate Inquiry does. Just hearing from statutory or peak bodies is not acceptable.

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