



Submission to the Australian Fair Pay Commission

28 July 2006

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EXECUTIVE SUMMARY

- In terms of the development of the federal minimum wage, the National Farmers' Federation (NFF) has been a proponent of the view that wage increases should be based on productivity gains at the workplace and as such the establishment and maintenance of legislative based minimum wages should fundamentally be based on one federal minimum wage to ensure an adequate safety net.
- NFF seeks an outcome from the Australian Fair Pay Commission that will enhance workplace flexibility and productivity through flexible labour markets where remuneration is clearly linked to productivity growth.
- If the Commission believes a wage increase is warranted, NFF submits that any increase to the federal minimum wage should be set at a moderate and reasonable level that is no more than the CPI rate. An increase beyond the CPI rate would not be consistent with the NFF objective of wage increases being set in accordance with productivity gains at the workplace.
- NFF submits that the capacity of the unemployed and low paid to obtain and remain in employment is premised on the ability of industry to generate employment.
- NFF seeks that the Australian Fair Pay Commission take into account the capacity of each industry to pay a wage increase and as a consequence the industry's ability to provide new employment opportunities as opposed to decreasing employment due to the enforcement of wage increases beyond what is reasonable.
- Australia continues to endure drought conditions across a large portion of prime agricultural country. As a result, many farmers have been declared by Government as facing exceptional circumstances.
- The future of Australia's agriculture industry, particularly its capacity to contribute to growth and jobs, depends largely on the conditions they face in overseas markets. However, with declining terms of trade in this sector expected to continue on world markets, Australian agriculture is being challenged to maintain a low cost base in order to remain competitive. Indeed, Australia's balance of payments is strongly dependent on this being the case.
- Demand for labour in regional Australia is more responsive (elastic) to wage changes than in the cities. This is believed to be largely a result of high amounts of family labour which is used as a substitute for hired labour, especially when wages are high (Lewis Report, 2003).

● **INTRODUCTION**

1. The National Farmers' Federation (NFF) is the peak farm lobby group in Australia and represents producers of all major commodities in the federal arena. NFF is responsible for international and national issues which affect more than one State or more than one commodity. NFF does not have individual farmer members rather NFF members are either State Farm Organisations or National Commodity Councils.

2. Member of NFF are the following organisations:

State Farm Organisations	National Commodity Councils
AgForce Queensland	Australian Cane Growers Council
New South Wales Farmers' Association	Australian Dairy Farmers Limited
Northern Territory Cattleman's Association	Australian Dried Fruits Association
Pastoralists' and Graziers' Association of Western Australia	Cattle Council of Australia
South Australian Farmers' Federation	Cotton Australia Limited
Tasmanian Farmers' and Graziers' Association	Grains Council of Australia
Victorian Farmers' Federation	Ricegrowers Association of Australia
	Sheepmeat Council of Australia
	WoolProducers

3. NFF is a long-term contributor in the area of workplace relations policy in Australia and has been a strong advocate in the Australian Industrial Relations Commission on behalf of the agricultural industry.

4. In continuation of the NFF contribution to workplace relations policy in Australia, we seek to provide a submission to the Australian Fair Pay Commission in regard to the making of its first minimum wage review and decision in accordance with section 22 of the Workplace Relations Act 1996 (the Act).

5. In terms of the development of the federal minimum wage, NFF has been a proponent of the view that wage increases should be based on productivity gains at the workplace and as such the establishment and maintenance of legislative based minimum wages should fundamentally be based on one federal minimum wage to ensure an adequate safety net.

6. That is, NFF seeks an outcome from the Australian Fair Pay Commission that will enhance workplace flexibility and productivity through flexible labour markets where remuneration is clearly linked to productivity growth.

7. The principles espoused by NFF on workplace relations matters are as follows:

Australian farmers' support flexible labour markets so that:

- *Productivity growth is rewarded for effort;*
- *Employers and employees can work co-operatively to the mutual benefit of both parties;*
- *Flexibility and competitiveness are increased by continuing to remove excessive regulation;*
- *Employers and employees can negotiate workplace conditions at an enterprise level without undue intervention of third parties;*
- *Employers with good management practices are rewarded and encouraged to respond to domestic and international demands by giving them greater workplace flexibility; and*
- *Employees who develop skills and increase their efficiency are rewarded.*
- *Australian farmers' believe that flexible labour markets need to be underpinned by a safety net of minimum conditions and entitlements focussed on core conditions and a minimum wage rate.*

8. In essence, NFF seeks that the Australian Fair Pay Commission considers that wages be best determined at the workplace and that any increase to the Australian Pay and Classification Scales be confined to the federal minimum wage level.

9. Further, that if the Commission believes a wage increase is warranted, NFF submits that any increase to the federal minimum wage should be set at a moderate and reasonable level that is no more than the CPI rate. An increase beyond the CPI rate would not be consistent with the NFF objective of wage increases being set in accordance with productivity gains at the workplace.

INTERPRETATION OF THE WAGE-SETTING FUNCTION

Section 23

10. The Australian Fair Pay Commission, in accordance with section 23 of the Act, is required to promote the economic prosperity of the people of Australia. In particular the Commission is to have regard to the following:
 - (a) the capacity for the unemployed and low paid to obtain and remain in employment;
 - (b) employment and competitiveness across the economy;
 - (c) providing a safety net for the low paid;
 - (d) providing minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market.

11. The Commission has to be particularly mindful that its wage-setting function objectives differ from those considered by the previous wage setting body, the Australian Industrial Relations Commission. In particular, taking into account the capacity for the unemployed and low paid to obtain and remain in employment and employment and competitiveness across the economy.

12. NFF submits that the capacity of the unemployed and low paid to obtain and remain in employment is premised on the ability of industry to generate employment. Employment cannot be generated if minimum wages are set at a level that is not commensurate with the capacity of the business to pay wages. The agricultural industry does have the capacity to provide jobs for those who are unemployed and/or with a low skill base, particularly in seasonal work. However, as a consequence of other costs impacting on the business combined with static or decreasing commodity prices, many farmers do not have the capacity to accommodate significant wage increases including the magnitude of those provided by the Australian Industrial Relations Commission in recent times.

13. The capacity of the individual workplace to remunerate their employees within the parameters of their capacity to generate income should be determined at the individual workplace not by a centralised agency taking a very macro approach to wage setting. Instead, NFF submits that

the workforce market should determine which employer an employee will seek to work for based on wage rates including whether they are paid at above minimum wages and what are the working conditions. This approach, in the submission of the NFF, is the most appropriate course of action to best assist the unemployed and low paid to obtain and remain in employment.

14. NFF does not support the approach that high wage increases be forced on business combined with the enforcement of wage increases at all classification levels without any acknowledgement as to whether it was appropriate for the workplace and each of their employees to be granted a wage increase regardless of output across the business or the output of each individual employee.
15. With specific reference to subsection (b), NFF submits it is critical that the Commission takes into consideration that all industries have the ability to create employment and maintain competitiveness. That is, it is inappropriate to take a broad macro approach that as a consequence has a detrimental impact on some industries that may otherwise have a capacity to increase employment in the economy. Such an inappropriate approach has been accepted in the past by the Australian Industrial Relations Commission with the acknowledgement by that tribunal that increases awarded may have a detrimental impact on highly award reliant industries that also have a higher than average number of lower skill based and, therefore, lower wage based employees. NFF rejects this approach and seeks that the Australian Fair Pay Commission take into account the capacity of each industry and as a consequence their ability to provide new employment opportunities as opposed to decreasing employment due to the enforcement of wage increases beyond what is reasonable.

Economic Incapacity

16. In some instances in previous national wage cases or flow on cases, NFF has argued that there is an economic incapacity for farmers to accommodate any wage increases. The most recent being before the Australian Industrial Relations Commission in 2003, initially in the Safety Net Review Case 2003 and then a subsequent application with specific reference to the Federal Pastoral Industry Award as a consequence of the worst drought in 100 years.

17. In the 2003 SNR decision, the NFF's application was rejected by the Full Bench of the Australian Industrial Relations Commission, despite what we believed was a fair and reasonable proposition based on the argument that only those farmers who had been declared by the Federal Government as eligible for Exceptional Circumstance Assistance Payments would be covered by a ruling on economic incapacity. NFF was seeking the opportunity to try and stem the flow of job losses in the industry but at the same time attempting to provide a simple mechanism to identify those employers who could meet the test of economic incapacity as previous industry wide attempts to argue economic incapacity had proven fruitless.
18. A subsequent application with reliance on the same arguments was put in specific reference to the Pastoral Industry Award. While NFF was technically successful in that application, the requirements placed by the Australian Industrial Relations Commission to access the ability to delay a wage increase were so insurmountable that it was not practical for any farmer to seek to access the mechanism. NFF was particularly astonished that to access the delay in the wage increase, a farmer would be required to file all their financial records to the Commission and to the union regardless of whether any employee was a union member.
19. For background material about the economic incapacity argument put to the Australian Industrial Relations Commission in 2003, the relevant submissions and subsequent decisions of the Commission are attached:
- NFF submission to the Safety Net Review Case 2003 (marked A)
 - AIRC decision of the Safety Net Review 2003 (marked B)
 - NFF submission to the Pastoral Industry Award (marked C)
 - AIRC decision of the Pastoral Industry Award (marked D)
20. NFF is not arguing economic incapacity of the agricultural industry to pass on any wage increases for this year, but rather identify to the Australian Fair Pay Commission that the NFF believes that the previous approaches taken by the Australian Industrial Relations Commission were unreasonable and identifies the need for a new approach by the Australian Fair Pay Commission in how to balance a macro approach to wage setting in Australia to determine a minimum wage level while at the same time recognising the specific difficulties for certain sectors despite overall good economic conditions.

21. There are two alternative approaches the Australian Fair Pay Commission could take in dealing with the difficulties for some industries or components of some industries to accommodate wage increases at the minimum level. The first and more cumbersome approach is continue with the style of approach adopted by the Australian Industrial Relations Commission, that is, provide avenues for special circumstances where certain exemptions can apply to the ruling. The difficulty with this approach is providing a test to determine who would be eligible for special circumstances and when do the circumstances apply. The alternative approach is that favoured by the NFF, that is, that if any increase to the minimum wage is deemed appropriate then it should be set at a level that ensures that all industries have the capacity to pay rather than using an averaging approach.

Timing of Wage Increases

22. In recent times the wage increases flowing from the Safety Net Review Cases have been provided on the basis that no more than 12 months has elapsed since the last wage increase (see Australian Industrial Relations Commission Statement of Principles). As a consequence of this convention, it has been argued by the Australian Council of Trade Unions that wage increases must be provided every 12 months. NFF refutes that claim.
23. The Statement of Principles established no more than 12 months and not retrospective but never stipulated that it had to be exactly 12 months but convention dictated that this would occur to all awards in most instances.
24. There is also a myth being perpetuated by the Australian Council of Trade Unions that by the time the Australian Fair Pay Commission hands down a decision there would have been a delay in 18 months since the last wage increase not the usual 12 months. NFF states that this is simply a myth. First, there was no requirement under either the Australian Industrial Relations Commission wage setting functions or is it a requirement of the Australian Fair Pay Commission that the wage determination must be 12 months apart – no more, no less. Secondly, many awards including those in the agricultural industry did not experience the flow on of Safety Net Review decisions immediately upon the handing down of the decision and so will not have experienced the alleged delay in the wage increase for 18 months. For example, the flow on of Safety Net Review decisions to the Pastoral Industry Award could not occur any earlier than 31 October of each year.

25. The process of the Australian Fair Pay Commission obviously differs because all Australian Pay and Classification Scales will be varied in accordance with any decision at the same time as opposed to the staggered approach which was required previously as a consequence of the process under the Australian Industrial Relations Commission.
26. There is nothing in the Act that prescribes a requirement for wages to be increased every 12 months, in fact the Act stipulates that it is the role of the Australian Fair Pay Commission to determine, amongst other things, the timing and frequency of wage reviews and the timing of the implementation of any decision in accordance with section 24 of the Act. NFF, therefore, submits that the Australian Fair Pay Commission should not be swayed by the argument that there has been an 18-month delay and instead consider what timing is fair and reasonable for all parties affected by the decision.
27. NFF submits that the Australian Fair Pay Commission needs to determine the timing of the implementation of a decision to increase wages in terms of business cycles. The most important consideration for business is the ability to minimise uncertainty particularly in relation to business costs. As such, it would be more appropriate that business be provided the time to account for those increases in wages and budget accordingly. NFF submits that there should be a minimum 3 month delay from the handing down of a decision until the operation of an increase applying to minimum wages.
28. NFF further submits that to increase certainty for business and budget accordingly, there is a need to determine the frequency of when wage reviews are to be conducted as the wage review now is initiated by the Australian Fair Pay Commission itself as opposed to initiation in the form of an application by the ACTU in the Australian Industrial Relations Commission. NFF believes it would be appropriate for the Australian Fair Pay Commission to question whether it is consistent with the principle to encourage agreement making to have wage reviews every year.
29. To assist the Australian Fair Pay Commission to determine whether a wage increase and if so at what quantum is required for 2006, the NFF provides information in the coming sections of the submission in respect to the status of the agricultural industry.

PROFILE OF THE AGRICULTURE INDUSTRY

Agricultural Land Usage

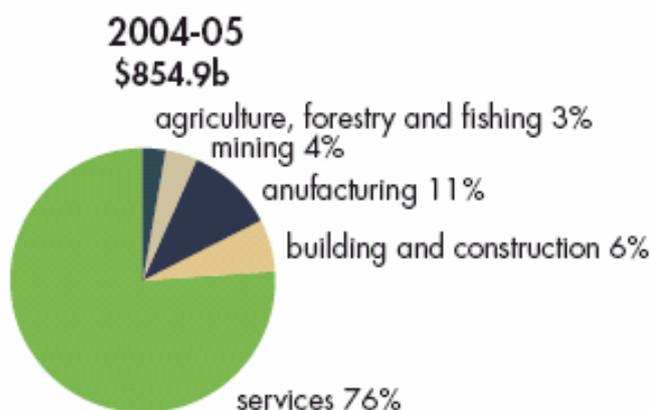
- 30. There are approximately 130,000 commercial farms in Australia, utilising approximately 58 per cent of Australia's land mass (ABS, 2006).
- 31. The average value of farming operations in 2004-05 was \$124,000, with 16 per cent of farms under \$22,500 and 14 per cent worth \$500,000 or more (ABS, 2006).
- 32. The major agricultural commodities in 2003-04 in terms of Gross Value of Production were beef, wheat and horticulture. The type of agricultural production in different areas is dictated largely by climate, soil types and water availability (Stocktake, 2005).

Figure 2.3 **Major Australian farm industries: gross value of production** In 2003-04 dollars



Agriculture's Contribution to the Economy

33. In 2004-05, the agricultural sector contributed 3 per cent of Australia's total Gross Domestic Product (GDP) of \$854.9 billion. The Gross Value of Farm Production in 2004-05 equated to \$36.2 billion (ABARE, 2006).



34. Including the value-added activities that occur to farm outputs post farm-gate, and the value of all the economic activities supporting farm production in the farm-input sector, agriculture has averaged a contribution of 12.1 per cent of GDP or \$72 billion in the six years ending 2003-04 (Australian Farm Institute, March 2005).
35. Agriculture accounts for around five percent of Australia's investment effort and a similar proportion of Australia's net stock of capital (Productivity Commission, 2005).
36. Key Points: Agriculture is a key contributor to the Australian economy.

The Impact of Drought on Australian Agriculture

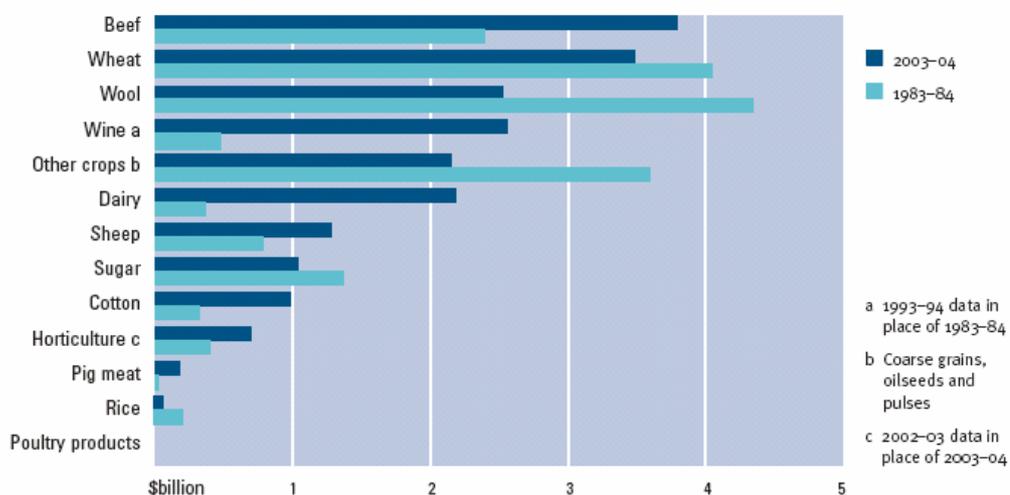
37. It has been well reported that Australia has just experienced one of the worst droughts in over 100 years. However, it would be wrong to suggest that Australia has completely emerged from the dry conditions, and many regions continue to experience drought.

41. Key Points: Australia continues to endure drought conditions across a large portion of prime agricultural country. As a result, many farmers have been declared by Government as facing exceptional circumstances.

Australian Agricultural Exports

42. In 2004-05, Australian agricultural exports were valued at \$27.6 billion. These exports account for approximately 65 per cent of Australia's agricultural production volume and 75 per cent of value (ABARE, 2006). The share of agricultural production exported ranges from 98 per cent of wool production to 51 per cent of milk production (Stocktake, 2005).
43. In 2004-05 agricultural products, including processed food and beverages, accounted for one fifth (20.8 per cent) of Australian merchandise exports (www.dfat.gov.au).
44. For farm commodities, the index of unit export returns is forecast to decline by 0.9 per cent in 2006-07, following an estimated rise of 2.0 per cent in 2005-06. While world indicator prices are forecast to average higher in 2006-07 for wheat, corn, soybeans and cotton, the effects are expected to be more than offset by lower prices for beef, wool and dairy products (ABARE, 2006).
45. The below table represents the major farm industries in terms of export value to Australia (Stocktake, 2005).

Figure 2.6 Major Australian agricultural exports In 2003-04 dollars



46. Key Points: The future of Australia's agriculture industry, particularly its capacity to contribute to growth and jobs, depends largely on the conditions they face in overseas markets. However, with declining terms of trade in this sector expected to continue on world markets, Australian agriculture is being challenged to maintain a low cost base in order to remain competitive. Indeed, Australia's balance of payments is strongly dependent on this being the case.

Global Trade in Agriculture

47. Globally, agricultural trade is the most distorted sector of trade in goods. In no other areas are trade barriers as high, with average tariffs more than three times higher than in non-agricultural goods, and some tariffs reaching as much as 800 per cent (www.dfat.gov.au).
48. In no other area does domestic support distort international markets to the extent that it does in agriculture, with over US\$257 billion in 2003 in support and protection for agriculture by rich developed countries worldwide (www.dfat.gov.au).
49. In no other area are export subsidies tolerated. For manufactured goods, export subsidies were recognised - and prohibited - as the most harmful form of subsidies in the early stages of post-war multilateral trade negotiations (www.dfat.gov.au).
50. Worldwide, agriculture remains the sector with the highest level of domestic support, even though there has been some reduction in levels of agricultural financial support and protection in the major developed countries in recent years. The Organisation for Economic Cooperation and Development (OECD) annually assesses, in each of its member countries, levels of gross transfers from consumers and taxpayers to agricultural producers, expressed as a percentage of gross farm receipts (Producer Subsidy Estimate - PSE). The 2004 PSE showed the highest levels of assistance in three of the highest per capita GDP economies in the world - Switzerland (68 percent), Norway (68 percent) and Japan (56 percent). The 2004 PSE for Australia was only 4 percent (www.dfat.gov.au).
51. Australia has reduced its own tariff levels on agricultural and food products since the early 1970s through a series of across-the-board measures and as the result of inquiries into particular industries and commodities. General tariffs have been phased down to 5 percent.

Substantial cuts have been made in assistance to import-competing industries (www.dfat.gov.au).

52. Key Points: Australian agriculture, while strongly reliant on export markets, is competing on unfair terms. The industry has maintained its competitive position on world markets by productivity and efficiency gains.

Farm Business Performance and Terms of Trade

53. The Australian Productivity Commission report, Trends in Australian Agriculture (2005), demonstrates that productivity growth in agriculture has more than doubled over the past 14 years, consistently outperforming other sectors. Improvements over the past 30 years have resulted in a national 'productivity dividend' of more than \$170 billion (Productivity Commission, 2005).
54. Farmers' terms of trade in 2004-05 were 9.9 per cent lower than they were in 1997-98 (i.e.: the price of farm inputs has been rising faster than the prices received for agricultural commodities). They have been steadily decreasing since 2001-02 (ABARE, 2006).
55. Australian farm production volumes in 2004-05 were 10.8 per cent above volumes in 1997-98. Crop production had increased by 17.1 per cent in this period while Livestock production had increased by 3 per cent (ABARE, 2006).
56. However, in the face of declining terms of trade, Australian farmers have been able to remain internationally competitive and sustain their businesses and incomes largely through productivity growth (Stocktake, 2005).
57. Average profits for rural businesses in 2003 were only 59 per cent of non-rural businesses. Rural businesses are also unable to attain the same economies of scale as urban businesses (Lewis Report, 2003).
58. Regional businesses have a problem growing at the same rates as businesses in the city due to a lack of access to finance and the fact that the majority of the \$5.7 billion in compulsory

superannuation is invested in metro and international markets (Lewis Report, 2003). Other factors contributing to the difficulties faced by rural businesses include the following:

- Often subject to greater seasonal fluctuations.
- Higher input costs due to transportation.
- Declining Terms of Trade.

(Lewis Report, 2003)

59. The costs of regional businesses are considerably higher than in metropolitan areas. Over the five years to 2000, the expenditure for every dollar of profit increased for the average regional business by almost 8 per cent, while in the cities, it became 11 per cent lower. Regional businesses are not as profitable as their metropolitan counterparts and the gap is widening (Regional Business – A Plan for Action, 2003, DOTARS).

60. Key Points: Agriculture does not have the revenue earning capacity of metropolitan based businesses yet have managed to maintain profitability on the basis of productivity gains.

EMPLOYMENT IN AGRICULTURE

61. In 2004-05 there were 312,000 people directly employed in Australian agriculture. This number has decreased from 386,000 (19 per cent) in 2001-02. ABARE expects this trend to continue in 2005-06, with the number of people employed in agriculture to decrease to 305,000 (ABARE, 2006). This is despite the well publicised problem of labour shortages in the agricultural industry in Australia, particularly seasonal labour. (For more information about labour shortages in the agricultural industry see the NFF Labour Shortage Action Plan at www.nff.org.au)
62. The complete agricultural supply chain including affiliated industries accounts for over 1.5 million jobs to the Australian economy. For every million dollars of Agricultural Sector GDP, there are 22 jobs in the Agricultural Sector and an additional 65 jobs in the rest of the value chain (Australian Farm Institute, March 2005).
63. In August 2005, the mean weekly earnings of employees in all jobs was \$807, an increase of \$41 (5 per cent) since August 2004. The median weekly earnings of employees in their main job was \$700. However, it should be noted that changes in average earnings may be affected not only by changes in the level of earnings but also by changes in the overall composition of the employee workforce, including changes in:
- Proportions of full-time and part-time employees
 - Number of hours worked
 - Mix of occupations and industries.

64. Table 4 outlines the mean weekly wage by industry. The mean wage for agriculture, forestry and fishing is 15 per cent below the national average.

4

EMPLOYEES IN MAIN JOB, Mean weekly earnings in main job—By selected characteristics

Industry	FULL-TIME EMPLOYEES			PART-TIME EMPLOYEES			TOTAL		
	Males	Females	Persons	Males	Females	Persons	Males	Females	Persons
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Agriculture, forestry and fishing	781	652	764	324	297	308	727	461	667
Mining	1 572	1 232	1 534	*453	*608	*560	1 556	1 102	1 496
Manufacturing	995	799	951	414	410	411	963	699	893
Electricity, gas and water supply	1 302	998	1 250	*982	629	717	1 294	898	1 208
Construction	970	787	958	476	456	466	942	620	905
Wholesale trade	995	808	950	350	442	411	946	683	865
Retail trade	795	669	747	199	241	228	590	390	482
Accommodation, cafes and restaurants	772	639	714	282	263	269	573	385	463
Transport and storage	1 025	866	994	465	459	462	975	732	913
Communication services	1 113	922	1 057	339	514	456	1 060	814	977
Finance and insurance	1 375	982	1 194	841	504	532	1 356	833	1 070
Property and business services	1 240	892	1 107	404	432	423	1 124	728	944
Government administration and defence	1 114	985	1 058	450	526	513	1 073	851	961
Education	1 144	998	1 055	510	443	456	1 007	763	841
Health and community services	1 143	837	930	477	472	472	1 006	647	722
Cultural and recreational services	999	910	963	394	298	329	824	570	692
Personal and other services	999	727	896	335	310	315	928	540	734

(ABS 6310.0, 2005)

65. Casual employment is used intensively in agriculture, forestry and fisheries, comprising 42.0 per cent of all employment in the industry (Productivity Commission, 2005).

66. Agriculture, forestry and fishing stands out in terms of its use of self-employed contractors, with almost a quarter of their workforce engaged in this form of work (Productivity Commission, 2005).

67. Demand for labour in regional Australia is more responsive (elastic) to wage changes than in the cities. This is believed to be largely a result of high amounts of family labour which is used as a substitute for hired labour, especially when wages are high (Lewis Report, 2003).

68. The cost of living in regional areas is seen to be 4 per cent lower in regional Australia than in capital cities based on a study into a representative bundle of goods (the cost of living for

regional areas is lower in all states except for WA). Therefore, the same dollar amount of wage increase, improves the standard of living by a greater degree in rural Australia than for non-rural Australia. The lower cost of living in country areas can largely be attributed to housing costs, which can sometimes be free or subsidised in regional areas. (Lewis Report, 2003)

69. Key Points: - Australian agriculture has a higher proportion of casual labour and self-employed contractors than other industry sectors. Demand for labour in regional Australia is more responsive (elastic) to wage changes than in the cities. The cost of living in regional areas is lower than that in the cities.

CURRENT ECONOMIC CONDITIONS

Australian Economic Prospects

70. Despite significantly higher oil prices, economic performance in Australia increased in early 2006. Real gross domestic product, seasonally adjusted, rose by 0.9 per cent in the March quarter 2006, compared with a rise of 0.7 per cent in the December quarter 2005. The unemployment rate was at 4.9 per cent in May 2006, the lowest in thirty years (ABARE, 2006).
71. Reflecting strong world demand for mineral resources, the Australian economy is expected to continue to benefit from higher commodity export earnings. While housing activity and growth in consumer spending could be modest, business investment expenditure, especially in the mineral resources related industries, is expected to rise significantly, providing support for growth in general economic activity. This is placing pressure on agriculture's access to resources (ABARE, 2006).
72. Economic growth in Australia is assumed to average 3.25 per cent in 2006-07, compared with an estimated rate of 2.5 per cent in 2005-06 (ABARE, 2006).
73. Inflation is expected to be 3 per cent in 2005-06 before decreasing to 2.75 per cent in 2006-07. This has been driven by higher oil prices. Interest rates are expected to continue to increase in 2006-07 (ABARE, 2006).
74. As at June 2006, the value of the AUD against the \$US was more than 25 per cent above the average for 2002-03 and 40 per cent above the average for 2001-02. With approximately 75 per cent of total Australian agricultural production value coming from exports, this has had a real impact on farmers' terms of trade (ABARE, 2006).

	2003	2004	2005	2006
Australia	-04	-05	-06 s	-07 f
Economic growth	% 4.00	2.50	2.50	3.25
Inflation	% 2.40	2.40	3.00	2.75
Interest rates g	% 8.7	8.9	9.1	9.4
Australian exchange rates				
US\$/A\$	0.71	0.75	0.75	0.74
Yen/A\$	76.7	82.5	85.5	85.8
TWI for A\$ h	61.0	63.0	63.0	63.0

a Indonesia, Malaysia, the Philippines, Singapore and Thailand. b Excludes Hong Kong. c Weighted using 2005 purchasing-power-parity (PPP) valuation of country GDPs by the IMF. d Commercial bank prime lending rates in the United States. e Average of daily rates. g Prime lending rates to large businesses. h Base: May 1970 = 100. s ABARE estimate. f ABARE assumptions.

Sources: ABARE; ABS; IMF; OECD; RBA.



75. Key Points: Australian economic growth is expected to continue, in the process driving up inflation, interest rates and maintaining the strength of the Australian dollar. The effects will be higher input costs for farmers, continued pressure on export prices for agricultural outputs, and higher debt burden on farm businesses whose financial exposure has increased during the drought. The mining industry strength is continuing to absorb a growing share of the domestic labour force.

Specific Commodity Conditions

Grains

76. By mid-June much of the Australian grain belt was still in need of rainfall that would enable the bulk of planting to begin. Some dry sowing had occurred up to early June, but this can be risky in terms of variable germination and subsequent weed management when it does rain. With much of the Australian grain belt remaining dry until mid-June, the opportunity to successfully plant more canola has largely passed (ABARE, 2006).
77. ABARE has forecast a wheat crop of 22.784 Mt in 2006, however industry sources have suggested that this volume may be optimistic considering the current seasonal conditions. Concerns over the possibility of reduced wheat production in the United States, Argentina and Australia have contributed to the maintenance of a strong world wheat price in June. Canada now appears to be the only major wheat supplier enjoying favourable growing conditions. However, with non-traditional exporters such as the Russian Federation and the Ukraine

having average seasons, commentators are predicting 2006-07 global wheat supplies will be down by between 20-30 Mt on previous year levels.

78. Despite a 2.9 per cent lift in the world barley price in June, export demand and prices for barley remain below current domestic levels. Supplies from the Black Sea are reportedly undercutting Australian prices in the Japanese market by up to US\$20 per tonne, leading to increased volumes of barley being distributed onto the local market. ABARE is predicting a barley crop of 8,485 kt in 2006-07, 14 per cent below previous year levels.
79. Australian canola prices continue to benefit from strong demand from Europe, where we have become a key supplier for the manufacture of bio-diesel. The EU restrictions on GM canola has ruled out many alternative suppliers and added to the attractiveness of Australian produce. ABARE has forecast a canola crop of 1,393 kt, however, some industry sources suggest that this level of output would require a dramatic improvement in seasonal conditions.

Cotton

80. The area planted to cotton in Australia is forecast to fall by 20 per cent to 269 000 hectares in 2006-07, as dam storages in key cotton growing regions remain low in comparison with the corresponding period of last year (ABARE, 2006).
81. A poor start to China's cotton growing season, persistent drought in the West Texas region of the United States, and unfinished plantings in Pakistan due to drought, have provided solid upside in the global cotton price during June. Only India and Central Asia look to be on track for a repeat of their 2005 crops, and world production is finding it difficult to expand as a result. However, demand from China has been surprisingly quiet as concerns emerge over ongoing demand for textiles from the west.

Sugar

82. While dry conditions have not been a problem this year for the Australian sugar industry, Tropical cyclone Larry has caused severe crop damage in northern Queensland. Approximately 10 per cent of the Queensland crop was affected. However, the full extent of the damage caused by debris in the cane fields will not be known until after the crushing season.

83. The world price of sugar continues to ease from its 25 year high in February, with the world price falling by 5.6 per cent in June. Despite the recent trend, prices remain almost 80 per cent up on a year ago. Discovery of a smut incursion in a cane field in Childers has activated a smut contingency plan developed in 1998 and generated some anxiety through the sector. Meanwhile, the industry continues to watch developments in the major sugar markets of Brazil and India, whose production levels are anticipated to increase on the back of the current strong market conditions. Brazil is expecting to export an additional 3Mt next year, while at the same time looking to expand exports of ethanol into the USA.

Beef

84. Beef prices have been relatively strong on the back of the Japanese and Korean suspension of supplies from the United States due to BSE. However, during June, Japan and the United States agreed on import conditions for US beef, which include the inspection of US export beef processing plants and beef producer operations. However, with the date of US beef entry yet to be set, Australian exporters have reported continued strong interest from their Japanese and Korean customers. ABARE has estimated that beef production in 2006-07 will increase by 4 per cent as producers, particularly lot feeders, continue to increase capacity.

Lamb

85. Lamb price indicators eased in June, as poor seasonal conditions in some areas, and the losses made last year in targeting winter lamb supplies, have resulted in weaker restocker interest. In addition, these price falls can be attributed to the increased proportion of lighter lambs offered in June, as seasonal conditions prevented finishing lambs at heavier weights.

86. Australian lamb exports eased during June, falling 4 per cent on previous year levels. However, lamb exports for the January to June period remain higher than the same period last year, lifting 2 per cent to a record 72,680 tonnes. Lower wholesale lamb prices, higher US lamb production and cheaper competing proteins place pressure on Australian lamb export prices.

Dairy

87. The world dairy price eased 2.6 per cent in June as international buyer interest slowed for all manufactured dairy products. Australian manufacturing plants have reduced their schedules in preparation for the end of season close, while participants in the market suggest that stocks are well balanced with demand for the upcoming winter months. News out of Europe suggests that cheese production has been strong while warm temperatures are hindering production with output continuing to decline.

Wool

88. Despite the strong underlying demand signals from the global apparel sector, wool prices remained largely flat in June, increasing only 1.4 per cent on the previous month. The market reported some strengthening in the medium merino micron categories towards the end of the month on the back of improved demand from Chinese traders. ABARE has forecast a small increase in wool production in 2006-07 as flock rebuilding is expected to continue.

COVERAGE OF AUSTRALIAN PAY AND CLASSIFICATION SCALES IN AGRICULTURE

Award Coverage

89. Despite a lack of ABS data for agricultural, it is a well established fact that the agricultural industry is a highly award reliant industry across all commodity sectors of the industry.
90. A large percentage of agricultural businesses are also federally award dependent with the bulk of enterprises covered by the federal Pastoral Industry Award or the federal Horticultural Industry Award.
91. While there is some anecdotal evidence to suggest that the industry is experiencing an increase in the use of above award rates to encourage people to enter into or remain in the agricultural industry due to labour shortages, there is undoubtedly a continued high reliance on payment at award rates particularly at levels 1 and 2 of the relevant awards. Evidence would suggest that this is as a result of the high costs and low prices received particularly by commodity groups where there is also a significant reliance on large numbers of labour such as the horticultural, dairy and wool industries (the exception being overseers and shearers).
92. It is acknowledged by NFF that approximately 90% of agricultural businesses are not incorporated and therefore, are not under the direct jurisdiction of Australian Fair Pay Commission. However, by virtue of the interlinkage of the decisions of the Commission and the wage setting powers that remain with the Australian Industrial Relations Commission through the transitional arrangements, the Commission's decision in this wage review will have an impact on all employing Australian farm enterprises.
93. Historically there has been limited usage of formal agreements in the agricultural industry although it is anticipated that the lodgement of agreements are likely to increase for the industry but in the short-term, particularly due to the small number of farming enterprises that are incorporated, there will continue to be a large number of employing businesses that will be covered by the federal transitional award system. Due to the inability of those businesses to

utilise agreement making to their advantage and being left in a hybrid holding pattern the impact of the decision by the Australian Fair Pay Commission will be quite significant.

Piecework Rates

94. There is a high reliance in the horticultural and wool industry on piece work rates.
95. It is the NFF's submission that the piecework rates contained in the Pastoral Industry Award, the Woolclassers' Award and the Horticultural Industry Award are all piecework rates in accordance with the definition of piecework rates in section 178 of the Act, that is, these piecework rates are included in the Australian Pay and Classification Scale.
96. NFF is of the opinion that it is critical to retain the integrity of all piecework rates that exist in the industry.
97. The shearing industry formula, in particular, is a complex creature of nearly 100 years of history and is supported by both the employers and employees of the wool industry.

Classification Rationalisation

98. With the establishment of the Australian Pay and Classification Scales there are now a large number of agricultural awards that are derived from both the federal and state systems. NFF is currently developing a list of what we believe should constitute the agricultural pay and classification scales, that is, what awards at a federal and state level should be considered as part of the agricultural industry. Our initial draft list is currently being compiled and will be submitted to the Australian Fair Pay Commission as part of our submissions on the classification rationalisation process.
99. NFF believes it is critical that the parties to the relevant awards have the capacity to confer and put specific submissions to the Australian Fair Pay Commission regarding the classification rationalisation process. NFF understands that the current process focuses on the wage review but it is important to stress at the outset the need to consultation throughout the classification rationalisation process.

