

Speech

Address to the ABARE Outlook 2008 Conference, National Convention Centre, Canberra, Future Challenges for Australian Agriculture

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E&OE

I begin by honouring the traditional owners of the land on which this conference is held, the Ngunnawal people. And Matilda, thank you for the welcome.

Thank you for the invitation today to discuss the Government's agenda for the future of Australian agriculture.

I believe Australia's agricultural sector will play a critical role in our economic future – as a force that generates prosperity, productivity and export growth, and that can help to lead Australia's response to climate change and long term water shortages.

After several difficult years, the prospects for parts of the farm sector are looking up.

But the long term challenges to farming communities are very substantial.

The Government does not take the view that the outlook for agriculture is a continually declining share of the national economy.

The Government sees the agricultural sector as part of the 21 st century economy - not a relic of the 19 th century.

We see agriculture playing an important role in our nation's mainstream economic policies to build a modern Australia, ready for the challenges of the 21 st century.

We don't see it as a sector whose interests should be left to be managed by the National Party as if it were some sort of feudal entitlement.

I am committed to governing for all Australians.

I am committed to ensuring that the Government builds a future for Australians in regional and rural communities.

That's why in our first three months in government, I've spent time talking to farmers in places like Dalby, Walgett and Kyogle as well as talking to representatives of the farming community.

I have a personal and long standing interest in Australian agriculture, having grown up on a farm in rural Queensland.

Rural Australia has been an important part of my life.

I feel at home in rural Australia.

I feel welcome there.

As do my cabinet colleagues.

For these reasons, because the bush is so much a part of Australia's life – and because of the sheer economic significance of agriculture to the economic life of the nation – the sector you represent commands the respect of government.

Today I want to address the Government's response to three core challenges facing Australian agriculture.

- First, the immediate challenges in the Australian macroeconomic environment from inflationary pressures;
- Second, the longer term challenge of lifting our competitiveness in global markets and finding new export markets, and
- Third, possibly the greatest long term challenge of all, dealing climate change and water shortages.

If we deal with those challenges, the real potential for Australian agriculture can be realised.

Challenges in Australia's macroeconomic outlook

The immediate challenge that we are facing comes from the uncertainty in the current macroeconomic outlook, reflecting a rising inflation threat in Australia against the backdrop of a slowdown in the United States and broader global economic uncertainty.

For Australian agriculture, the latest seasonal developments and commodity price movements have improved the sector's outlook, as the ABARE forecasts for 2008-09 released today show.

But the sector remains exposed to the impact of rising inflationary pressures.

Australia's rising inflation pressures has created an environment in which economic management has become a great deal more difficult.

Inflation is the enemy of agricultural producers as much as it is of Australia's working families.

The higher input costs being experienced by agricultural producers reflect an economy-wide problem in Australia, with the underlying rate of inflation now at a 16-year high of 3.6 per cent.

The deteriorating inflation outlook reflects capacity constraints across the economy that have been emerging for many years.

Those constraints have affected agriculture more than many sectors because of its reliance on infrastructure and its greater shortage of skilled workers.

These rising inflationary pressures have prompted the Reserve Bank to take aggressive action against inflation, with further consequences for the agricultural sector.

We have already seen 11 consecutive increases in the cash rate in the past six years, and the agricultural sector is hit especially hard by rising interest rates.

Combined with the high value of the Australian dollar, which has made exporters less competitive, the macroeconomic environment for many agricultural producers is very challenging.

The Government recognises the threat of high inflation and has begun implementing a five point plan to combat the immediate and longer term inflation threat :

- Exercising fiscal restraint, with a tough approach to public spending and a budget surplus target of at least 1.5 per cent of GDP this year;
- Building a culture of private saving with initiatives such as our new superannuation-style, low tax First Home Saver Accounts;
- Tackling the chronic skills shortages with 450,000 extra training places and a plan for an education revolution;
- Providing national leadership through Infrastructure Australia to address infrastructure bottlenecks; and
- Introducing measures to boost workforce participation including expanding the provision of quality affordable childcare and lifting the childcare tax rebate from 30 to 50 per cent.

The implementation of the five point plan will be stepped up in the months ahead.

Challenges in global markets

The second major challenge to Australian agriculture is the longer term challenge to lift productivity and competitiveness, and strengthen its performance in global markets.

Global markets present us with challenges such as persistent trade barriers, but they also present us with substantial opportunities.

The strong global economic growth in recent years, particularly in emerging economies, has increased world demand for food, driven up commodity prices and expanded high value markets.

Income growth in emerging economies, and the burgeoning middle class in nations like China and India, are changing global agrifood markets and creating tremendous new market opportunities for Australian agriculture.

Even so, these are intensely competitive markets and we will need to work hard to succeed in them.

The recent improvements in the outlook for Australian agriculture partly reflect the impact that increased global food demand has already had on commodity prices.

Farm commodity export earnings are forecast to reach \$31.4 billion in 2008-09 - an 18 per cent increase from the \$26.7 billion forecast for 2007-08.

The gross value of farm production is forecast to increase by 18 per cent to around \$46.7 billion in 2008-09 after an increase of nearly 14 per cent in 2007-08.

This is good news, but it is important to put it into the broader context of our relatively disappointing performance on global markets in recent years.

In the seven years since September 2000, export volumes have grown at an average annual rate of 1.8 per cent. This compares to average growth of 7.7 per cent over the preceding seven years.

In the period 1983-1996, net exports made a positive contribution to economic growth in 10 of those 13 years.

Since 1996, net exports have made a positive contribution to growth in only two of the subsequent years.

Australia has now recorded 69 consecutive months of goods and services trade deficits.

This is the longest series of trade deficits on record.

Our current account deficit has stayed above 5 per cent of GDP for longer than ever before, and we have inherited a foreign debt of \$570 billion, three times the level that the Liberal Government inherited from Labor in 1996.

The long term challenge we face is to return to the strong export growth of the '80s and '90s and to improve our external balance.

That challenge is even greater when we consider how much the strong terms of trade in recent years has masked our weak export performance.

But with the right investment in knowledge, innovation, modern infrastructure and productivity, Australian agriculture can succeed in global markets and win – including in highly value-added agricultural markets.

There are lessons in the previous successes of Australia's primary industries for the whole economy – in particular, lessons concerning the importance of productivity growth, innovation and the development and application of research-driven knowledge, as well as achieving export market access.

Improving productivity and success in global markets

The question for the Government that I lead is how we help generate a new wave of productivity growth in the agricultural sector so that we can successfully meet the challenge in global markets.

That requires investment in skills; infrastructure; investment in research, development and innovation; investment to improve water use efficiency; investment in climate change adaptation measures, reducing emissions and a more efficient regulatory and compliance regime at both a state and federal level.

This is the long term economic agenda that we are implementing, and the agricultural sector will be a significant beneficiary of it.

The Government has already begun tackling Australia's infrastructure and skills deficits.

We know that infrastructure bottlenecks are a drag on productivity, especially for the agriculture sector, which relies heavily on transport, water and communications infrastructure.

The government has established Infrastructure Australia to bring national leadership to infrastructure development for the first time since Federation.

In its first 12 months, Infrastructure Australia will audit the nation's infrastructure and produce an Infrastructure Priority List to guide public and private investment.

We recognise that broadband is an immediate infrastructure priority for rural and regional Australia and we will soon be establishing the Expert Panel to advise on the next steps towards building a high-speed National Broadband Network.

A second critical part of our productivity agenda is to tackle the skills crisis and create an education revolution in Australia.

If Australia is to enjoy sustained growth and compete successfully in the global economy, we need to invest in human capital.

Under the Skilling Australia for the Future package, the government is allocating \$1.2 billion over the next four years to fund an additional 450,000 training places, including 65,000 apprenticeships.

Legislation currently in Parliament will establish Skills Australia – a high level board of experts to advise on current and future demand for skills and training across all sectors including agriculture.

In relation to the agricultural sector, Skills Australia will be provided with industry intelligence by the Agri-Food Industry Skills Council, which will also be working more closely with the vocational education sector to deliver industry training needs.

The Government is also committed to fostering a culture of innovation. Innovation is critical to the competitiveness of agricultural

producers in both global and domestic markets.

Our research and development focus needs to emphasise how producers do business beyond the farm gate, as much as innovation in farm production.

In particular we should focus on where innovation is most relevant to global trade and investment markets.

The Government announced a review of Australia's national innovation system in January.

The review is designed to find ways for industry to better access new ideas and new technologies and to bridge the divide between industry and research.

Its results will be an important input to the development of the Government's policy approach to bolstering the capacity of the agriculture and agri-food sector to compete in the global economy.

Trade policy is of course another important part of the challenges we face in improving our global export performance.

The agricultural sector is perhaps more affected by changing global markets and by trade barriers than any other part of the Australian economy.

It therefore relies on the Government to achieve the best possible outcomes on market access, whether through multilateral, regional or bilateral agreements.

We are committed to using all options to expand opportunities for Australian exporters.

However Australia is above all committed to the liberalisation of world agricultural markets through the Doha round of negotiations in the WTO.

As Chair of the Cairns Group, Australia is doing all it can to reach out to other groups in the WTO to achieve progress.

The WTO Doha round negotiations offer the prospect of the largest gains, across the largest number of sectors and for the greatest number of economies.

But in the meantime we will continue to work hard on regional and bilateral initiatives that can deliver genuine progress in improving market access.

In February, the Trade Minister, Simon Crean, also announced a comprehensive review of export policies and programs.

The review will look at how we formulate export policy settings to ensure that our policy settings are effective in building long term international competitiveness.

The challenge of climate change and water shortages

Beyond the immediate challenges created by the current economic environment, the greatest long term challenge facing Australian agriculture is the impact of climate change - with rising temperatures, more frequent extreme weather events and less rainfall.

Climate change will substantially affect the long term productivity and profitability of the Australian agriculture and food sector.

It will change water availability and lead to more frequent droughts, floods and bushfires and alter the distribution of pests and weeds.

In December ABARE published an analysis of the impact of climate change on Australian agriculture. It highlighted serious impacts on agricultural production and exports, reaching the key conclusion and I quote:

"The economic impacts of climate change are projected to be considerable and unevenly distributed around the world, with developing countries suffering the most. Australia is also projected to be one of the most adversely affected developed regions given the importance of agriculture in its economy." (ABARE, *Commodities*, December 2007, p672)

ABARE's analysis estimated that a changing climate could reduce wheat, beef, dairy and sugar production by an estimated 9-10 per cent by 2030 and 13-19 per cent by 2050.

ABARE also found that exports of these key commodities are projected to decline by as much as 63 per cent by 2030 and as much as 79 per cent by 2050.

Climate modelling by the CSIRO and the Bureau of Meteorology has suggested rainfall in southern Australia could be reduced by up to 10 per cent by 2030 and 20 per cent by 2050.

This is why the Government regards our response to climate change as critical to the long term viability of Australia's agricultural sector.

Our response to climate change globally will require an economic transformation in coming decades.

We need to prepare for climate change, but we also need to be ready to seize new market opportunities that come with tackling climate change.

Because as well as difficult challenges, climate change will create opportunities for agricultural Australia.

Today I want to announce one opportunity that the Government will be investigating: soil carbon.

A few days after the Government was sworn into office last year, I visited Matt and Anna Ahern's cattlestud in Roma with Queensland Agforce President Peter Kenny and with Tony Burke, the Minister for Agriculture.

We discussed soil management practices on farms, and the scope for productivity improvements and reduced emissions from improving cropping practices.

Peter's plea to me was that if the Government wanted to do something about carbon emissions for agricultural Australia, we should focus on the soil.

I am hearing more and more about the possible potential of enhancing the carbon stored in our soils.

That is why today I am asking Tony Burke – as part of our *Australia's Farming Future* initiative – to investigate how better soil management can be part of Australia's response to climate change.

I recognise that this is a complex area and there is a variety of view points.

I am told that there are significant challenges to measuring the emissions from different farming techniques and estimating the carbon stored in our soils.

Those obstacles may make it difficult for soil carbon to play a role in our response to climate change, but we must examine the options.

The truth is that, as in many aspects of climate change, we are only just beginning to look at soil carbon.

'Low till' or 'no till' soil management practices were first promoted for their environmental benefits through the previous Labor Government's Landcare program that began in the early 1990s.

More recently in Parliament, the Independent MP for New England Tony Windsor has been a champion of these practices for their water conservation benefits.

We now need to investigate how such practices might provide Australian agriculture with a role in new markets related to reducing carbon emissions.

Climate change also elevates the importance of tackling our long term water shortages.

Securing a sustainable water supply for all Australians is one of the most fundamental challenges facing the agricultural sector as climate change impacts deepen.

We have an immediate problem resulting from the worst drought in 100 years with the situation in the Murray Darling Basin remaining critical.

Despite good rainfall and the floods in the north, inflows into the Murray system are still well below average due to very dry catchments and relatively high temperatures over the last six months.

The two year period to November 2007 recorded the lowest ever inflow to the Murray River. Inflows during this period were 43 per cent lower than the previous record low, which occurred at the end of 1938.

The Commonwealth and the Basin states are working together to manage this situation.

But we also have a longer term challenge of water shortages.

Improving water use efficiency is fundamental to driving on-farm productivity.

The benefits of these measures are real.

Last year I visited a farm around 20 kilometres to the east of Dalby, called Werrina Downs.

This property, owned by Kim and Jan Bremner, is a great example of the returns from investment in water saving infrastructure.

The Bremners had invested in a lateral boom irrigation system. This simple but effective technology has produced water savings in the order of 30 percent when compared with flood irrigation.

Encouraging the uptake of new technologies and infrastructure will be critical to managing our water shortages.

We need to make better use of water in both rural and urban Australia by modernising irrigation infrastructure and supporting households to install water saving devices.

We are committed to providing more confidence to those investing in the water industry through secure water access entitlements, better registry arrangements, monitoring, reporting and accounting of water use, and improved public access to information.

The government will support healthy rivers and groundwater systems by purchasing water to give back to the environment.

We will set a sustainable cap on the amount of ground water and river water we can use in the Murray Darling Basin.

The Commonwealth, States and territories are working through the Council of Australian Governments to identify opportunities for national action to ensure long term sustainable water use across Australia.

The Minister for Climate Change and Water, Penny Wong, chaired the first meeting of the COAG Working Group on Climate Change and Water on 25 January. Another meeting is scheduled for later this week.

In addition to our national response to water shortages, we need to improve drought policy and climate change programs to help farmers prepare for climate change.

In recent years I have travelled widely in regional Australia, including in my role in the trade portfolio and later as leader of the Parliamentary Labor Party.

I have seen first hand the impact of the drought across many parts of the country.

Drought is cruel.

Its effects don't stop when the rains come.

The impact on individuals and communities that have been forced to question their own long term survival is lasting.

It is hard to shake the images of drought-ravaged land from your mind even when you are only in drought territory for a short time.

How much harder it has been for people in farming communities labouring on dry, arid land year after year.

We can only hope that the drought is breaking.

Of course the science of climate change tells us that the medium to longer term seasonal conditions for agriculture will continue to get tougher.

The Exceptional Circumstances drought policy, introduced by the Hawke Labor Government, has served farmers and rural communities well.

This policy is based on a model of a one-in-25 year drought and assumes rainfall will return to past seasonal conditions and does not factor in climate change.

This approach needs updating.

I have asked the Minister for Agriculture, Fisheries and Forestry, Tony Burke, to work with the farming community and state and territory governments to develop options to improve drought management.

Let me make it clear, though, that the government will not be walking away from farmers in difficulty.

The government wants to ensure, however, that any assistance provided improves the resilience of farmers and farm businesses for the future.

So that every time a farmer connects with the Government, he or she goes away better prepared for climate change.

The government will invest \$130 million over four years in the Australia's Farming Future initiative to help primary industries prepare for the impacts of climate change.

The initiative comprises three elements:

- The \$15 million Climate Change and Productivity Research Program will boost research on how farmers can respond to climate change. For example, the program might fund research into on the ground measures such as water use efficiency, or

work on using and applying climate modelling and seasonal forecasting.

- The \$60 million Climate Change Adaptation Partnerships Program will include measures such as workshops to improve farmer awareness and understanding of the impact of climate change on agriculture, and on-farm climate change adaptation strategies such as property management plans.
- The \$55 million Climate Change Adjustment Program will help farmers adjust to climate change by funding professional advice, financial management training and re-establishment grants.

Climate change also raises risks associated with threats to biosecurity.

As climate change accelerates, diseases and pests will thrive in new areas.

Australia has been able to keep out many of the exotic pests and diseases that have devastating effects elsewhere in the world.

However, with ever-greater movements of goods and people, the risk of pests, weeds and disease entering Australia is increasing constantly.

We have seen the re-emergence of foot and mouth disease in the United Kingdom and the emergence of Avian Influenza in Asia, Europe and Africa.

More recently, Australia's horse owners and horse-related industries have suffered the devastating consequences of an outbreak of equine influenza.

Our quarantine and biosecurity arrangements must adapt to these evolving risks.

To this end, the government has announced a broad-ranging, independent review of Australia's quarantine and biosecurity arrangements.

This review will deliver on a key election commitment and will be the most wide-ranging and important review of our quarantine and biosecurity arrangements since the Nairn review was commissioned by the previous Labor government in 1995.

Our quarantine system also has a significant impact on the cost of doing business for both importers and exporters.

This review will also consider a range of issues including the effectiveness of import and export inspection and certification; and the scope and adequacy of the current quarantine arrangements as they affect business.

The challenges to the future of Australian agriculture are great, but we must not lose sight of the enormous opportunities for this sector given our natural competitive strengths.

To succeed in addressing those challenges, we need to draw out the best ideas for Australia's future from all parts of the community.

As you may be aware, on April 19th and 20th the Government will host the Australia 2020 Summit to help shape a long term strategy for the nation's future.

One of the ten core challenges being examined by the summit is future directions for rural industries and rural communities.

We want to hear new ideas about which rural industries are best positioned to take advantage of the global consumer markets of the 21st century.

We are asking what options are possible for effective structural adjustment for rural industries and communities suffering the long term impact of climate change?

And we are seeking view on what is the best way the Government can ensure the long term sustainability of rural and regional communities, including the fostering of the next generation of Australian farmers?

If you have thoughts on these or other issues relating to the future of agricultural Australia and rural communities, I invite you to make a submission through the Australia 2020 website.

In the meantime, I look forward to hearing of the ideas that emerge at this year's Outlook 2008 conference. I wish you the very best for today and tomorrow's proceedings.