



CITRUS AUSTRALIA – SA REGION (CASAR)

SUBMISSION BY CASAR

TO THE

AUTRALIAN GOVERNMENT

‘Working holiday maker visa review’

PUBLIC CONSULTATION conducted by DELOITTE TOUCHE TOHMATSU

on behalf of the

DEPARTMENT OF AGRICULTURE & WATER RESOURCES

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INTRODUCTION

CASAR is the peak citrus industry body representing South Australian citrus growers and also serves as an advisory group to the national peak body, Citrus Australia Ltd.

The South Australian citrus industry is made up of approximately 400 growers with 6,300 hectares and 2.5 million trees currently under cultivation. The majority of these growers are based in the Riverland region, where more than 200,000 tonnes or one third of the annual Australian citrus crop is produced.

In the citrus industry there is simply no other way to pick fruit than by hand. At the peak of the harvest season, several thousand workers are required to pick, pack, and process our produce.

Currently, this task is predominately performed by working holiday maker visa holders.

As explained in this submission, the sector through no fault of its own, has an over reliance on foreign workers to pick and pack our crops. This should not be the case, particularly in South Australia which has the highest unemployment of any state in Australia at 6.9%.¹

CASAR is therefore extremely concerned by the Australian Government's proposed removal of the tax free threshold for working holiday visa holders. While we support the deferral of this measure until 1 January 2017, we believe a longer term policy solution is required. Such uncertainty is placing on-farm workforce planning at risk.

A 32.5% tax take from \$1 earned is a massive disincentive for workers who traditionally come to Australia to not only work and earn income, but also spend a significant portion of that income on goods and services in countless regional communities throughout the Country.

We believe this proposed taxation regime will act as a deterrent to 'backpackers' from working in Australia and will have a perverse impact on the citrus industry and regional Australia more broadly, by removing critical labour supply of non-resident 417 and 462 visa holders.

The 'working holiday maker visa review' should assess the socio-economic consequences to regional communities from a reduction in visiting backpackers. It should also verify the gap in willing, local workers available to meet the labour requirements of the horticultural sector and outline reasons why the potential local workforce is not engaged in seasonal work.

CASAR formally extends an invitation to host Deloitte Touche Tohmatsu in a regional tour of the Riverland, in its capacity as the independent consultancy appointed to lead the public engagement for this review. This would be an opportunity to take evidence directly from South Australian citrus growers, packers and the seasonal workers who will be impacted by this policy outcome.

CASAR welcomes the Australian Government's initiative to establish this review. Following its completion by Deloitte, we ask that government commit to further consultation with industry peak bodies such as Citrus Australia, to develop the specific policy measures for overseas seasonal workers in the horticultural sector. We have identified two such proposals for consideration.

On behalf of our members, CASAR is pleased to provide the following submission, structured around the five key themes arising from the review's Terms of Reference.

¹ Source: ABS Labour Force Survey, Unemployment Rates (15+) by State and Territory, May 2016.

1.0 RELATIVE INTERNATIONAL COMPETITIVENESS

The South Australian citrus industry is made up of approximately 400 growers with 6,300 hectares and 2.5 million trees currently under cultivation. The majority of these growers are based in the Riverland region, which is well known for its fruit fly free status, making it one of the biggest citrus growing regions in Australia.

As well as citrus, the Riverland is a renowned horticultural region that is famous for wine and table grapes, nuts and stonefruit. Notwithstanding prolonged drought conditions, unprecedented low water allocations and low commodity prices in recent years, the region continues to attract both public and private investment to diversify its production base and improve efficiencies in irrigation. Combined with efforts to increase tourism to the region by improving housing and short-term accommodation, the Riverland is a popular destination for working holiday makers.

Almond plantations are expanding on a significant scale in the region off the back of high demand and the State's water buy-back scheme creating new incentives for irrigation projects. The \$265 million South Australian River Murray Sustainability (SARMS) program is funded by the Australian Government, under a National Partnership Agreement, and is being delivered by Primary Industries and Regions SA (PIRSA) over six years to mid-2019.

There has been considerable development of infrastructure leading to growth in the horticultural industry in the Riverland on a larger, commercial scale than the traditional 'block farming' model. This has seen a shift in the profile of citrus producers, with CASAR membership representative of large scale corporate operations to traditional farming family operations. This means there is strong demand for seasonal labour and increasingly, a permanent workforce to undertake a range of skilled and unskilled tasks on-farm relating to crop maintenance and fruit processing.

One third of the annual Australian citrus crop is now generated from the Riverland. Over half of this production is exported, with the local industry reliant upon access to over 25 key international markets including Japan, China, Hong Kong, Malaysia, Indonesia, United Arab Emirates, Philippines, United States of America and Singapore.

According to Horticulture Innovation Australia, Citrus is now Australia's largest fresh fruit export, with around 190,000 tonnes annually shipped to over 40 export destinations valued at \$270 million in 2015.² Our fruit is in high demand in key markets for its inherent quality and reliable supply, with strong forecast growth in international trade in the short-medium term.

Despite this trade performance, Australia remains one of the highest cost producers in the world relative to our major competitors. High input costs erode farm income and ultimately lower export earnings by the sector. Australian citrus has remained competitive by opening new markets through bilateral trade agreements and lowering non-tariff barriers in existing markets.

Australia competes in the global citrus market against high volume, low-cost producers such as Brazil, Argentina, Chile, Peru and South Africa, by maintaining high biosecurity standards and developing best-practice production systems and post-harvest technologies.

² Source: <http://horticulture.com.au/grower-focus/citrus/>

The industry collectively invests more than \$2.5 million each year in research and development activities to maintain Australia's international competitiveness, while adoption is supported by industry-funded extension programs held in regional Australia.

Citrus is harvested at optimal maturity and quality to meet the Australian Citrus Quality Standards, while Australian growers abide by strict agrichemical residue restrictions and food safety standards required in domestic and export markets.

Labour shortages in regional Australia experienced during harvest create significant production and financial risk to growers, as further explained in this submission. The citrus industry works hard to attract and maintain a reliable workforce of seasonal labourers, with shortfalls in local engagement filled by foreign workers, including backpackers.

Australia's relatively high wage structure is a key incentive to overseas workers. Combined with the availability of seasonal work, this acts as a major drawcard for backpackers and by extension, underpins the cultural outreach objectives of the visa category; whereby overseas holiday makers can self-fund their holiday arrangements in Australia by working during their stay. The ability of the citrus industry to attract this short term labour supply is directly linked to their earning potential (and hence taxation treatment).

Without a reliable labour supply the sector will be considerably constrained in its ability to capitalise on the good work of the Australian Government in recently securing free trade agreements with Korea, Japan and China. It therefore seems incongruous that new government policy would artificially restrict such labour supply for the horticulture sector at this time, by making such punitive changes to the taxation regime for working holiday maker visa holders.

CASAR submits that working holiday makers or non-resident 417 and 462 visa holders, play a critical role in maintaining the international competitiveness of the Australian citrus industry.

2.0 VISA LABOUR NEEDS OF THE AGRICULTURAL AND TOURISM SECTORS

In stark contrast to broadacre farming, which is capital intensive and employs very few workers, the horticultural industry is the personification of labour intensive as there is simply no other way to pick fruit than by hand. Citrus has particular labour market needs which are heavily reliant upon the existing working holiday maker program, for the reasons outlined below.

The annual Riverland crop of more than 200,000 tonnes of citrus requires several thousand workers to pick, pack, and process our produce at the peak of the harvest season. By way of illustration, the average worker can pick around 2.5 tonnes of oranges or 1.5 tonnes of either lemons or mandarins each day per person.

Demand for labour in the citrus industry peaks during harvest which occurs in autumn, although manual labour is also required at different stages of the growing season as shown in Table 1.

	TIME	GROWTH STAGE	LABOUR TASK
WINTER	MAY to NOVEMBER	Floral induction and initiation	Post-harvest pruning and hedging
	AUGUST to MID SEPTEMBER	Pre bloom / bud break	Pruning
		Bud break and flower development	
SUMMER	MID SEPTEMBER to MID DECEMBER	Flowering / full bloom and fruit set Cell division and physiological fruit drop	Light hedging, pruning and fruit thinning
AUTUMN	MID DECEMBER to APRIL	Fruit growth / cell expansion	Hand thinning
	MAY to NOVEMBER	Fruit maturation / harvest	Picking Packing

Table 1: Citrus Crop Management Calendar, adapted from Citrus Australia ‘Crop Regulation Calendar’

Source: <http://www.citrusaustralia.com.au/industry/growing-practices.htm>

At farm level, the viability of individual growers and packers in Australia is influenced by the cost and availability of labour, most notably during peak demands during the growing season. This period of demand is short, intense and highly dependent on the prevailing weather conditions. Due to relatively high production costs and low operating margins, there is limited capacity to attract local workers from other industries by offering above-award wages or conditions.

The timing of harvest relative to fruit maturation is a critical factor in determining both yield and quality potential, while fruit exposed to weather events during harvest heightens risks of downgrading. Late harvesting also creates a greater risk of producing lower crops in the following year, so the financial impact can extend over two seasons. Quite simply, without workers, the crop cannot be harvested and sold.

For these reasons, seasonal workers are required in large numbers for the intense periods to harvest fruit at peak quality. Workers are engaged directly or through labour hire companies, and predominately work on a piece rate agreement. This incentivises workers to increase picking rates

per day, in order to maximise earnings. This established practice lifts productivity in completing the harvesting task and optimises the quality of the fruit at maturation.

CASAR is concerned that any changes to taxation rates which reduce take-home earnings of piece rate workers (including removal of the tax free threshold) will provide a disincentive for labour productivity. This may create a considerable, unintended consequence for the horticultural industry at large and further erode the international competitiveness of citrus exports, by raising the cost of production through needing to engage more manual labour to complete the same task.

The 'backpacker tax' would change the earnings of working holiday workers from the first dollar earned, creating a considerable inequity between this class of worker and locals. This may translate in practice to informal employment arrangements (cash in hand) becoming more prevalent, placing workers at risk of exploitation in avoiding the proposed tax regime.

Seasonal workers in the Riverland are predominantly foreign residents on working holiday visas, attracted to the citrus industry due to the short term, high intensity nature of harvest work. The physical nature of the seasonal work in the citrus industry favours fitter workers and a high proportion of the workforce are backpackers travelling on 417 and 462 visas. The temporary accommodation arrangements provided for seasonal workers also reflects the needs of this demographic.

It should be noted that conditions attached to working holiday visas or extensions, such as the number of mandatory days required to be spent in a rural area, is another important consideration. This feature is a significant reason that rural based industries can presently rely on backpacker labour.

The availability of backpackers in the Riverland is of great benefit to the citrus industry. CASAR members report being regularly contacted by working holiday makers seeking casual work in the region, with a high motivation to work at short notice and a willingness to accept irregular work patterns. Once engaged, the backpacker labour force is generally reliable and hard working.

CASAR can attest that the industry's reliance on foreign labour is not by choice, as our growers would happily employ more Australian citizens if they were available. The Riverland has traditionally struggled to attract a local workforce, even by internal migration from outlying regional centres or from Adelaide. Townships such as Renmark experience very high unemployment rates well above the National average, as reported by the Department of Employment to be at 13.5% in the March Quarter 2016.³

The fact of the matter is that locals do not wish to work in the horticultural sector and they are not compelled to do so. Given the high rates of youth unemployment in the Riverland, this is a particularly frustrating situation for CASAR members. Yet this appears to be an ongoing, systemic problem faced by the agricultural sector in attracting willing and able local workers.

This is a complex area of policy which extends beyond taxation arrangements alone.

³ Source: [Data tables – Small Area Labour Markets – March Quarter 2016 \(Table 1 - SA2\)](#)

3.0 RELEVANT UNEMPLOYMENT POLICIES

As previously outlined, citrus is harvested at optimal maturity and quality to meet standards required in domestic and export markets. This task is undertaken by a large seasonal workforce that is required for intense periods of engagement, and care is needed in handling fruit and complying with workplace health and safety standards at all times.

As the citrus industry must maintain a reliable workforce of seasonal labourers, shortfalls in local engagement are more likely to be filled by foreign workers instead (rather than volunteer labour), due to factors of availability and willingness to work. Shifts are long and at times irregular due to weather events, with considerable demand for out-of-hours labour supply during peak harvest periods including weekends.

From past experience of CASAR members, the use of volunteer labour or other schemes of supervised activity to compel unemployed Australians to work picking and packing fruit is not readily suitable. Without a willingness to work, the productivity of that individual can be a major impediment to managing the harvest task and may divert resources in supervising teams of workers. This is not to say that harvest casual jobs cannot lead to further employment opportunities for motivated individuals.

It should be noted that demand for more skilled positions is expected to emerge from the expansion of commercial horticulture in the Riverland. The region will require more local workers year-round who can fill supervisory roles, and other trained positions such as irrigation hands, spray operators, managers, technical managers and tradesmen. This will require an investment in skills and training accordingly.

Incentives to get locals back into horticulture in the longer term are therefore essential. This will result in far greater employment outcomes than trying to get unemployed locals to pick and pack during harvest. Both groups require different skills for these work opportunities.

4.0 TAX TREATMENTS FOR VISA HOLDERS

CASAR is extremely concerned by the Australian Government's proposed removal of the tax free threshold for Working Holiday visa holders from 1 January 2017.

A 32.5% tax take from \$1 earned is a massive disincentive for workers who traditionally come to Australia to not only work and earn income, but also spend a significant portion of that income on goods and services in countless regional communities throughout the Country.

The economic stimulus provided in regional communities by working holiday makers should not be underestimated. Backpackers bring a new source of revenue to local businesses, spending which in turn benefits other sectors including tourism and hospitality. This multiplier effect is a major source of job creation and retention of young people in regional Australia.

If Working Holiday visa holders cease coming to Australia, despite the high unemployment rate, it is not simply a matter of substituting them with locals. There is already anecdotal evidence to suggest uncertainty about the 'backpacker tax' has caused a drop in visa applications and therefore supply of seasonal labour. This is of huge concern to our members in advance of next year's citrus harvest which is expected to be a big crop.

CASAR requests the review consider ways in which industry can continue to access a reliable labour supply through the visa system, either through:

1. The introduction of a new subcategory for unskilled horticultural workers, or via
2. The expansion of existing sub-categories, including the Pacific Seasonal Worker Scheme.

By reviewing these sub-categories of working visas, new efficiencies can be identified in the current system (such as the relevance of compulsory superannuation) in order to both improve taxation revenue and maximise earning potential for workers, while also helping to reduce the administrative burden to employers. This would be far more productive for the economy at large.

We note the Turnbull Government is seeking to enshrine in law that the objective for superannuation being "*...to provide income in retirement to substitute or supplement the Age Pension*", following the Financial System Inquiry chaired by David Murray.⁴ It therefore seems anomalous to apply the superannuation guarantee within the wage structures paid to non-resident 417 and 462 visa holders, who are temporarily working in Australia many years prior to their retirement overseas.

We believe there is merit in standardising the taxation and superannuation treatments of visa programs to make the system more equitable in the future for working holiday makers.

CASAR will remain opposed to the introduction of the 'backpacker tax' from 1 January 2017, until such time as a long-term solution for tax treatments for working holiday visa holders can be achieved with support of industry.

⁴ <http://sim.ministers.treasury.gov.au/media-release/053-2016/>

5.0 PROTECTIONS FOR VULNERABLE WORKERS.

Large numbers of citrus producers rely upon labour hire companies to source seasonal workers. This is particularly the case for smaller operators who do not have the capacity to directly engage workers; due to the general administrative burden of engaging staff as well as the recruitment, training and oversight of employees. The use of third parties to manage employment arrangements in compliance with Australian law is therefore essential to the horticultural industry.

For the purpose of this submission, CASAR has attained the following data from a local labour hire company, which clearly shows the majority of workers engaged as contractors are sourced from non-resident 417 and 462 visa holders.

	Total	Australian	417/462	Other
July 14 - June 15	2922	602	2142	178
July 15 - June 16	3709	613	2416	680
July 16 - 28/8/16	512	97	311	104

Table 2: Sample data of workforce composition, labour hire contractor operating in the Riverland

As previously explained, the proposed ‘backpacker tax’ may drive informal employment arrangements (cash in hand) given the disincentives for working holiday makers to engage in seasonal work and associated labour shortages creating demand. There is heightened risk of exploitation of workers who wish to avoid paying tax under this scenario, where agreements are reached to operate outside of existing laws and workplace regulations.

Given the public interest in recent cases of worker exploitation by a select group of non-compliant labour hire companies, this prospect arising from the ‘backpacker tax’ unfairly exposes reputable operators and the broader industry to further reputational risk and government regulation.

Any additional red tape brought in to protect foreign workers, would erode operating margins and add a greater compliance burden on all employers. We do not believe this is necessary under the current taxation arrangements because there is a strong incentive for non-resident 417 and 462 visa holders to access formal employment arrangements, pay tax and enjoy the benefits of award wages.

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