



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

National Farmers' Federation

Pre-Budget Submission 2017-18

18 January 2017

Prepared by Scott Kompo-Harms
General Manager, Trade and Economics

NFF Member Organisations





The National Farmers' Federation (NFF) is the voice of Australian farmers.

The NFF was established in 1979 as the national peak body representing farmers and more broadly, agriculture across Australia. The NFF's membership comprises all of Australia's major agricultural commodities across the breadth and the length of the supply chain.

Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations form the NFF.

The NFF represents Australian agriculture on national and foreign policy issues including workplace relations, trade and natural resource management. Our members complement this work through the delivery of direct 'grass roots' member services as well as state-based policy and commodity-specific interests.

Statistics on Australian Agriculture

Australian agriculture makes an important contribution to Australia's social, economic and environmental fabric.

Social >

There are approximately 132,000 farm businesses in Australia, 99 per cent of which are Australian family owned and operated.

Each Australian farmer produces enough food to feed 600 people, 150 at home and 450 overseas. Australian farms produce around 93 per cent of the total volume of food consumed in Australia.

Economic >

The agricultural sector, at farm-gate, contributes 2.4 per cent to Australia's total Gross Domestic Product (GDP). The gross value of Australian farm production in 2016-17 is estimated to be \$58.4 billion – a 3.3 per cent increase from the previous financial year.

Together with vital value-adding processes for food and fibre after it leaves the farm, along with the value of farm input activities, agriculture's contribution to GDP averages out at around 12 per cent (over \$155 billion).

Australian agriculture is self-reliant, only deriving 1.34 per cent of its income from government support, compared with 9.44 per cent for the US and over 60 per cent for some European countries.

Workplace >

The agriculture, forestry and fishing sector employs approximately 323,000 employees, including owner managers (174,800) and non-managerial employees (148,300).

Seasonal conditions affect the sector's capacity to employ. Permanent employment is the main form of employment in the sector, but more than 40 per cent of the employed workforce is casual.

Approximately 60 per cent of farm businesses are small businesses. More than 70 per cent of farm businesses have no employees at all.

Environmental >

Australian farmers are environmental stewards, owning, managing and caring for 52 per cent of Australia's land mass. Farmers are at the frontline of delivering environmental outcomes on behalf of the Australian community, with 94 per cent of Australian farmers actively undertaking natural resource management.

The NFF was a founding partner of the Landcare movement, which recently celebrated its 20th anniversary.

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1. List of Recommendations

Recommendation 1: Budget repair strategy

NFF recommends that the Government strengthens its budget repair strategy to prioritise expenditure reduction and set a limit on the receipts-to-GDP ratio of 24.9 per cent (that is, the 30-year historical average).

Recommendation 2: Lower company tax rate to reduce incentives for profit shifting

NFF recommends that the Government:

- proceed with its ten year enterprise tax plan to cut company tax rates
- return to a single rate of company tax
- retain dividend imputation
- lower top marginal income tax rates to align them better with the company tax rate
- simplify tax integrity measures to reduce compliance burden

Recommendation 3: Adopt a single consistent definition of a small business for taxation purposes

NFF recommends that the Government:

adopt a single turnover based definition for a small business that is between \$2 million and \$10 million

index the threshold to maintain its relevance over time

apply the single definition to all relevant tax measures and treatments for those businesses that meet the criteria business including simplified reporting and concessions

consider applying a maximum cap of \$12 million on net assets as an integrity measure

consider adopting averaging provisions which will lessen the incentive to manipulate turnover to stay below the thresholds

Recommendation 4: Reform the Fair Work Act

NFF recommends that the Government reforms the Fair Work Act 2009 in line with the NFF's submission to the Productivity Commission's review of Australia's workplace relations framework.

Recommendation 5: Implement recommendations 1, 2, 3, 5 and 6 of the JSCOT TPP report

NFF recommends that the Government:

- consider changing its approach to free trade agreement negotiations to permit security cleared representatives from business and civil society to see the Australian Government positions being put as part of those negotiations (JSCOT recommendation 1);
- consider implementing a process through which independent modelling and analysis of a proposed trade agreement is undertaken by the Productivity Commission, or equivalent organisation to improve assessment of the agreement (JSCOT recommendation 2);
- consider using the single set of documentary procedures and the paperless trading provisions of the TPP to measure the agreement's benefits (JSCOT recommendation 3); and
- ensure adequate resourcing to enable effective participation in committees dealing with technical barriers to trade (JSCOT recommendation 5); and
- ratifies the agreement (JSCOT recommendation 6).

Recommendation 6: Formulate an alternative approach to the TPP if the United States walks away

NFF recommends that the Government consider, as an alternative to the TPP:

- implementing the TPP agreement in full with the 11 other TPP nations, allowing the United States to join at a later date; or
- using the TPP as a basis for pursuing bilateral agreements with other TPP nations.

Recommendation 7: Partner with NFF to boost international advocacy efforts by industry

NFF recommends that the Government:

- provide funding for the NFF to be a member of the World Farmers Organisation (WFO) and to participate in WFO activities; and
- provide funding for the NFF to coordinate and drive the international trade reform agenda through chairing the Cairns Group Farm Leaders in the lead up to the 11th WTO Ministerial Conference in Buenos Aires in late 2017.

Recommendation 8: Continue funding ATMAC programme

NFF recommends that the Government continue funding the Agricultural Trade and Market Access Cooperation (ATMAC) programme beyond 2018-19, particularly as new FTAs are negotiated and implemented.

Recommendation 9: Continue funding NTM Working Group

NFF recommends that the Government: continue to provide DAWR, DFAT and Austrade with adequate resources to continue the work of the Non-Tariff Measures Working Group, particularly as new FTAs are negotiated and implemented.

Recommendation 10: Amend s46 of the CCA

NFF recommends that Parliament support the Government's Bill to amend s46 of the CCA to introduce an 'effects test'.

Recommendation 11: Introduce further reforms to the CCA

NFF recommends that the Government introduce legislation to:

- cover 'concerted practices';
- simplify provisions relating to covenants that affect competition; and
- drastically increase the penalties for, and improve enforcement of, secondary boycotts.

Recommendation 12: Retain fuel tax credits and special provisions related to environmental management and risk mitigation

NFF recommends that the Government retain:

- Fuel tax credits;
- Special provisions for expenditure on Landcare operations and water facilities; and
- Primary production averaging, treatment of abnormal receipts and FMDs

NFF also recommends that the Government consider extending fuel tax credits for aviation fuel used in pastoral operations.

Recommendation 13: Restore funding to the RR&DfP research grant programme

NFF recommends that the Government restore the original funding announced for rural research and development for profit programmes.

Recommendation 14: Enable farmers to opt back into primary production averaging after 10 years

NFF recommends that the Government allow taxpayers to opt back in to primary production averaging after 10 years.

Recommendation 15: Increase flexibility of FMDs

NFF recommends that the Government:

- investigate and improve the availability of FMD interest offset facilities;
- allow FMDs to be held at the business level rather than just the individual level; and
- allow FMDs to be brought back into a business over time or be taxed at average rates in the event of unexpected cessation or death.

Recommendation 16: Amend accelerated depreciation arrangements for small business

NFF recommends that the Government:

- permanently allow the first \$5 000 of all investments by small businesses to be immediately depreciated, with the remainder of asset values to be depreciated according to existing rules;
- increase the low value pool threshold to \$5 000 for all other businesses; and
- retain the specific depreciation and capital write-off provisions for primary producers.

Recommendation 17: Annual evaluation of turnover for GST registration

NFF recommends that the Government allow businesses to evaluate their GST income on an annual, rather than monthly basis.

Recommendation 18: Abolish the Luxury Car Tax

NFF recommends that the Government abolishes the Luxury Car Tax immediately. Consideration should be given to offsetting the lost revenue through expenditure reduction rather than other tax increases (including removing or reducing ‘tax expenditures’).

Recommendation 19: Reform FBT to tax fringe benefits in the hands of employees

NFF recommends that the Government remove complexity from the FBT regime by taxing all fringe benefits in the hands of employees at their marginal rate of income tax.

Recommendation 20: Investigate alternatives to tax zone rebates and remote area FBT concessions

NFF recommends that the Government review tax zone rebates and remote area FBT concessions and investigate other more effective and lower cost means of compensating individuals for the disadvantages of living in remote areas.

Recommendation 21: Market study into the use of agency/distribution agreements in the agricultural sector

NFF recommends that the Government instruct the ACCC to conduct a market study in the use of various types of agreements used in the supply of agricultural inputs, including, but not limited to seeds, fertilisers and agricultural and veterinary chemicals.

The ACCC should be adequately resourced to undertake such a study and witnesses and interested parties should be compelled to provide information and evidence.

Recommendation 22: Fund Landcare for the next 5 years

NFF recommends that the Government re-commits at least \$1 billion to the next 5 year phase of the National Landcare Program, and that this commitment rebalances investment towards sustainable agriculture.

Recommendation 23: Refocus water buyback funds to transitional assistance

NFF recommends that the Government re-focus funding that would have otherwise been used for water buybacks in the Northern Basin for investment in complementary measures and in community adjustment.

Recommendation 24: Commit funding to the Great Artesian Basin

NFF recommends that the Government allocate sufficient resourcing to the finalisation of the Great Artesian Basin strategic management plan, and the necessary future governance arrangements to ensure the long term sustainable management of the Great Artesian Basin.

Recommendation 25: Fund the expansion of the Bioregional Assessments Programme model to all onshore gas

NFF recommends that the Government commit sufficient funding to expand the Bioregional Assessments model to capture all unconventional onshore gas development.

Recommendation 26: Fund further rounds of the Mobile Blackspots Programme

NFF recommends that the Government commit at least \$60m each year on the Mobile Black Spot Programme, or equivalent program, which prioritises community identified areas and open access facilities.

Recommendation 27: Fund a broad, technology neutral Universal Service Obligation

NFF recommends that the Government:

- broaden the Universal Service Obligation to encompass data as well as voice services with explicit minimum performance, reliability and service standards; and
- review allocation of the \$100 million per annum Government contribution to the USO and ensure that as the USO is modernised, this money contributes to better telecommunications coverage in rural and remote areas.

Recommendation 28: Fund digital and technical extension

NFF recommends that the Government commit a minimum of \$5 million per annum funding to a grants program for independent digital technical support and capacity building in rural and remote areas.

Recommendation 29: Fund the development of a National Freight and Supply Chain Strategy

NFF recommends that the Government commits funding to:

- Infrastructure Australia to develop a National Freight and Supply Chain Strategy; and
- CSIRO to provide modelling support to the National Freight and Supply Chain Strategy inquiry to be undertaken throughout 2017.

NFF also recommends that the Government work with States, Territories and local governments to address legislative and administrative barriers and consider mandating a proportion of local road funding to be dedicated to first- and last-mile transport investments.

Recommendation 30: Fund the next phase of the Brisbane to Melbourne inland rail link

NFF recommends that the Government commit at least \$1 billion over the forward estimates to the Brisbane to Melbourne inland rail link.

Recommendation 31: Investigate an agricultural freight precinct at the Western Sydney airport

NFF recommends that the Government commit funds to investigate an agricultural freight precinct as part of the construction of the Western Sydney airport at Badgery's Creek

Recommendation 32: Introduce new VET-FEE HELP or Trade Support Loan offsets for students who engage in regional agricultural work

NFF recommends that the Government consider:

- offering discounted course fees/reduced VET-FEE HELP repayment liability for VET students who work in agriculture for at least 3 months of the year; and/or
- reduce Trade Support Loans by 25 per cent for each 3 months of regional agricultural work in a year, up to the maximum of \$20,000.

Recommendation 33: Fund an agricultural labour market needs analysis and review of the Seasonal Worker Program

NFF recommends that the Government provide funding of \$290,000 for the labour market study and program review, to be conducted by an independent advisory firm.

Recommendation 34: Introduce a centrally managed program including appropriate level of funding to drive uptake of the SWP

NFF recommends that the Government provide seed funding of up to \$30 million to cover the initial year of operation, after which time it is anticipated that the operation of the fund would be cost neutral.

Recommendation 35: Industry-led certification scheme for labour contractors

NFF recommends that the Government provide in-kind and financial support for the development of an industry-led certification scheme for labour contractors

2. Introduction

Our vision is for Australian agriculture to become a \$100 billion industry by 2030. The sector is a source of strength in the Australian economy, positioned to capitalise on growing global demand for safe, high quality food and fibre over coming decades.

To achieve our vision, the sector needs regulatory and public policy settings that foster growth and productivity; innovation and ambition. We also need a competitive, flexible and dynamic economy.

This submission outlines 6 policy pillars that require Government action to ensure that the Australian entire agribusiness sector can live up to its potential and become the bedrock of food security in Asia.

It can be viewed as NFF's call to action and roadmap for success for Australian agriculture. We, and our membership hope that the entire Australian Parliament can support the roadmap in what we believe is the national interest.

Some of the recommendations in this submission require Government action outside of the Budget process or will require a long-term commitment over many Budget rounds. These recommendations are contained in the policy sections (sections 4 to 9). The recommendations contained in section 10 relate to existing measures that are crucial to Australian agriculture and must be retained. The recommendations in section 11 are specific priorities that the Government can and should address in the 2017-18 Budget.

3. NFF's 6 Policy Pillars – *Every Cent Counts*

NFF believes that Australia's economic performance needs to improve. Australia is facing low economic growth, sluggish income growth and declining international competitiveness.

The Federal Budget is in structural deficit and States and Territories are struggling too. Our public debt continues to grow yet we are not building enough high quality infrastructure that will provide a decent return on our investments to repay the debt.

NFF firmly believes that as part of the 2017-18 Budget the Government needs to prioritise 6 policy pillars:

- Budget repair and tax reform
- Workplace reform
- Trade liberalisation
- Competition policy reform
- Quality regional telecommunications and transport infrastructure
- A well-functioning energy market

Farmers won't succeed if they can't sell their products for a decent return and if costs keep rising. Every cent counts.

The NFF pre-Budget submission outlines some of the policy settings and reforms necessary to achieve our vision for Australian agriculture and the Australian economy as a whole. It also provides some concrete solutions that will need to be addressed in the 2017-18 Budget.

4. Fiscal strategy and government revenue

NFF supports both elements of the Government's fiscal strategy:

- the medium-term aspiration of budget surpluses on average over the course of the economic cycle; and
- the budget repair strategy.¹

NFF firmly believes that our taxation system and other government policies must enable farm businesses to be competitive in international markets and Australian agriculture must be an attractive destination for both Australian and foreign investment.

NFF's stated policy position on taxation is as follows:

The NFF supports a simpler, fairer and more efficient tax system that encourages investment, innovation and productivity growth in the Australian agricultural sector.

NFF is concerned that the impetus for tax reform is waning and would support a strengthening of the budget repair strategy along with greater specificity in the language used. In particular, the first element of the budget repair strategy could be amended as follows:

- all new spending *and revenue reduction* measures will be more than offset by reductions in spending elsewhere within the budget;

That is, expenditure reduction is given greater priority in budget repair than increases in taxation (including removal of so-called tax expenditures). The Government should also add that once the ratio of receipts-to-GDP falls below its long-term average of 24.9 per cent that the ratio should not rise above that level.

Recommendation 1: Budget repair strategy

NFF recommends that the Government strengthens its budget repair strategy to prioritise expenditure reduction and set a limit on the receipts-to-GDP ratio of 24.9 per cent (that is, the 30-year historical average).

¹ Commonwealth of Australia, 2016-17 Budget, Budget Paper no.1, Statement 3, *Fiscal Strategy and Outlook*, p.3-7, <http://www.budget.gov.au/2016-17/content/bp1/download/bp1.pdf> accessed 29 November 2016.

This strengthening of the strategy would apply an additional layer of discipline and ensure that tax reform is prioritised. A more efficient tax system will encourage investment, innovation and productivity growth.

4.1. Why do we need budget repair?

Budget repair is not merely a catchphrase nor is it an attempt to soothe faraway boffins in the ratings agencies. It matters to all Australians and farmers are no different.

It is an essential tool for the government to help restore Australia's ailing competitiveness – Australia has fallen from the 21st most competitive economy in 2015-16 to 22nd in 2016-17². Agriculture is an export focussed sector and turning around Australia's fall in competitiveness requires a multifaceted solution.

To restore Australia's export competitiveness, the Government needs to do all it can to reduce upward pressure on the currency. Increasing the public sector component of national saving is one of the key ways the Government can assist in reducing that upward pressure.

4.2. Why should reducing expenditure be the priority?

Of the four most problematic factors for doing business in Australia, three relate to fiscal policy. The four most problematic factors are:

- Restrictive labour practices
- Tax rates
- Inefficient government bureaucracy and
- Tax regulations³

Australia ranks very poorly on the effect of taxation on incentives to invest, the effect of taxation on incentives to work and the total tax rate⁴. It is clear that increasing taxation will only worsen this situation. In turn it necessitates additional and heavier handed 'tax integrity measures'.

To that end, NFF supports the Government's *ten year enterprise tax plan* announced in the 2016-17 Budget. Australia's company tax regime is becoming less competitive over time and this is dissuading investors and therefore having a damaging impact on productivity.

Australia is a capital-importing nation – our domestic savings are insufficient to fund our investment needs. Therefore, it is crucial that our tax policy settings encourage investment, both from domestic sources and from abroad. Regional

² Schwab, K., *The Global Competitiveness Report*, World Economic Forum, Geneva 2016, p. xiii, http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf accessed 29 November 2016

³ Ibid, p. 102

⁴ Ibid, p. 103

Australia is in dire need of investment, particularly if the Australian agribusiness sector is to live up to its potential as the food bowl of Asia. The Australian agricultural supply chain is in need of new investment to modernise and expand our freight networks. Tax reform would also encourage more value adding processing to be done in Australia

Any company tax cut will have an impact on the Budget, but this should not be used as an excuse not to do it. Some commentators state that Australia cannot afford to reduce the company tax rate and taxes on labour. On the contrary, Australia cannot afford NOT to.

4.3. Why cut company tax?

Some argue that a cut to company tax rates will only benefit foreign investors due to the dividend imputation system, and in a narrow, short-sighted sense, this is true. But it ignores the positive effects on domestic productivity and wages and flow on economic activity that additional foreign investment will inevitably create. As noted by former Treasury Secretary and current chair of NAB, Ken Henry AO, that the consensus of public finance theorists is that, in the long run, the incidence of company tax is substantially borne by workers.⁵ Thus, the principal beneficiaries of a company tax cut over time will be Australian workers.

Some have argued that dividend imputation should be removed. However, NFF believes that dividend imputation is a sound tax policy principle as it is necessary to avoid double taxation. A better way to encourage domestic investment would be for the Government better align personal income tax rates with a reduced company tax rate.

Ultimately this would imply a flatter, lower personal income tax rate schedule. Currently, Australian personal income tax rates vary from 0 per cent up to 47 per cent including the Medicare levy. This produces a gap between our company tax rate and our top marginal income tax rate of 17 percentage points.

In contrast, in New Zealand (one of Australia's main agricultural competitors), personal income tax rates only vary from 10.5 per cent to 33 per cent, with a company tax rate of only 28 per cent. NFF believes the government should aim to emulate (and surpass) New Zealand's tax reform successes.

The fact that company tax is mostly borne by a small number of large companies is actually a reason to cut company tax – to attract more companies to invest in Australia thereby diversifying the company tax base. Our uncompetitive tax system is fragile because it is reliant on too few large taxpayers that might leave Australia.

⁵ Henry, K., *Remarks to the Tax Forum*, Canberra, 4 October 2011, <http://www.treasury.gov.au/Policy-Topics/Taxation/Tax-Forum/Videos-and-Transcripts/Session-1>, viewed 9 January 2017

Lowering the company tax rate will also lessen the incentive for profit shifting, reduce tax leakage and enable the Government to focus less on tax integrity measures that in some cases have quite onerous compliance burdens.

For example, the lack of a threshold before transfer pricing provisions kick in, combined with the requirement for costly, formalised documentary evidence produces a high compliance burden. The application of a turnover or transaction value threshold, coupled with acceptance of readily available third party market value evidence would reduce compliance costs and without compromising tax integrity to any significant degree.

Recommendation 2: Lower company tax rate to reduce incentives for profit shifting

NFF recommends that the Government:

- proceed with its ten year enterprise tax plan to cut company tax rates;
- return to a single rate of company tax;
- retain dividend imputation;
- lower top marginal income tax rates to align them better with the company tax rate; and
- simplify tax integrity measures to reduce compliance burden.

4.4. How can the government simplify the tax system?

Simplified reporting and compliance arrangements for small businesses are an essential ingredient for an effective tax system.

Therefore, NFF supports the Government's announcement in the 2016-17 Budget of an increased turnover threshold for access to certain small business concessions from \$2 million to \$10 million. However, the retention of the \$2 million threshold for small business related Capital Gains Tax concessions and the \$5 million unincorporated small business tax discount adds complexity to an already complex system. The current system distorts decisions about business structures, encourages tax avoidance and produces an inefficient allocation of resources.

The Government should consider adopting a single, consistent definition of a small business for all taxation purposes, between \$2 million and \$10 million. In addition, consideration should be given to indexing the thresholds to maintain their value over time. The single definition should apply to all small business entity concessions and simplified reporting requirements and could be funded by returning to a single company tax rate. This is a more appropriate and effective way of assisting small businesses. The small business company tax cut is ineffective because most small business are unincorporated and any benefit is offset by the increased compliance burden that multiple thresholds introduces.

Currently the turnover threshold is also supplemented by a \$6 million net assets threshold which can be chosen by the taxpayer. Increasing this threshold to \$12 million and making it compulsory would serve as an effective and yet simple integrity measure.

Recommendation 3: Adopt a single consistent definition of a small business for taxation purposes

NFF recommends that the Government:

- adopt a single turnover based definition for a small business that is between \$2 million and \$10 million;
- index the threshold to maintain its relevance over time;
- apply the single definition to all relevant tax measures and treatments for those businesses that meet the criteria business including simplified reporting and concessions;
- consider applying a maximum cap of \$12 million on net assets as an integrity measure; and
- consider adopting averaging provisions which will lessen the incentive to manipulate turnover to stay below the thresholds.

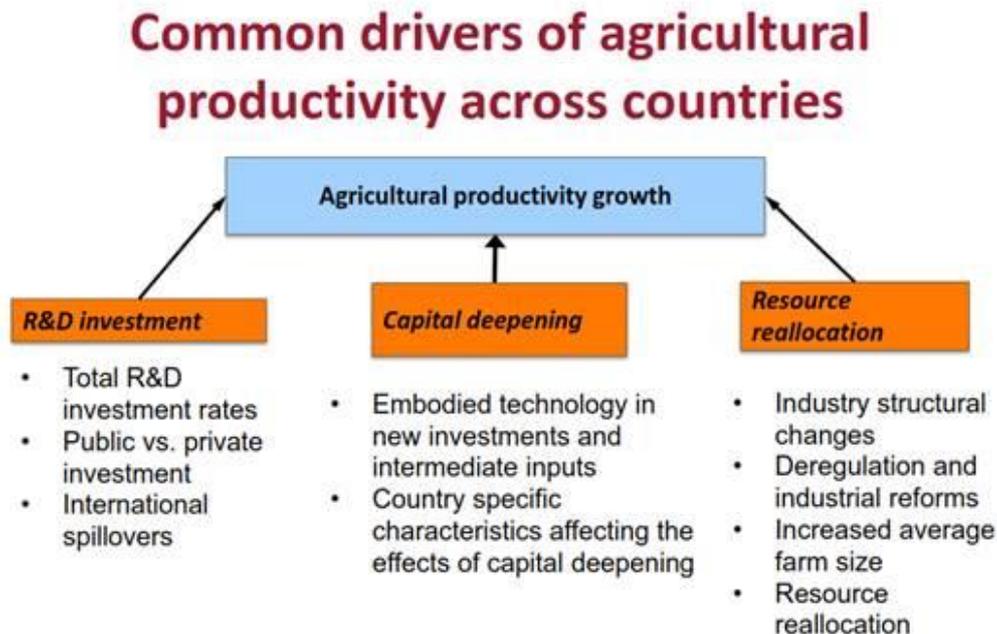
Further to these suggestions, there are a range of specific tax measures that are likely to improve farmers' ability to compete. These will be discussed in sections below.

5. Why is workplace reform important?

According to the Productivity Commission, productivity growth “arises from many small, everyday improvements within organisations to improve the quality of products, service customers better, and reduce costs”.⁶ In addition to investment in research, development and new technology, a key driver of agricultural productivity is deregulation and industrial reform.

⁶ Productivity Commission, *Annual Report 2007–08*, 2008.

Figure 1: Drivers of agricultural productivity



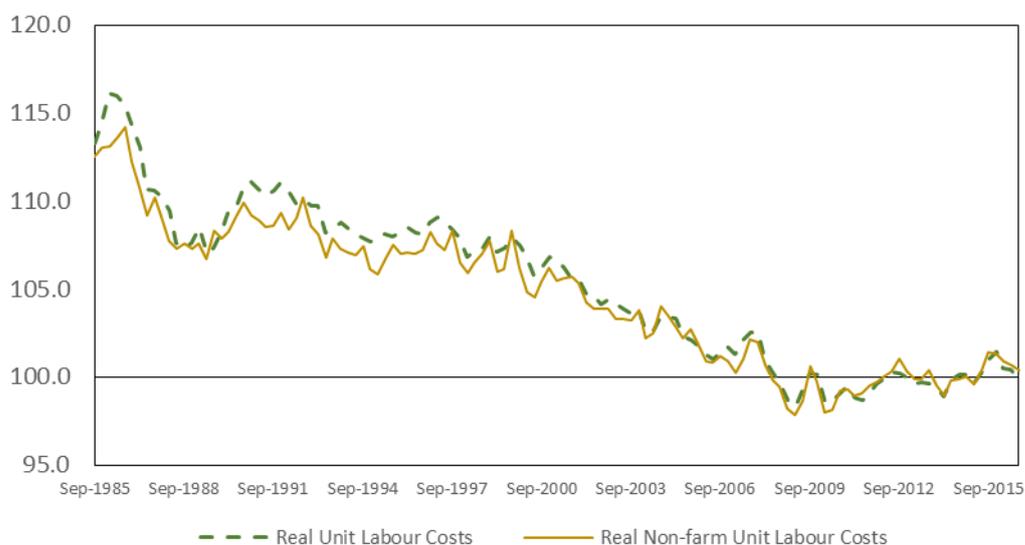
Source: Sheng Yu, *Comparing agricultural total factor productivity across countries: the case of Australia, Canada and the United States*, 57th AARES Conference, Sydney, 5-8 February 2013

Chart 1 below shows a correlation between the introduction of the *Fair Work Act 2009* (FW Act), which shifted the focus of industrial relations regulation in a number of respects, and real unit labour costs. Real unit labour costs are determined by real wages and labour productivity. The downward trend in real unit labour costs ceases around 2009, coinciding with the introduction of the FW Act. If anything, the trend has turned slightly upwards indicating increasing labour cost pressure in the economy from that time.⁷

Productivity growth is what enables growth in real wages (and therefore incomes and standards of living) without increasing the real unit labour costs. At a time when wage growth has been stagnating, flat or rising unit labour costs are a concern and demonstrate the need for policy reforms to boost productivity. A flexible workplace relations system will enable business owners and managers to allocate their labour resources to the most productive uses.

⁷ ABS *Australian National Accounts, National Income, Expenditure and Product Cat. 5206.0*, 4 March 2015, p.15

Chart 1: Real Unit Labour Costs

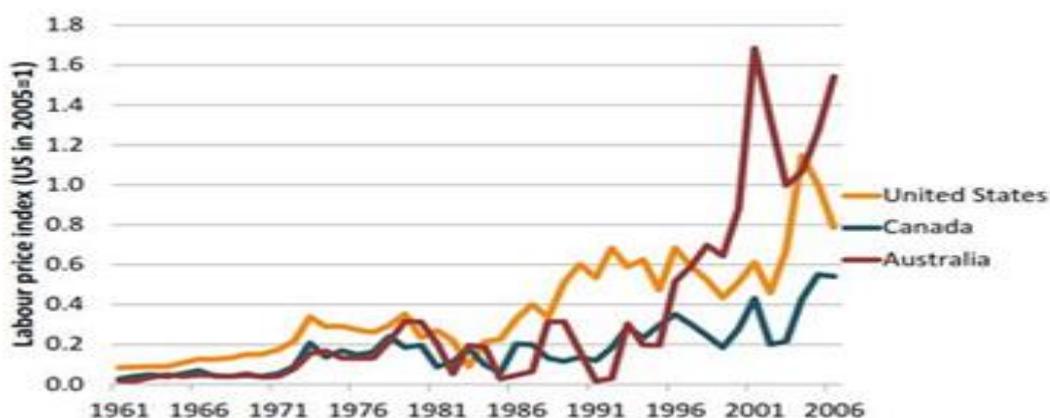


Source: ABS *Australian National Accounts, National Income, Expenditure and Product*, Cat. No. 5206.0, Sep Qtr 2016

In the agriculture sector, labour cost pressures are even more evident. Agricultural labour prices have risen sharply since the late 1990's, as Figure 2 below shows. Labour costs in Australian agriculture are significantly higher than both the USA and Canada.

Figure 2: Agricultural labour prices in the US, Canada and Australia

Input price drivers: agricultural labour price



Source: Sheng Yu, *Comparing agricultural total factor productivity across countries: the case of Australia, Canada and the United States*, 57th AARES Conference, Sydney, 5-8 February 2013

Total employment in the agriculture sector has been declining for almost 15 years, and is currently forecast to decline a further 0.9 per cent by 2018, compared to the all industries projected rate of employment growth of 7.2 per cent.⁸ Investing in new technology has allowed the sector to reduce its reliance on farm labour, but a heavy regulatory burden, coupled with the high cost of labour relative to our international competitors, means that for many farmers, the risks associated with employment can outweigh the likely benefits. Many self-employed farmers choose to do the work themselves: in 2011, the majority of agricultural businesses had no employees at all.⁹

High business running costs are an ever-present concern. Farmers face costs at every turn because of their position at the very beginning of the supply chain. Every cost passed down the supply chain affects farmers' terms of trade, with cumulative increases threatening the viability of primary production. For this reason, even more so than in other industries, small regulatory adjustments designed to make it easier to operate a business can make a large difference in overall productivity.

The challenge is to ensure that Australia's relatively high minimum wages and conditions do not deter business investment and employment growth. For Australia to compete against comparable overseas markets with lower labour costs, the business environment must support innovation and responsiveness, through a skilled workforce and flexible labour regulation.

5.1. How should workplace laws be changed?

The current workplace relations framework is comprehensive and broad in reach. In many respects it works, but some elements of the scheme are out of balance and require reform.

For many farm businesses, labour is their single biggest cost. Thriving in an increasingly global and competitive marketplace requires the ability to adapt as things change. Undue restraints on business decision-making impede growth and innovation, while complexity drives up compliance costs. These issues need to be addressed to support the future competitiveness of the agriculture sector and the Australian economy.

The NFF made a comprehensive submission¹⁰ to the Productivity Commission in March 2015 detailing necessary reforms to the *Fair Work Act 2009* in order to:

- reduce red tape;
- rebalance the rules; and
- remove barriers to growth.

⁸ Department of Employment *Industry Outlook Agriculture, Forestry and Fishing* September 2014

⁹ Reserve Bank of Australia *Small Business: An Economic Overview*

<http://www.rba.gov.au/publications/workshops/other/small-bus-fin-roundtable-2012/pdf/01-overview.pdf>

¹⁰ National Farmers' Federation, *A fair and reasonable framework*, Submission to the Productivity Commission inquiry into the Workplace Relations Framework, 13 March 2015,

http://www.pc.gov.au/data/assets/pdf_file/0005/189410/sub0223-workplace-relations.pdf

viewed 22 December 2016

The Productivity Commission subsequently made a number of recommendations for reform¹¹ that the NFF supports including:

- replace the modern award objective;
- changes to assessment and handling of unfair dismissal claims;
- remove the requirement for 4 yearly reviews;
- amend FW Act to allow the Fair Work Commission to overlook minor procedural or technical errors when approving an agreement;
- replace the BOOT test with a new no-disadvantage test;
- changes to bargaining representative restrictions;
- make enterprise agreement terms that restrict engagement of contractors or casual workers or regulate terms of their engagement unlawful;
- permit suspension or termination of protected industrial action where it causes or threatens to cause significant economic harm;
- address unfair bargaining strategies used in connection with protected industrial action; and
- changes to frequency of entry orders.

The government has not yet responded to those recommendations and as a result the workplace relations framework continues to hold back Australia's economic competitiveness. In our view, the government should implement these recommendations that are in line with the NFF's submission. In addition, we do not think that these recommendations went far enough and there is more to be done to ensure that Australia's workplace relations system promotes flexibility and enables productivity growth.

Recommendation 4: Reform the Fair Work Act

NFF recommends that the Government reform the *Fair Work Act 2009* in line with the NFF's submission to the Productivity Commission's review of Australia's workplace relations framework.

6. How should trade be liberalised?

Australian farmers export around three quarters of everything they produce. As an export-focussed sector, continued trade liberalisation is vital to improve the returns to farmers by increasing the range of markets which they can access.

The Government has made significant progress in recent years. The conclusion and ratification of the China-Australia FTA (ChAFTA), the Japan-Australia Economic Partnership Agreement (JA-EPA) and the Korea-Australia FTA (KAFTA) are all significant achievements that are benefiting Australian farmers.

However, much work needs to be done. While the Trans Pacific Partnership (TPP) has undoubtedly been dealt a blow, NFF believes there is still significant value in

¹¹ Productivity Commission, *Public Inquiry into the Workplace Relations Framework*, 21 December 2015, <http://www.pc.gov.au/inquiries/completed/workplace-relations#report> viewed 22 December 2016

ratifying the agreement in accordance with the recommendations made in the Joint Standing Committee on Treaties report into the TPP¹².

In particular, Recommendations 1, 2, 3, 5 and 6 of the report should be implemented.

Even if the United States walks away from the TPP, it is worthwhile pursuing the gains on offer by pursuing a TPP without the United States and allowing them to join later, or using the TPP as the basis for bilateral agreements with countries like Canada, Mexico and others.

Recommendation 5: Implement recommendations 1, 2, 3, 5 and 6 of the JSCOT TPP report

NFF recommends that the Government:

- consider changing its approach to free trade agreement negotiations to permit security cleared representatives from business and civil society to see the Australian Government positions being put as part of those negotiations (JSCOT recommendation 1);
- consider implementing a process through which independent modelling and analysis of a proposed trade agreement is undertaken by the Productivity Commission, or equivalent organisation to improve assessment of the agreement (JSCOT recommendation 2);
- consider using the single set of documentary procedures and the paperless trading provisions of the TPP to measure the agreement's benefits (JSCOT recommendation 3); and
- ensure adequate resourcing to enable effective participation in committees dealing with technical barriers to trade (JSCOT recommendation 5); and
- ratifies the agreement (JSCOT recommendation 6).

Recommendation 6: Formulate an alternative approach to the TPP if the United States walks away

NFF recommends that the Government consider, as an alternative to the TPP:

- implementing the TPP agreement in full with the 11 other TPP nations, allowing the United States to join at a later date; or
- using the TPP as a basis for pursuing bilateral agreements with other TPP nations.

NFF supports the Government's forward trade agenda. Agriculture stands to benefit from closer engagement with Asia through FTAs with Indonesia, Taiwan and India and (to a lesser extent) through the Regional Comprehensive Economic Partnership (RCEP). The Government's approach of setting high levels of ambition in negotiations is supported by NFF. There are also significant benefits on offer from the decision of the United Kingdom to exit from the European Union.

¹² Joint Standing Committee on Treaties, *Report 165: Trans-Pacific Partnership Agreement*, Parliament of Australia, Canberra, November 2016, http://parlinfo.aph.gov.au/parlInfo/download/committees/reportjnt/024012/toc_pdf/Report165.pdf;fileType=application%2Fpdf viewed 20 December 2016

JSCOT Recommendations 1, 2 and 5 on the TPP have broader implications for these and future agreement negotiation processes. In addition to acting on NFF recommendations 5 and 6, there are three broad streams of work that are crucial for Australian farmers to gain genuine, commercially viable market access. These are:

- pursuing tariff reductions/elimination and quota increases/elimination through new bilateral and regional trade agreements;
- addressing non-tariff barriers through business-to-business, industry-to-government and government-to-government collaboration; and
- pursuing multilateral reform, such as removal of domestic subsidy programs through the World Trade Organization (WTO).

6.1. Multilateral reform and making FTAs work

The latter two work streams both require cooperation between industry and government to unlock the benefits of FTAs. To be effective FTAs need to be underpinned by a broad multilateral trading system that facilitates free and open movement of goods, services and investment across borders. This open trading framework is crucial to enable Australian agriculture to grasp the opportunities that Asian development and growth brings.

The NFF can play a key role in helping government to help farmers access these new opportunities. In particular, NFF is seeking to partner with the Australian Government to increase our international advocacy efforts across these three work streams.

Recommendation 7: Partner with NFF to boost international advocacy efforts by industry

NFF recommends that the Government:

- provide funding for the NFF to be a member of the World Farmers Organisation (WFO) and to participate in WFO activities; and
- provide funding for the NFF to coordinate and drive the international trade reform agenda through chairing the Cairns Group Farm Leaders in the lead up to the 11th WTO Ministerial Conference in Buenos Aires in late 2017.

Recommendation 8: Continue funding ATMAC programme

NFF recommends that the Government continue funding the Agricultural Trade and Market Access Cooperation (ATMAC) programme beyond 2018-19, particularly as new FTAs are negotiated and implemented.

Recommendation 9: Continue funding NTM Working Group

NFF recommends that the Government: continue to provide DAWR, DFAT and Austrade with adequate resources to continue the work of the Non-Tariff Measures Working Group, particularly as new FTAs are negotiated and implemented.

7. Competition Policy reform

The *Competition Policy Review* led by Professor Ian Harper in 2014 produced a wide-ranging report that suggested many bold yet sensible reforms to Australia's competition policy and law. The NFF engaged heavily in the process and we believe that the vast majority of the recommendations should be progressed as soon as practicable to boost Australia's productivity and innovative capacity.

NFF supports the Government's recently introduced Bill to implement an 'effects test' into competition law through reforming section 46 of the *Competition and Consumer Act 2010* (CCA). While this was one of the most contentious reforms, there remains much to be done. In particular, the Government should consider introducing legislation to:

- cover 'concerted practices';
- simplify provisions relating to covenants that affect competition; and
- drastically increase the penalties for, and improve enforcement of, secondary boycotts;

These reforms are covered in an exposure draft of a Bill and these parts of the exposure draft Bill should be introduced into the Parliament as soon as practicable.

Recommendation 10: Amend s46 of the CCA

NFF recommends that Parliament support the Government's Bill to amend s46 of the CCA to introduce an 'effects test'.

Recommendation 11: Introduce further reforms to the CCA

NFF recommends that the Government introduce legislation to:

- cover 'concerted practices';
- simplify provisions relating to covenants that affect competition; and
- drastically increase the penalties for, and improve enforcement of, secondary boycotts.

8. Quality Regional Infrastructure

The NFF's members include some of the most innovative businesses and individuals in Australia. Yet they remain locked out of future economic growth and prosperity through the digital divide – undermining Australia's productivity. 2017 has to be the year to end the data drought.

The NFF firmly believes that access to better communications services across regional Australia will lead to better outcomes for the entire nation.

Just as telecommunications technology is evolving rapidly – so too is farming technology. Australia's farmers are becoming more efficient and more advanced in order to remain competitive in a complex global market place. This is appropriate given agribusiness is flagged as one of Australia's future growth industries – and one that will be underpinned by innovation.

However, it is not just the on-farm application of technology that is evolving. So too is the manner in which rural businesses conduct their affairs. Access to reliable telecommunications services is essential for anyone living and running a business in rural Australia. Quality telecommunications underpin not only basic communications (including emergency calls), but other everyday activities such as online banking, weather information, trading crops and livestock, online learning, webinars and the maintenance of livestock traceability systems.

9. A well-functioning energy market

Australian farmers depend on a reliable and affordable power supply to operate. Different sectors of agriculture have different priorities so the inevitable trade-off between reliability and affordability must be carefully balanced – neither goal can be pursued at any cost.

The cost of power is no different to any other input expense – it all contributes to the cost of production. The higher the cost of production the less competitive Australian farmers are in a price-driven, dynamic global marketplace.

Australia's energy market is at a critical time in its history. The need for a transition to renewable energy sources and the achievements of reduced emission targets are supported by the NFF. However the way this transition is managed is critical to ensuring power supplies remain reliable.

Climate and energy market policies are interlinked and need to be nationally coordinated. Currently the Renewable Energy Target deliberately favours renewable energy and disadvantages others in the electricity generation sector and there are no incentives to invest in alternate generation methods and other technologies that would help to stabilise the system. The National Electricity Market rules need to be reformed to embed those incentives in the system. At the same time, we must not encourage unnecessary investment as the cost is always passed on to end users.

Australia's gas market needs to be reformed. Australia is increasingly exporting liquefied natural gas (LNG) and needs more gas for domestic electricity generation. Domestic supplies need to increase substantially to meet that surge in demand. NFF recognises that Australia's gas market needs to be modernised to address the urgent need for new supplies. This needs to be tempered with responsible behaviour by gas companies, robust science and thorough approval processes to ensure that farmers can fairly negotiate with companies around access to their land, and that the land and water resources on which the agriculture sector rely are not compromised.

It is crucial that the regulation of access to onshore gas resources is informed by the best available science. In NFF's view, there is a clear role for the Commonwealth to invest in the pre-competitive scientific information and knowledge base that is required to inform a robust regulatory framework in which the community has confidence.

Disruption in power supplies is encouraging more and more businesses and individuals to become self-sufficient and go ‘off the grid’. An increase in self-sufficiency only serves to worsen the so-called ‘death spiral’ making prices for those remaining on the system more expensive.

The National Electricity Market is broken and needs to be reformed.

10.Key measures that must be maintained

10.1. Fuel tax credits

Fuel tax credits (FTC) fulfil two broad functions within the tax system. The first is to acknowledge and implement the original intent of fuel excise, that is, as a hypothecated source of revenue to fund expenditure on roads. In addition, it recognises the longstanding principle of taxation that business inputs should not be taxed, rather tax should be collected from the end user to minimise distortions. Under no sensible definition are fuel tax credits considered a ‘subsidy’.

The agriculture, forestry and fishing industry has the highest number of participants in the scheme and is the third highest industry by value of claims. Any moves to reduce or eliminate the entitlement to fuel tax credits would violate the original policy intent, contradict the longstanding non-taxation of business inputs and have a detrimental effect on farm profitability. Accordingly, NFF advocates strongly for their retention.

Aviation fuel is significant operating expense for pastoral stations in northern Australia. It is used on-farm on a similar basis to diesel and the use of aircraft for pastoral operations does not require any publicly funded infrastructure. Therefore, in addition to retaining the existing system of fuel tax credits, the Government should consider extending fuel tax credits to aviation fuel for light aircraft (fixed wing and helicopters) used in pastoral operations such as mustering and fencing.

10.2. Risk mitigation measures

Primary production averaging enables farmers to deal with fluctuations in market prices and other variations in prices due, for example, to the presence of pests, diseases and variable rainfall which impact on the quality of produce.

Similarly, farmers are continually impacted by weather events, disease and natural disasters that may force them to dispose of produce early and suffer from reduced cash flow in the next season. When these events occur it means that they can have a year of high taxable income followed by a year with little or no taxable income and the additional tax burden that results in the first year can have a damaging impact on cash flow, right when they need it to restock and maintain a viable business.

Farm management deposits (FMDs) also allow farmers to set aside pre-tax income (within specified limits and with restrictions on non-farm income). These are an

additional tool that enable farmers to make their own provisions for times of reduced cash flow. Generally speaking FMDs are a useful risk mitigation tool although given how they currently operate, there may be some unintended consequences on choice of business structure and they are not as widely used or as effective as they could be.

In general, tax measures that allow averaging of income and special treatment of abnormal receipts, along with FMDs enable farmers to mitigate risks. These should be maintained on the grounds that these risks are not faced by other industries. NFF supports recent changes to the FMD scheme to allow for FMDs to offset interest charges on farm debt and will outline other possible changes to make FMDs more effective in section 11.3.

Recommendation 12: Retain fuel tax credits and special provisions related to environmental management and risk mitigation

NFF recommends that the Government retain:

- Fuel tax credits;
- Special provisions for expenditure on *Landcare* operations and water facilities; and
- Primary production averaging, treatment of abnormal receipts and FMDs

NFF also recommends that the Government consider extending fuel tax credits for aviation fuel used in pastoral operations.

11. Priorities for action in the 2017-18 Budget

The following list of measures are designed to address issues that are hampering Australian food and fibre producers and require immediate attention during the next Budget round.

11.1. Restore Research and Development funding

Research and develop is a key driver of productivity growth in the agricultural sector, and essential for the on-going competitiveness of the sector. The Government has recognised the benefit of co-investment as a mechanism to encourage research and development in the sector through the Agricultural Competitiveness White Paper and delivered on this intent by establishing the Rural R&D for Profit (RR&DfP) research grant programme. However, since being announced by the Minister for Agriculture and Water Resources in May 2014, the RR&DfP research grant programme has been modified on several occasions and coincided with budget cuts in CRC funding, RIRDC and CSIRO. The recent transfer of \$9.5 million from RR&DfP to the National Water Infrastructure Development Fund and the MYEFO cut of \$10 million from the programme was disappointing to the sector.

Recommendation 13: Restore funding to the RR&DfP research grant programme

NFF recommends that the Government restore the original funding announced for rural research and development for profit programmes.

11.2. Primary production averaging

At present, farmers are able to opt out of the primary production averaging system, however, once a decision to opt out is made, it is irrevocable. The Agricultural White Paper recommends that primary producers should be able to opt back in after 10 years. NFF supports this position.

Recommendation 14: Enable farmers to opt back into primary production averaging after 10 years

NFF recommends that the Government allow taxpayers to opt back in to primary production averaging after 10 years.

11.3. Changes to make FMDs more effective

NFF supports the measure in the 2016-17 Budget to allow farmers to offset FMDs against farm debt interest charges, although NFF is concerned that these FMD interest offset facilities are not widely available.

Other measures can also be introduced to make FMDs more effective as a risk mitigation tool.

One issue that reduces the uptake and effectiveness of FMDs is the fact that FMDs must be held at the individual level rather than at the entity level for partnerships, trusts and companies. The Government could consider changing the system to better align FMDs with farm business structures.

The current system means that partners in a partnership or beneficiaries in a trust must either draw money or take a loan from the partnership or trust to invest in an FMD. Then there must be agreement for the money to be paid back into the partnership or trust to fund the business in lean years. For entities that do not have this level of governance in place, it relies on goodwill of the partners or beneficiaries.

NFF acknowledges that this would introduce complexities, such as setting an entity level threshold and various integrity measures, although the increased flexibility would offset the additional complexity.

Also, unexpected cessation as a primary producer, for example due to ill health or death, means that any FMDs must be withdrawn in full in that year and can result in excessive tax liabilities. The Government should consider allowing FMDs to be brought back into a business over a three year period, or the additional income could be taxed at an average rate.

Recommendation 15: Increase flexibility of FMDs

NFF recommends that the Government:

- investigate and improve the availability of FMD interest offset facilities;
- allow FMDs to be held at the business level rather than just the individual level; and
- allow FMDs to be brought back into a business over time or be taxed at average rates in the event of unexpected cessation or death.

11.4. Accelerated depreciation and capital write offs

The increased immediate deduction threshold for small businesses in the 2015-16 Budget is due to expire on 1 July 2017. The drop from a threshold of \$20 000 to \$1 000 is likely to have a significant impact. The increase in the threshold to \$20 000 was beneficial although there were a number of issues with the way this was implemented.

First, the threshold only applied to items with a total value of \$20 000 or less, which may have encouraged the purchase of multiple low-value assets, rather than a higher value and potentially more productive asset. Second, the sudden cut off may produce a surge in uneconomic investment in low value assets to ‘beat the deadline’.

As an alternative to the small business company tax rate, the Government could return to a single company tax rate and continue to assist small business through access to CGT concessions and accelerated depreciation measures but alter them to address the issues identified above. Specifically, the Government should consider allowing the first \$5 000 of all investments by small businesses to be immediately depreciated with the remainder of the asset value deducted according to existing depreciation rules.

As an additional simplification measure, the government could also consider an increase in the low value pool threshold for all other businesses to \$5 000. The ultimate effect on the Budget will be neutral as it only affects the timing of deductions.

In addition to these measures, the Government should retain the specific depreciation and capital write off provisions that apply to primary producers that were introduced in the 2015-16 Budget. These apply to Landcare expenses, water improvements, fencing and fodder storage assets. These provisions recognise the environmental benefits that accrue to the broader community from undertaking these investments and therefore should be retained in perpetuity.

Recommendation 16: Amend accelerated depreciation arrangements for small business

NFF recommends that the Government:

- permanently allow the first \$5 000 of all investments by small businesses to be immediately depreciated, with the remainder of asset values to be depreciated according to existing rules;
- increase the low value pool threshold to \$5 000 for all other businesses; and
- retain the specific depreciation and capital write-off provisions for primary producers.

11.5. GST administration

Currently, GST income must be assessed and reported monthly by taxpayers for registration purposes. Evaluating projected turnover on a monthly basis adds unnecessary complexity and compliance risk to small businesses. Annual evaluation of projected turnover would be adequate and pose minimal risk to revenue collection.

Recommendation 17: Annual evaluation of turnover for GST registration

NFF recommends that the Government allow businesses to evaluate their GST income on an annual, rather than monthly basis.

11.6. Abolish the luxury car tax

The Luxury Car Tax (LCT) is an inefficient tax that is also ineffective as a redistributive tool. It also adversely impacts on the agriculture sector as the arbitrary car value threshold captures a number of vehicles that are essential business inputs and would not be described as a 'luxury car'. Four-wheel drive vehicles are well suited to use on farm and for accessing roads that may be inaccessible in certain weather events. For example a Nissan Patrol is considered a 'luxury car' for LCT purposes.

Further, with the demise of the Australian car manufacturing industry, another rationale for the Luxury Car Tax falls away, as there will no longer be a car industry in Australia to protect.

The Luxury Car Tax is the only 'luxury' tax applied to a specific product in Australia. The revenue raised from the tax is comparatively small and could easily be made up through small changes to the rates and thresholds of the income tax system or preferably, the revenue could be forgone and the impact on the Budget could be offset by expenditure reductions.

Recommendation 18: Abolish the Luxury Car Tax

NFF recommends that the Government abolishes the Luxury Car Tax immediately. Consideration should be given to offsetting the lost revenue through expenditure reduction rather than other tax increases (including removing or reducing ‘tax expenditures’).

11.7. Tax zone rebates and remote area FBT concessions

The current system of tax zone rebates were originally introduced to compensate individuals for the disadvantages of living in remote areas, such as distance, climate and higher living costs. Given that the rebates are subject to a number of conditions and the nominal amounts have not been varied since 1993, they have become increasingly irrelevant and are a poor method of addressing the disadvantages of living in remote areas.

Similar to the tax zone rebates, Fringe Benefits Tax (FBT) concessions allow employers in remote to provide their employees with higher after-tax remuneration to compensate them for higher costs of housing construction in remote areas and a lower level of public amenities.

The FBT system generally is complex, cumbersome and costly to comply with. The fact that benefits are taxed in the hands of employers and then ‘grossed up’ to an after-tax value for employees is an unnecessary complication which could be alleviated by taxing fringe benefits in the hands of employees and then taxing them at their marginal income tax rate.

Recommendation 19: Reform FBT to tax fringe benefits in the hands of employees

NFF recommends that the Government remove complexity from the FBT regime by taxing all fringe benefits in the hands of employees at their marginal rate of income tax.

In addition to the general complexity of FBT, the remoteness definitions that apply for these particular exemptions are outdated and complex. These should be reviewed alongside the tax zone rebates. Given that FBT concessions make it cheaper for *employees* to live and work in remote areas, there is a reduced incentive to be a business owner in remote areas, thereby damaging entrepreneurial activity and economic development in remote areas.

There are two broad options for reform. One is to better target the rebate through incorporating a population based criterion – that is, living in a regional centre with a population greater than a threshold would no longer attract the rebate and then the rebate for the remainder of the population could be increased. The other option for reform would be to scrap the rebates altogether and redirect the funds to providing regional infrastructure and other personal and business incentives to attract people to regional areas.

NFF does not favour a particular option but believes the Government should investigate ways to reform tax zone rebates and remote area FBT concessions or replace them with alternative forms of assistance to compensate people for disadvantages associated with living in remote areas.

Recommendation 20: Investigate alternatives to tax zone rebates and remote area FBT concessions

NFF recommends that the Government review tax zone rebates and remote area FBT concessions and investigate other more effective and lower cost means of compensating individuals for the disadvantages of living in remote areas.

11.8. Initiate ACCC market study into the use of agency/distribution agreements for farming inputs

Agency agreements and distribution agreements are increasingly being used by suppliers of agricultural inputs including seeds, chemicals and fertilisers to control the pricing of products through distribution.

Under an agency agreement, a product is sold to a farmer with the reseller/distributor acting as an agent for the company that owns the product. The reseller/distributor gets a guaranteed margin but has to sell the product at the price specified by the company that produces the product. This effectively stops resellers/distributors reducing the price (by reducing the margin they receive) to compete with other reseller/distributors.

Examples are:

- Anhydrous ammonia (Big N) is also controlled by an agency agreement and again there are no deals to be done based on volume, loyalty etc.
- Monsanto biotechnology – where the reseller is a Monsanto agent and the price is set by Monsanto as is the margin the reseller/distributor gets for making the sale. You will never see any discounting of a Monsanto license to a grower who purchases 10,000 ha vs a grower who buys 200 ha, the price is the price.
- Certain planting seeds (such as cotton) are now controlled by an agency agreement. Hence there are no discounts offered by resellers/distributors based on volume or sales of other products, again this price is the price.

Other products where agency agreements are used are herbicides and insecticides. A range of companies use agency agreements on some or all products.

The other type of agreement commonly used is a Distribution Agreement where a reseller/distributor purchases the product at a distributor (wholesale) price and then adds a margin of their choice and on sells to a grower.

The use of agency agreements certainly reduces the ability of growers to get a better deal on input pricing based on volume, loyalty etc. The agency agreements nullify the benefits of grower buying groups, such as farm co-operatives.

Some resellers/distributors would argue that they have a better guarantee of supply of products under an agency agreement and because margins are protected for them and the company making the product, it encourages the company to ensure they meet forecasts and the market needs. They would argue that this is the reason no one takes risks with non-agency generic products as there is too much competition and no one takes a risk chasing the last few percent of the market hence these product may run out.

Some of the companies also use agency agreements to keep different agricultural markets in Australia separate i.e. this happens often with horticulture products that are used in broadacre as well. The price in broadacre is much cheaper and hence the margin is much higher in horticulture (ability to pay) and the agency agreement ensures no one buys the product in a broadacre area and transports it to a horticulture area.

NFF believes that the widespread nature of this issue and the potential reduction/restriction of competition in the supply of agricultural inputs necessitates investigation. To that end, NFF believes that the Government should instruct the ACCC to initiate a market study to investigate the issue. Further, NFF believes that the Government should empower the ACCC to compel witnesses/interested parties to provide information.

Recommendation 21: Market study into the use of agency/distribution agreements in the agricultural sector

NFF recommends that the Government instruct the ACCC to conduct a market study in the use of various types of agreements used in the supply of agricultural inputs, including, but not limited to seeds, fertilisers and agricultural and veterinary chemicals.

The ACCC should be adequately resourced to undertake such a study and witnesses and interested parties should be compelled to provide information and evidence.

11.9. Fully fund Landcare

In this budget, the Government must commit funds to the next 5 year phase of the National Landcare Program. National Landcare Program (NLP) investment needs ‘rebalancing’ to provide a renewed focus on the agricultural sector and incentives for landholders to undertake innovative practice change. The next phase of the program must encourage stronger linkages between NLP funding and industry-led initiatives, to best leverage Government and industry investment in sustainable agriculture programs.

Productive agricultural land provides multiple public good benefits to the community. Environmental stewardship and other market-based instruments, therefore, must be part of the investment mix of the NLP.

Recommendation 22: Fund Landcare for the next 5 years

NFF recommends that the Government recommit at least \$1 billion to the next 5 year phase of the National Landcare Program, and that this commitment rebalances investment towards sustainable agriculture.

11.10. Re-focus investment in the Murray-Darling Basin

The Murray Darling Basin Authority has proposed a recommendation to reduce the target volume for water recovery in the Northern Murray-Darling Basin.

While NFF maintains the view that this target has not been reduced enough, there is an opportunity to re-focus the priority of investment from water recovery to achieving better environmental and community outcomes in the Northern Basin.

The NFF seeks that funding be redirected from recovery to the robust planning and implementation of infrastructure projects and non-flow ‘tool-kit’ measures that achieve more effective management of water already recovered under the MDBP so that real environmental outcomes are delivered.

Further, The NFF considers it vital that the Government provide the funding required to drive alternative economic activities and employment opportunities for those communities who already have and will continue to suffer the socio-economic impacts of water recovery that has resulted from the implementation of the MDBP.

The analysis that has supported the MDBA’s Northern Basin Review has given us a much greater understanding of the local social and economic impacts of water recovery. This analysis provides a solid basis for informed local discussions about how best to target investment in community adjustment for those communities that have been most affected by the reform.

Recommendation 23: Refocus water buyback funds to transitional assistance

NFF recommends that the Government re-focus funding that would have otherwise been used for water buybacks in the Northern Basin for investment in complementary measures and in community adjustment.

11.11. Great Artesian Basin Strategic Management Plan

A new Strategic Management Plan (SMP) is currently under development for the Great Artesian Basin, to provide a comprehensive framework to coordinate the management of Basin resources beyond 2017. For this new SMP to be a success will require the allocation of funding by the Government to ensure that the framework required to deliver the aims of the new SMP can be established and see that those projects initiated under the current SMP are continued.

Finalising the capping and piping of bores across the Great Artesian Basin must continue to be a priority as part of the SMP and the NFF urges the Government to commit to a continuation of investment in capping and piping programs

Recommendation 24: Commit funding to the Great Artesian Basin

NFF recommends that the Government allocate sufficient resourcing to the finalisation of the Great Artesian Basin strategic management plan, and the necessary future governance arrangements to ensure the long term sustainable management of the Great Artesian Basin.

11.12. Fund pre-competitive science for onshore gas exploration and development

Reform of Australia's energy market to manage the transition to lower emissions generation will inevitably put pressure on State and Territory Governments to expand the supply of onshore gas. Current restrictions on unconventional gas developments in many jurisdiction reflect community concerns of the risks of irreversible damage to our land and groundwater.

The land and water resources on which the agriculture sector relies must not be compromised, and state and territory regulation of the gas industry must be framed around the best available scientific information, including our ability to understand the cumulative impacts of developments.

Given the national imperative to ensure the supply of affordable and reliable electricity to households and businesses, NFF's view is that there is a clear role for the Commonwealth Government to invest in science, information and monitoring to help inform the regulation of the mining and petroleum sectors.

Since 2012, nearly \$90 million has been invested in the Bioregional Assessments Program. This unique collaboration of State and Commonwealth regulators and key national science agencies (CSIRO, Geoscience Australia, and the Bureau of Meteorology) has resulted in the development of the most up to date datasets and groundwater models to support decision making by regulators in relation to the impacts of coal mining and coal seam gas on water resources and the environment more broadly. A better understanding of the science will lead to better outcomes for all by providing both regulators and the broader community the community with greater confidence that risks can be appropriately managed.

The Commonwealth invests \$100 million in the "Exploring for the Future" programme to conduct pre-competitive gas resources assessments to "de-risk" exploration and it has committed \$4 million for the CSIRO to expand the GISERA research partnership model beyond Queensland. In these commitments, the Commonwealth has signalled the importance of pre-competitive science to underpin growth in energy supply.

The 2017-18 Budget must commit the Commonwealth to ensuring that the legacy of this investment is assured, and that the model is expanded to cover resource development on all onshore gas resources, not just coal seam gas.

Recommendation 25: Fund the expansion of the Bioregional Assessments Programme model to all onshore gas

NFF recommends that the Government commit sufficient funding to expand the Bioregional Assessments model to capture all unconventional onshore gas development.

11.13. Fund regional telecommunications to unleash agricultural productivity

Mobile phone connectivity is a priority issue of the NFF and additional investment in the Mobile Black Spot Programme is one of the organisation’s key Budget priorities for 2017-18. The mobile blackspots program represents the type of co-investment model that is needed to further mobile coverage in the bush. We urge the Australian Government and its partners to commit beyond Round Three of the program.

Recommendation 26: Fund further rounds of the Mobile Blackspots Programme

NFF recommends that the Government commit at least \$60m each year on the Mobile Black Spot Programme, or equivalent program, which prioritises community identified areas and open access facilities.

Achieving a Universal Service Obligation that is technology neutral and that provides access to both voice and data is another fundamental priority. The current USO only guarantees supply of a standard telephone voice service. This is out of step with the services that consumers are now using. The USO must be broadened to also guarantee data services. We support the recent Productivity Commission’s call for a “modernised and forward-looking approach to the subsidy and support arrangements that form universal telecommunications services in Australia.”

Recommendation 27: Fund a broad, technology neutral Universal Service Obligation

NFF recommends that the Government:

- broaden the Universal Service Obligation to encompass data as well as voice services with explicit minimum performance, reliability and service standards; and
- review allocation of the \$100 million per annum Government contribution to the USO and ensure that as the USO is modernised, this money contributes to better telecommunications coverage in rural and remote areas.

11.14. Digital and Technical Extension to spread the benefits of new infrastructure

All of society and the Australian economy stands to gain from the benefits of having regional, rural and remote areas connected. Productivity efficiencies in farming processes and the knock on increases in food quality and reduced prices, a reduced call on Government health and social welfare and greater social cohesion and integrated communities.

To realise these benefits consumers and businesses need technical digital support in the transition and education on advanced technological processes that will deliver them. The minor cost in building the capacity now is minimal in terms of the longer term benefit that will be realised.

Recommendation 28: Fund digital and technical extension

NFF recommends that the Government commit a minimum of \$5 million per annum funding to a grants program for independent digital technical support and capacity building in rural and remote areas.

11.15. Develop and implement a national freight and supply chain strategy to meet the emerging freight challenge

By 2031, Australia's containerised trade is projected to grow by 165 per cent and non-containerised trade by 138 per cent.¹³ It is readily acknowledged that Australia's fragmented freight network ownership, operation and oversight are ill equipped to deal with the challenge. As a result, Australia risks missing out on significant trade opportunities without reform and new investment.

NFF strongly supports prioritisation of regional projects based economic, social and environmental merit, rather than political factors, to ensure Australian agriculture gets the biggest productivity bang for the investment buck.

The Government's announcement of an inquiry to develop a national freight and supply chain strategy, to be completed by December 2017, is a good first step. However, this needs to be an urgent priority and the Government should provide Infrastructure Australia with adequate resources to develop the strategy more quickly. Additional funding should be committed to the CSIRO to provide modelling support (using the TraNSIT model) so that there is a robust evidence base to prioritise the best bundles of projects.

¹³ Infrastructure Australia, *Australian Infrastructure Plan*, p.54, http://infrastructureaustralia.gov.au/policy-publications/publications/files/Australian_Infrastructure_Plan.pdf, viewed 11 January 2017

NFF also supports Infrastructure Australia’s recommendation to target investment to remove first- and last-mile constraints across the freight network. Accordingly the Government should work with States, Territories and local governments to address legislative and administrative barriers to addressing these constraints and consider mandating a proportion of road funding on an agreed network of first and last mile roads. It should be noted that these constraints vary significantly from industry to industry.

Recommendation 29: Fund the development of a National Freight and Supply Chain Strategy

NFF recommends that the Government commits funding to:

- Infrastructure Australia to develop a National Freight and Supply Chain Strategy; and
- CSIRO to provide modelling support to the National Freight and Supply Chain Strategy inquiry to be undertaken throughout 2017.

NFF also recommends that the Government work with States, Territories and local governments to address legislative and administrative barriers and consider mandating a proportion of local road funding to be dedicated to first- and last-mile transport investments.

11.16. Commit funds to inland rail and Western Sydney airport agricultural precinct

NFF is a strong supporter of the Government’s commitment of \$594 million to land acquisition for the Brisbane to Melbourne inland rail link, but believes that further funding needs to be committed to the project in the 2017-18 Budget. The project is on Infrastructure Australia’s priority list and there are significant benefits that come from taking freight off the road network.

Recommendation 30: Fund the next phase of the Brisbane to Melbourne inland rail link

NFF recommends that the Government commit at least \$1 billion over the forward estimates to the Brisbane to Melbourne inland rail link.

Air freight will increasingly be a crucial link between Australian agriculture and consumers in Asia, particularly for dairy and horticultural produce. The Government should commit funds to investigating an agricultural freight precinct as part of the construction of the Western Sydney airport at Badgery’s Creek.

Recommendation 31: Investigate an agricultural freight precinct at the Western Sydney airport

NFF recommends that the Government commit funds to investigate an agricultural freight precinct as part of the construction of the Western Sydney airport at Badgery’s Creek

11.17. Attracting Australian youth into agricultural work

Every year in Australia, more than 30,000 overseas working holiday makers undertake regional agricultural work – almost entirely motivated by the incentive of a second year visa to stay and work in Australia. As the recent backpacker tax campaign highlighted, the working holiday maker program offers a critical solution to chronic labour shortages in the agriculture sector.

With the right incentive, young Australian residents will also go to regional areas to work in agriculture. Current policy settings provide the right incentives for overseas visitors to work on farms, but there is no equivalent incentive for Australians to do the same. Youth unemployment in many regions of Australia is too high. Research suggests that young (under 30) single unemployed persons or those looking for work have a strong willingness to relocate for work¹⁴, but that they often lack the skills and experience that employer's need.

The government can boost participation of young Australians in the agriculture workforce by targeting policy settings to incentivise the uptake of vocational education and training (VET) and regional agricultural work. This aligns the two key policy needs: giving workers the skills and experience they need and providing a willing domestic labour source for farm businesses in regional Australia. The important distinction between a program of this nature and one that imposes a requirement to undertake work-like activities is that uptake depends on individual choice: that is, those applying for work actually want it.

Specifically the Government should consider implementing a new industry-supported initiative that could offer discounted course fees or Trade Support Loan offsets for VET students who work in agriculture for at least 3 months of the year.

As part of an appropriately established program, course fee discounts would be available on upfront payments or through reduced VET-FEE HELP repayment liability. Alternatively, Trade Support Loans could be reduced by 25 per cent for each 3 months of regional agricultural work in a year, up to the maximum of \$20,000.

Recommendation 32: Introduce new VET-FEE HELP or Trade Support Loan offsets for students who engage in regional agricultural work

NFF recommends that the Government consider:

- offering discounted course fees/reduced VET-FEE HELP repayment liability for VET students who work in agriculture for at least 3 months of the year; and/or
- reduce Trade Support Loans by 25 per cent for each 3 months of regional agricultural work in a year, up to the maximum of \$20,000.

¹⁴ Nicholas, A. and Shah, C., 'Incentives for relocating to regional Australia: estimates using a choice experiment', Research Report, National Vocational Education and Training Research Program, 2014, p.33, https://www.ncver.edu.au/_data/assets/file/0024/9168/incentives-for-relocating-2727.pdf, viewed 11 January 2017

11.18. Seasonal Worker Program – Agricultural labour market needs analysis and program review

In 2008, the Government announced its proposal to establish a pilot Seasonal Worker Program for certain industries to address serious ongoing labour shortages in the agriculture sector. NFF. Eight years later, the Program has been expanded to cover all agricultural industries and participation is now growing strongly.

Despite this growth, there are a number of barriers to participation both on the supply and demand side. Participating countries - Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu and Vanuatu – have express concern about limited access to the Program for large numbers of available workers. Farmers express frustration at excessive red tape and delay in access to the Program, exacerbated by lack of understanding of the farm sector and its unique workforce needs.

Ahead of its ten year anniversary, it is timely to undertake a review and analysis of the Program to ensure it can deliver on its objectives over the long term. The review would:

- Undertake a gap analysis and needs assessment of the Program, looking at agricultural workforce characteristics and labour shortages, qualifications, available migration pathways and opportunities for suitably trained worker participants;
- Identify whether the Program is meeting the needs of the agricultural industry;
- Review alternative migration pathways to meet labour shortages in the agricultural industry; and
- Make recommendations to support the effectiveness and sustainability of the Program, drawing on key learnings from comparable countries such as New Zealand.

The objective would be threefold:

- address agricultural industry labour shortages;
- increase uptake among participating countries; and
- overcome current barriers to participation.

Recommendation 33: Fund an agricultural labour market needs analysis and review of the Seasonal Worker Program

NFF recommends that the Government provide funding of \$290,000 for the labour market study and program review, to be conducted by an independent advisory firm.

11.19. Seasonal Worker Program – Pooled Funds

A major barrier to uptake of the Seasonal Worker Program (SWP) is the perceived upfront costs to both businesses and employees. While employer contributions have reduced since the announcement of the Northern Australia White Paper, the

fact remains that the upfront costs to businesses are much greater than the \$500 per worker ultimately required to be paid. An approved employer must pay upfront the full return international airfare and domestic transfer costs for seasonal workers from their port of departure in the participating country through to the location of employment and accommodation in Australia. The approved employer can then recoup from each seasonal worker the international and domestic transportation costs over \$500 via authorised deductions.

This requires a leap of faith from a price-taking sector which is traditionally risk adverse and cost conscious. For Pacific Island and East Timorese employees, the cost of travel to Australia is likely to be significant in relative terms to their income at home.

Overcoming the perceived costs barriers is important if we are to grow the SWP to its full potential. NFF proposes a centrally managed “SWP Administration Fund” where contributions toward the cost of travel and accommodation are paid either during or at the end of the season. Employees would access the fund to cover their travel to Australia. Employers would deduct periodic amounts from employee’s wages to cover the cost of airfares etc. and pay these into the SWP Administration Fund. The Department of Employment or the ATO would administer the fund. Seed funding may be required of approximately \$30 million to cover the initial year of operation, after which time it is anticipated that the operation of the fund would be cost neutral.

Recommendation 34: Introduce a centrally managed program including appropriate level of funding to drive uptake of the SWP

NFF recommends that the Government provide seed funding of up to \$30 million to cover the initial year of operation, after which time it is anticipated that the operation of the fund would be cost neutral.

11.20. Establishment of an industry-led certification scheme for labour contractors

Free trade agreements and new, agriculture-focused domestic policy settings have opened up new opportunities for growth in the sector. Capitalising on these opportunities involves ensuring enough human capital to meet demand. This includes responding effectively to community concern about how employees are treated on farms, to promote our social license and attract more employees into Australian agriculture, both locally and from overseas. If the community has confidence in the sector, employment can start to grow, reversing the current forecast of an overall decline of 0.9 per cent by 2018.

Most of the concern about treatment of employees in agriculture is connected to labour contracting practices. Consensus achieved at the NFF’s recent Horticulture Industry Roundtable, attended by stakeholders across government, industry and union and community groups, was based on the need for an industry-led certification scheme for labour contractors. Government can play a role in supporting industry by providing resources (both financial and in-kind) to assist in the development of a robust and credible certification scheme.

Recommendation 35: Industry-led certification scheme for labour contractors
NFF recommends that the Government provide in-kind and financial support for the development of an industry-led certification scheme for labour contractors

12. Conclusion

The NFF's vision is for Australian agriculture to become a \$100 billion industry by 2030. To achieve our vision, the sector needs regulatory and public policy settings that foster growth and productivity; innovation and ambition. We also need a competitive, flexible and dynamic economy.

The NFF pre-Budget submission outlines 6 key policy pillars and makes 35 recommendations that we believe will enable the Government to provide the economic leadership that the nation needs to navigate testing times.

First, the Government needs to repair the Budget, but do it in such a way that enables Australia to improve our flagging international competitiveness that is so crucial for an export-dependent sector like agriculture. Second, the government also needs to instigate measures to build general business confidence and put in place the right incentives for growth – incentives to work, save and invest. The Government must create a stable macroeconomic environment that is conducive to growth. This means expenditure restraint and tax reform – a lower tax burden overall and a more simple tax system.

The labour market must be flexible to enable farm businesses to be flexible, dynamic and agile. Farmers must be able to reorganise their resources, including labour resources in the face of rapid technological change. Farmers also need to be able to attract labour with the right skills at the right time. The Government must continue to liberalise trade to provide access to new markets and partner with industry to improve access in existing markets.

Competition policy reform is vital to ensure farmers operate on a level playing field and share in the prosperity that they create. Australia's farming sector is comprised of a large number of small players that are geographically dispersed and have close supply chain relationships with much bigger entities on both sides of the market that are able to use their scale and proximity to squeeze farm gate returns. These relationships can work well, but asymmetries in the market mean that when they don't, the financial impact can be severe for individual farmers. That is why the amendments to the existing legislation are necessary to provide practical means of redress.

Australian agriculture is being held back by a lack of regional telecommunications and transport infrastructure. Australian farmers will struggle to adopt new technologies and innovate without access to high quality, affordable telecommunications infrastructure. And access to new markets will count for naught if farmers are unable to get their products to the rest of the world in a timely and cost-effective way.

The electricity market is broken and farmers, like the rest of the community, are not getting the affordable, reliable electricity supply they need to produce enough food and fibre to satisfy growing demand. Added to that, interactions between federal, State and Territory energy, climate and land use policies are producing unintended consequences that threaten the viability of Australian agricultural exports.

In addition to these ‘big picture’ issues, the NFF has provided the Government with a range of actions that can be taken in the current Budget to improve competitiveness and enable the Australian farm sector to thrive.