

farm institute insights

Australian Farm Institute's quarterly newsletter



Australian
Farm Institute

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3 Feature Article

**** Updated to reflect recently released statistics ****

Water policy everywhere, and not a drop to drink!

Water policy is suddenly the hot media topic in Australia, with countless hours of radio and television coverage, and a flood of newspaper columns and opinion pieces devoted to it over recent weeks. Not surprisingly, agriculture's use of water has come under close scrutiny, and has been heavily criticised by the water 'commentariat' – the small group of economists, scientists and environmental spokespersons filed under 'water' in the media's contact lists.



Much of the discussion has been based on simplistic assumptions and generalisations about agriculture's use of water. The fact that major rivers have stopped flowing has been blamed on irrigators, and equated with the environmental death of catchments. Annual crops such as cotton and rice have been branded as thirsty crops unsuitable for Australia. The lack of water is regarded as proof of the effects of global warming, and Australia signing the Kyoto Protocol is proposed as the only solution. Underlying much of the discussion has been the perception that the problems of urban water supplies can be fixed by moving farmers off the land and diverting water currently used by agriculture.

Seemingly lost in all the chatter are some basic realities of water supply and utilisation in Australia. The feature article in this edition of *Farm Institute Insights* examines recent water debates, and concludes that most of the problems facing urban water supplies have very little to do with agriculture's use of water.

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The November edition of the *Farm Policy Journal* examines environmental management systems (EMS) and their application to agriculture from Australian and US, and consumer and producer, perspectives.





Australian
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Institute Activities

2006 Strategic Roundtable Conference: *Future Agriculture*

The Institute's annual Conference is being held in Sydney on 2–3 November. The Conference is a media-free event attended by agribusiness and farm leaders, academics, researchers and policy-makers. Delegates actively participate in discussion following presentations on strategic issues critical to the future of Australian farming: China; biofuels; changing consumer demands for food; and agriculture and emissions trading.

Research Report launch – Customer-focused agriculture

The Institute's latest Research Report was launched at a seminar in Melbourne on Monday 23 October.

The Report, *Enhancing the Customer Focus of Australian Agriculture*, examines the nature of competition faced by Australia in global and domestic markets for agricultural products and makes recommendations as to how Australian agriculture can re-think its approach to producing for, and marketing to, those markets.

See the [Institute Research and Events](#) page of this newsletter to find out more.

New Research Advisory Committee members

The Institute welcomes two new members to its Research Advisory Committee: Shaughn Morgan, Chief Executive Officer of the NSW Farmers' Association; and Dr Warren Parker, Chief Executive Designate of Landcare Research, New Zealand.

To find out more about past, present and future research by the Institute, visit www.farminstitute.org.au/research

Out and about

Recently the Institute's Executive Director, Mick Keogh, has spoken at:

- the Agri-Food Industry Skills Council's first National Conference, on changes in the nature of farming in Australia
- the Australasian Farm Business Management Conference at Marcus Oldham College, on a range of issues facing Australian farmers, including climate change and natural resource management policies.

In the news

Following his feature article on land clearing in the last edition of *Farm Institute Insights*, Mick Keogh appeared on the *Sunday* program in August when reporter Ross Coulthart examined 'The Great Land Clearing Myth'.

Call for papers

The February 2007 edition of the *Farm Policy Journal* focuses on the rapid development of China's agricultural sector and asks: 'China – emerging opportunity or emerging threat?'

The deadline for papers is Monday 18 December 2006.

If you are interested in submitting a paper, please contact Karen Romano on 02 9690 1388 or email romanok@farminstitute.org.au

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Water policy everywhere, and not a drop to drink!

(With apologies to ST Coleridge)

Mick Keogh, Executive Director, Australian Farm Institute

Coincidence can often play a large part in determining the media 'topic of the day'. Recently, temperatures in south-eastern Australia reached an all-time October high, on the same day that the National Water Commission released its national water audit report. Also making news that day was a stockbrokers' report highlighting that drought was downgrading the earnings of listed agricultural companies, and crop and drought reports confirming rapidly worsening climatic conditions across south-eastern Australia. To add fuel to the fire, a Commonwealth Parliamentary Committee Inquiry was informed of the worsening water shortages in major Australian cities, and that even greater problems may arise due to global warming.

The response in the media was immediate. Suddenly, every radio program was awash with the water 'commentariat' and concerned callers offering all manner of solutions. The next day's newspapers all gave water policy front-page, full-feature treatment, with graphic photos of cracked mud and dried up rivers, and young children stepping over what is left of the 'dying' Darling River.

Predictably, the commentators and experts espoused views that were depressingly familiar:

- 'Australia's major rivers are dying due to too much water being used for irrigation.'
- 'Farmers waste too much water growing thirsty crops like cotton and rice.'
- 'Governments should take water from farmers to fix urban water shortages.'
- 'Droughts and water shortages will only get worse until the Government signs the Kyoto Protocol'.

Equally predictable was the usual game of blame and counter-blame between the Commonwealth and state governments, each criticising the

other for some shortcoming in water management over recent times that had somehow made the situation worse.

The outcome of all the discussion was the generation of a lot of heat, but not much light. Lost in all the noise were some pretty basic aspects of water management in Australia that need to be remembered to ensure that future debate – and any policy decisions – are firmly grounded in reality, rather than hysteria.

The death of Australia's river systems?

One of the most often repeated opinions is that if major rivers such as the Murray or Darling stop flowing, it will be the environmental death of the river systems and the end of civilization as it is known in the catchment.

Between 1885 and 1960, the Darling River stopped flowing at Menindee on 48 occasions, with the longest no-flow period being 364 days in 1902–03.

This view reveals a northern hemisphere perspective of what a river is and how its 'health' should be judged. In Europe and North America, rivers generally have their sources in mountains with permanent snow, and flow through landscapes that have relatively high and reliable rainfall in comparison with Australia. As a result, river flows tend to be relatively constant.

Australian rivers flow through relatively dry landscapes that experience highly variable rainfall. In their 'natural' state, the rivers located in the southern half of Australia experience more variable flows than virtually any other rivers worldwide (Murray-Darling Basin Commission 2005), and on occasions stop flowing altogether. For example, when explorer Charles Sturt became the first European to reach the Darling River in 1828, a prolonged drought had reduced it to a series of salty pools. Similar river conditions have occurred frequently, with records showing that between 1885 and 1960, the Darling River has stopped flowing at Menindee on 48 occasions, with the longest non-flow period being 364 days in 1902–03.

These events occurred well before any storages or irrigation existed on the river or its tributaries. It is also estimated that, in the absence of water storages

such as the Hume and Dartmouth dams, the Murray River would have ceased flowing during the droughts of 1938–39, 1944–45, 1967–68, 1982–83 and 1997–98 (MDBC 2005).

These records highlight that equating lack of water flow with environmental disaster is wrong in the case of Australian rivers, which in their natural state have always experienced highly variable flows, to which riverine biodiversity has adapted.

It is equally wrong to blame the lack of water in rivers on irrigation. Irrigators can only extract water when it is available, and are the first sector to lose access to water in a dry period. The real reason for a lack of water in major rivers is that over recent years, eastern Australia has experienced very low rainfall, and in-flows into the Murray River in the past half decade have been lower than for any period since the ‘Federation drought’ of 1895–1902. Rainfall over the eastern side of the Murray-Darling Basin, where most of the runoff for those rivers is generated, is the lowest ever recorded over a twelve-month period. Given the lack of runoff entering watercourses, it is hardly surprising that river levels are very low, and in some cases have stopped.

In fact, one of the great weaknesses of Australian water policy is that, for all the dollars that have been spent over many years funding water scientists, there seems to be little if any agreement on the indicators that should be used to assess a river’s environmental ‘health’, and therefore to define the sustainable yield of water that can be extracted from that resource. This was made abundantly clear in 2002, when an expert panel appointed to identify the environmental benefits of reducing water extractions from the Murray River reported it was unable to develop quantitative performance targets for improved management of river health (Jones et al. 2002).

Similarly, the national water audit recently released by the National Water Commission (National Water Commission 2006) was critical that there is no nationally agreed definition or reporting of sustainable yield for Australian water resources.

It is also noteworthy that river water salinity – the only Murray River water health indicator that is published regularly – has improved enormously over recent decades, contrary to the picture that is often painted by environmental groups.

The Government’s role is to decide how much water can be extracted. The farmer’s role is to decide what to use that water for.

Farmers waste too much water on thirsty crops like cotton and rice

A very frequent comment is that Australian farmers should not be growing ‘thirsty’ crops such as cotton and rice, which use a lot of water. Unstated is the related assumption that there would be plenty of water available for the cities if only farmers weren’t using so much water growing these crops.

This logic encounters a ‘minor’ problem in that the water utilised for cotton and rice production is located a long way from major cities, and is not in watercourses connected to most major urban areas, making diversion of this water to urban users a challenging task!

However, a more fundamental problem with this view is that it ignores the respective roles of governments and farmers in water management.

Governments (through their catchment planning processes) decide how much water can sustainably be extracted, and the rules that govern when the water can be extracted and its cost. Governments also put a priority on the water available to different users, with urban and industrial users allocated the highest security of supply, followed by high-security agricultural users (typically orchards and vineyards), and then low-security agricultural users. In dry times, low-security agricultural users are the first group to have their water allocations reduced.

Knowing the security of their water entitlements, and having been advised by governments about how much of their entitlements will be available, farmers then make decisions about how they will use the available water. They consider a whole range of factors, including commodity prices, soil types, topography, climate and their own production expertise.

Farmers with high-security water entitlements are typically involved in producing relatively higher value produce such as horticulture and grapes. These require significant capital investment in watering systems and permanent tree and vine plantings. These farmers have limited flexibility in production decisions and a relatively constant annual requirement for water.

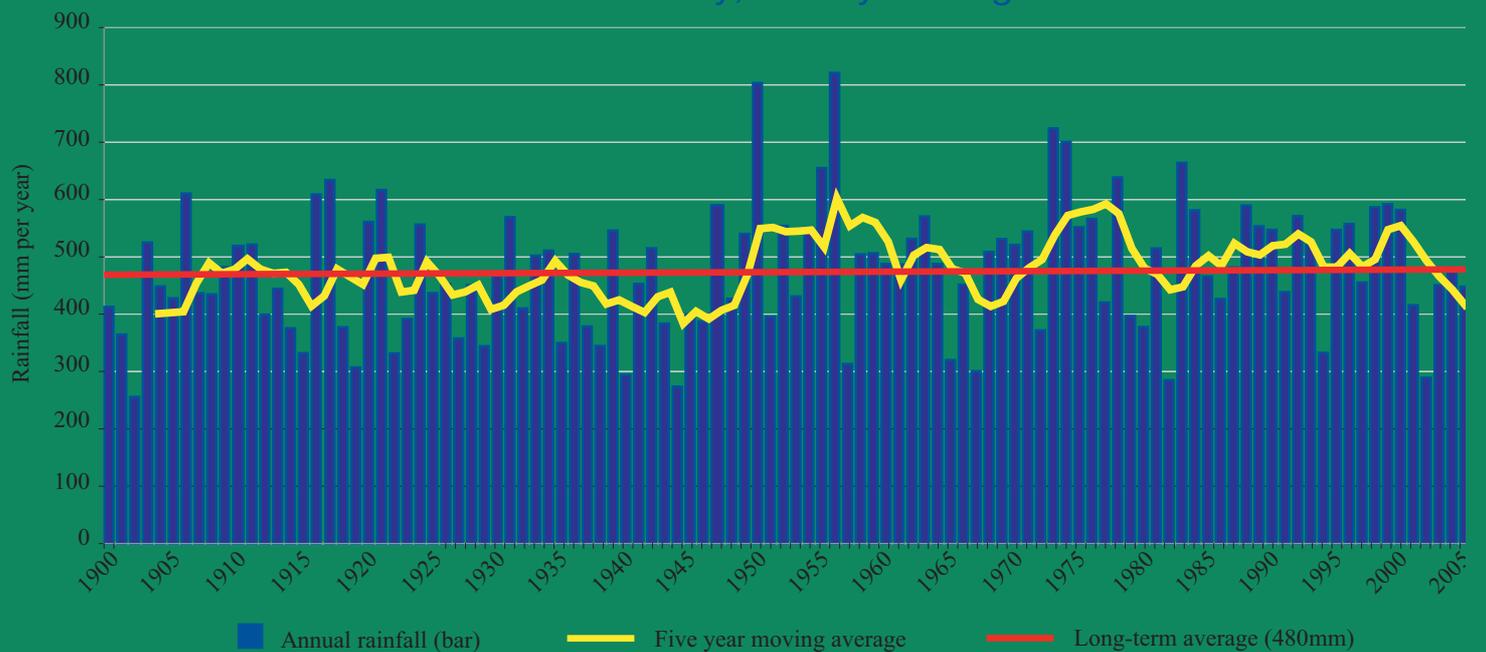
Farmers with lower security water, on the other hand, are typically involved in growing annual crops such as cotton and rice, or irrigating pastures used for livestock production. These farmers have much more flexibility in their farm management decisions, and often have multiple-enterprise farm businesses. They make production decisions on an annual basis as they become aware of the volume of water they will have available.

This flexibility is obviously highly desirable for Australian irrigators, as recent seasons have highlighted. In 2000–01, total water used by

Drought or Global Warming?

Much has been said about the possible influence of human-induced global warming on the severity of droughts in Australia. A cursory examination of available statistics suggests a trend of slightly increasing mean temperatures over the last 20 years, but no easily observable trends in rainfall. As the following graph highlights, the main feature of rainfall data in Australia is its high degree of annual variability.

Rainfall variability, Murray-Darling Basin



Australian irrigators was estimated at 14,989 gigalitres (Australian Bureau of Statistics 2006a). In 2002–03 and 2003–04, only approximately 10,500 gigalitres was available to be used, and in 2004–05 the amount was approximately 12,000 gigalitres. It is likely that 2006–07 allocations will be even smaller.

As a result, by far the biggest decline in irrigated agricultural water use over the last five years has occurred in the rice (-70%) and cotton (-37%) industries (ABS 2006a), because those farmers have made decisions to reduce or cease production when water is not available. This is obviously a highly desirable situation under Australian conditions, and one of the advantages of growing high-value annual crops such as cotton and rice.

Recent events in the grape industry have reinforced the need for caution in deciding how farmers should use their water. While grape production would normally be considered a high-value and, therefore, desirable use of water, the slump in returns for grape producers over the last two years has made grape production unprofitable for many growers. This is likely to be the case for some time due to the inflexible nature of capital investments in that industry. Farmers cannot suddenly cease production, because it is an extremely expensive decision to abandon vineyards that may cost as much as \$50,000 per hectare to establish.

Transferring irrigation water to higher value and ‘less thirsty’ uses such as horticulture or grapes is generally desirable from the perspective of

maximising the wealth generated from scarce water. This has certainly occurred to some degree over the last decade as water entitlements have been able to be traded. However, there are very good reasons that farmers decide to grow ‘thirsty crops’ such as cotton and rice, and there is no reason this should cease to be the case in the future.

Governments will have to take water away from agriculture to improve urban supplies

Quite a number of commentators, including those referred to as leading water scientists, have been reported as stating that farmers will have to give up some of their water entitlements so that urban water supplies can be improved. Presumably, this means that they are suggesting farmers should be

able to sell water entitlements to urban users, given the broad agreement by governments that water entitlements should be secure, and not able to be taken away without compensation.

There is nothing wrong in theory with this proposal. Policy changes over recent years to make water entitlements more secure, and to separate titles to water and land, are aimed at facilitating increased trading of water entitlements, so that water can move to its most valuable use. Given current water pricing arrangements, urban water utilities would be able to pay more for water than many agricultural users, making agricultural to urban transfers likely.

However, a number of aspects of this proposal need further consideration. The first is whether or not these trades are practically possible. The major capital cities are based in coastal areas, and generally not in the same catchments as the main water storages and rivers that supply agriculture. Therefore, it may be neither practical nor economical to transfer the water. Transferring agricultural water to inland urban areas is perhaps more feasible, although inland urban areas are not experiencing the same population and, therefore, water demand growth as coastal areas.

A second consideration is the environmental and economic efficiency of existing urban water supplies. If urban water supply systems are run down, wasteful and result in poor environmental outcomes, then rewarding that poor performance by simply providing cheap extra water does not seem sensible – especially if urban water demand is likely to grow in the future. It would literally be pouring good water down the drain.

A recent Commonwealth Parliamentary Inquiry examined the sustainability of urban water supplies in Australia (Senate Environment Committee 2002). It was scathing in its conclusions, finding that urban centres in Australia are using water in ways and quantities

that are unsustainable. The Senate Environment Committee determined that improvements in the infrastructure and management of urban water are not keeping pace with the growing damage caused by the expanding ecological footprint of Australian cities. Singled out in particular were a lack of recycling or collection and use of stormwater; a lack of investment in maintenance of infrastructure; and water pricing that doesn't reflect the full cost of collecting and supplying water.

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While four years has elapsed since the report was issued, major improvements are only occurring very slowly. Reinforcing this, Sydney water authorities (who pay a significant annual dividend to the NSW Government) were recently reported to have spent more than a million dollars on legal costs trying to **prevent** recycled water being produced from Sydney wastewater. Meanwhile in Toowoomba, residents rejected a proposal to utilise recycled water that would have dramatically improved the sustainability of the water supply of that city.

The contrast between the management of rural and urban water resources over recent years is dramatic. Rural water users have experienced the development of comprehensive water sharing plans that have, in many cases, dramatically reduced water availability. In addition, end-of-system flow rules have been established, water harvesting and floodplain harvesting policies introduced, dam size limitations imposed, and water quality monitoring implemented.

These requirements have not been imposed with anywhere near the same vigour in urban areas such as Sydney.

Even if it is practical, simply allowing urban water utilities, which service populations living in relatively high rainfall areas, to 'stick a pipe' into agricultural water supplies that service and support economic activity in low rainfall areas, without having first made efforts to create more sustainable urban supply systems, seems very poor policy. It is a policy that would further expand the ecological footprint of urban areas, rather than make urban water supplies more sustainable. As the CSIRO noted in a parliamentary submission, 'If the environmental impact of providing urban water services is to be reduced, a movement towards more self-sufficient systems is required, rather than the once-through systems that presently dominate' (CSIRO 2002).

Transferring agricultural water to urban users would also have some longer term economic impacts, some of which would disadvantage urban consumers.

It is frequently stated that agriculture utilises 70% of Australia's available water, which, not surprisingly, makes the water used by agriculture a target when it comes to finding more water for urban or environmental use. The basis for the figure is detailed water accounts produced by the Australian Bureau of Statistics. Initial estimates of water use for the 2000–01 year were that agriculture utilised 16,600 gegalitres, out of total national water consumption of 24,500 gegalitres (ABS 2004). These figures have since been substantially revised, with the ABS now estimating that agriculture used 15,000 gegalitres out of total national consumption of 21,700 gegalitres (ABS 2006a). The 2000–01 water year was the last year of a sequence of three years of well above average rainfall, and during that year farmers were able to take advantage of additional water to boost irrigated

production. Since that time, annual water use by agriculture has reduced as less water has been available, and has varied between 10,000 and 12,000 gigalitres for the three years to 2004–05. It is anticipated to be much lower again for the 2005–06 year.

Based on the latest ABS data, agricultural water use declined by 20% over the period between 2001 and 2005, while water consumption by all other users has only declined by 2%. This data highlights that while urban and industrial water consumption is relatively unresponsive to changing levels of water availability, agricultural water use varies greatly and is determined by water supply.

However, even this figure is only a superficial assessment of water consumption, because it ignores the reality that many farm products are ultimately consumed by urban Australians, and the water used by farmers is ‘embodied’ in those products. Accurately estimating the amount of water that is, in effect, utilised by urban consumers is difficult, however, a very rough approximation can be made by multiplying the total irrigated water use for each agricultural commodity by the proportion of that commodity consumed in Australia. The data in Table 1 indicates that

While urban and industrial water consumption is relatively unresponsive to changes in water availability, agricultural water use varies greatly and is determined by water supply.

approximately 37% of the irrigation water used by Australian farmers is embodied in farm goods ultimately consumed by urban Australians, and that agriculture’s actual water consumption is about 40% of total water consumed in Australia.

Those suggesting that the solution to Australia’s water ‘crisis’ is to simply take water away from agriculture need to remember that urban populations are the ultimate consumers of much of that water in the produce they consume, and higher fruit, vegetable and dairy prices would be an inevitable consequence, as the current drought has so clearly demonstrated. The water used in agriculture also generates substantial export income,

which plays an extremely useful role in maintaining Australia’s balance of trade and keeping interest rates low. These longer term impacts need to be considered by those suggesting agricultural water is ‘wasted’, and should be redirected to urban users.

Droughts and water shortages will only get worse unless Australia signs the Kyoto Protocol

One of the most amusing assertions recently made by some commentators and politicians has been that droughts and water shortages will continue to get worse unless Australia signs the Kyoto Protocol to moderate global greenhouse gas emissions.

Implicit in this view are the following assertions:

- Current droughts and water shortages are caused by global warming.
- Australia signing the Kyoto Protocol will reduce global greenhouse emissions and stop global warming occurring.

Despite both these assertions being almost breathtaking in their naivety, they have been repeated in numerous articles and opinion pieces. Fortunately, even those climate scientists who are strong supporters of global warming are baulking at claiming that global warming has caused the current drought. No doubt they are well aware that records show the Federation drought at the start of the 20th century was as bad as, if not worse than, the current drought, and it occurred before any documented changes had occurred in greenhouse gas concentrations in the atmosphere.

Imagining that Australia’s signing of the Kyoto Protocol will directly help to alleviate the intensity of future droughts is also a laughable notion. Australia’s total greenhouse

Table 1: Estimated amount of water used by agriculture that is embodied in food and fibre consumed by Australian consumers.

Commodity	Water Use (ML) ^a	Domestic Consumption (%) ^b	Embodied Water Use (ML)
Livestock/grains	4,374,293	30	1,312,288
Dairy	2,275,603	50	1,137,802
Vegetables	455,373	90	409,836
Fruit	647,662	90	582,896
Grapes	717,047	50	358,524
Sugar	1,269,012	20	253,802
Cotton	1,821,509	5	91,075
Rice	630,872	50	315,436
Total	12,191,371	37	4,461,658

^a ABS Water Account Australia 2004–05

^b Approximate figures derived from ABS, ABARE and industry statistics.

gas emissions are less than 1% of global greenhouse gas emissions – therefore, even completely stopping all Australian greenhouse gas emissions would make no measurable difference to global greenhouse gas concentrations in the atmosphere. Greenhouse gas emissions from countries that are not bound by the Kyoto Protocol are actually growing by a greater amount each year than Australia's total emissions. In addition, Australia's signing of the Kyoto Protocol would have no impact on global emissions because Australia is already on target to achieve its commitments under the Kyoto Protocol, courtesy of bans on land clearing – the full cost of which has been borne by Australia's farm sector.

Conclusion

Australia's current drought is a severe climatic event that is having a very significant impact on the agricultural sector, and the wider economy. Available evidence suggests that it is a one-in-one-hundred-year event, equal to the Federation drought in its severity. Not surprisingly, the drought has had a major impact on the availability of water supplies. It has highlighted the under-investment that has occurred in the maintenance and development of urban water supplies over recent decades – a period during which urban populations have increased considerably.

There are no quick-fix solutions available, and blaming agricultural water use and policies for the current situation is simply wrong. Governments need to face the reality that the longer term solution involves major investment in and reform of urban water policy

and management, similar to the reform that has already occurred in agricultural water policy and management over the last two decades.

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Farm Policy Progression

A summary of some Australian and international farm policy developments

Corish Report receives government endorsement

The Australian Government recently announced its support for the report: *Creating our future: agriculture and food policy for the next generation* (the *Corish Report*). Australian Minister for Agriculture, Fisheries and Forestry, the Hon Peter McGauran, considers the report a comprehensive assessment of the Government's priorities for Australia's rural and food industries.

In his response to the report, Mr McGauran indicated that the government had accepted an overwhelming majority of the report recommendations. He signalled that many of the report recommendations would form the basis of a landmark agriculture and food policy statement – *the 2007 Agriculture Statement* – to be released during early 2007. Mr McGauran said:

'The 2007 Agriculture Statement will cover themes including self-reliance, productivity and industry growth; competitiveness through trade, quarantine, biotechnology and reducing business costs; and sustainability of natural resource management. ... The government has accepted the overwhelming majority of the Corish Report recommendations ... and has also noted a number of recommendations which primarily deal with major funding programmes currently under review.'

Education in rural and regional Australia scrutinised

A national survey was recently conducted to address concerns by teachers, parents and students about lower levels of achievement by rural and regional students in science, Information and Communication Technologies (ICT) and mathematics education relative to their metropolitan peers.

The survey was conducted by the National Centre of Science, ICT and Mathematics Education for Rural and Regional Australia (SiMERR), based at UNE, and the results were released in a report during May 2006.

SiMERR found that rural and regional schools had a higher annual staff turnover than city schools, fewer opportunities for their teachers' professional development, and a greater unmet need of resources and support. While country parents appreciated the commitment and enthusiasm of teachers, they were concerned about whether their children had adequate access to a good range of learning experiences and opportunities such as excursions and visits by experts.

ABS survey reports farmer spending on natural resource management

The Australian Bureau of Statistics (ABS) recently released the results of its first dedicated nationwide natural resource management (NRM) survey: *Natural Resource Management on Australian Farms, 2004–05*. The survey asked farmers to report the extent of NRM issues on their holding and the activities they undertook to prevent or manage them.

Australian farmers reported spending \$3.3 billion on natural resource management during 2004–05. The money was spent managing land and soil, native vegetation or water-related issues, or preventing weeds and pests on their agricultural holdings.

Most farmers (86%) reported having at least one NRM issue on their holding, with weeds and pests topping the list. While the majority of agriculture

establishments performed some form of NRM activity, more than two-thirds of farmers surveyed felt there were barriers preventing them from improving their NRM practices, such as lack of financial resources and time.

As they are based on the perception of farmers, the results provide an important perspective into NRM on Australian farms.

National assessment of Australian water resources

The findings of the first stage of the national assessment of Australia's water resources – *Australian Water Resources 2005* – have been released by Federal Parliamentary Secretary for Water, Malcolm Turnbull, who explained:

'This report shows that at the commencement of the National Water Initiative, water resource planning, water resource development and management of river and wetland health are adequate to poor with considerable room for improvement.'

According to Mr Turnbull's office, the first stage report highlights that under the National Water Initiative, governments need to take firm committed action to put in place effective water planning, to protect river systems and to agree on a national standard for sustainable yields of surface and groundwater systems.

Australian Water Resources 2005 provides a baseline assessment of Australia's national water resources during 2004–05. The next stage, or level 2 assessment, of Australia's water resources will provide data, analysis and discussion to progress understanding of water availability, water use and river and wetland health, and is due for completion at the end of 2006.

Cost blow-out for QLD Vegetation Management Act

The cost of compliance with Queensland's *Vegetation Management Act 1999* has blown out to more than \$500 million in net present value terms in one region alone, according to AgForce Chief Executive Officer Brett de Hayr:

'The latest report from ABARE [*Native Vegetation: Public Conservation on Private Land – Cost of Foregone Rangelands Development in Southern and Western Queensland*] puts the cost of the Act in the Brigalow and Mulga land regions alone at more than \$500 million, which is a big jump from ABARE's original estimate of just \$120 million as the value of foregone development across Queensland.'

The Queensland Government passed the Act and consequential amendments in order to phase out broadscale clearing of remnant vegetation by December 2006. The new laws aim to conserve remnant 'endangered' and 'of concern' regional ecosystems; prevent land degradation and the loss of biodiversity; manage the environmental effects of clearing; and reduce greenhouse gas emissions.

WTO rules EU biotechnology moratorium illegal

The World Trade Organization (WTO) has ruled that a European Union (EU) moratorium on approvals of agricultural biotechnology products is illegal. According to US Trade Representative Susan Schwab:

'[the ruling in favour of] science-based policy-making over unjustified, anti-biotech policies [brings the US] one step closer to clearing barriers ... and expanding global use of promising advances in food production.'

Ms Schwab went on to say: 'I urge the EU to fully comply with its WTO obligations and consider all outstanding biotech product applications ... in accordance with the EU's own laws.' The decision upholds a challenge brought to the WTO in 2003 by the US, Canada and Argentina. The

three countries said the moratorium on biotech application approvals, adopted in 1998, did not comply with WTO trade rules. The WTO says its members' crop and food product safety regulations must be based on scientific evidence and not be used to interfere with the trade of safe products. Both sides in the dispute have 60 days to appeal any part of the ruling.

European Commission revives plan to cap subsidies

EU Farm Commissioner Mariann Fischer Boel will consider reviving plans to place a limit on Common Agricultural Policy (CAP) payments during the 2007–08 'health check' of the functioning of the Single Farm Payment system. 'As part of the health check of the CAP reform in 2007–08, we will propose putting a ceiling on individual CAP payments,' Fisher Boel was quoted as saying by *The Financial Times*.

A suggestion was made by then EU Farm Commissioner Franz Fischler, during his initial proposal for reforming the CAP in 2002, that payments should be limited to a maximum of €300,000 per holding. However, the suggestion was removed from the final Commission proposal after pressure from several member states led by the UK, France and Germany. While the idea of limiting the size of farm payments could form part of the 2008 negotiations, some suggest the concept has flaws, with former UK Agriculture Minister Margaret Beckett saying that it would impose 'an artificial limit that would have penalised some of the most efficient farmers' – something the reform had not aimed to do.

EU to transform wine surplus into bioethanol

France and Italy have been given the green light by the European Commission to transform their excess wine surplus into bioethanol.

The decision will see French and Italian producers given subsidies to convert both table wine and quality wine into industrial alcohol for cars and factories through the so-called 'crisis distillation procedure'.

EU officials have criticised the decision, claiming that the process of crisis distillation – intended as an emergency measure to help out wine producers in times of need – has become 'too commonplace' in recent times, costing the EU €500 million a year. 'We want to spend less of the budget on disposing of wine we can't drink,' EU Commission agriculture spokesman Michael Mann said.

In a recent statement, Commissioner Mariann Fischer Boel stated:

'Crisis distillation is becoming a depressingly regular feature of our common organisation for wine. ... While it offers temporary assistance to producers, it does not deal with the core of the problem – that Europe is producing too much wine for which there is no market.'

To curb overproduction and increase the competitiveness and appeal of EU wine, the EU Commission proposes incentives to root up vines; the abolition of subsidies for distillation of surplus wine; simplifying labelling; and updating winemaking practices.

The Commission is expected to table a legislative proposal on wine reform in January 2007, which might be applied in 2008 or 2009. By strengthening the reputation of Europe's wines, the Commission aims to win back market share from the 'New World' – notably the US, Australia, South Africa and Latin America.

US farm policy drives production of unhealthy foods

A report released by the Institute for Agriculture and Trade Policy (IATP) claims that US farm policy is geared towards the production of unhealthy foods, contributing to the nation's obesity epidemic.

The report – *Food without thought: How US farm policy contributes to obesity* – found that low prices for corn and soybeans over the last several decades has spurred investment in high fructose corn syrup (HFCS) and hydrogenated vegetable oils (ie fats) for the production of calorie-dense processed foods. The introduction of these low-priced foods is directly mirrored by alarming increases in obesity rates in the US.

Mark Muller, Director of IATP's Environment and Agriculture Program, commented:

'The food industry and consumers are following the distorted market signals driven by our farm policy. If we want to seriously deal with obesity, let's create markets that promote healthy food production and consumption. Right now, farm policy is doing just the opposite.'

Some of the report recommendations are likely to be included in the next Farm Bill, to incorporate a set of new priorities that benefit public health by rewarding farmers for growing healthy foods, which would benefit not only public health, but also US farmers.

Wal-Mart discounts organics

A white paper released by a US organic farming watchdog, The Cornucopia Institute, accuses Wal-Mart of cheapening the value of the organic label by sourcing products from industrial-scale factory farms and Third World countries such as China.

Earlier this year, Wal-Mart announced that they would greatly increase the number of organic products they offered, pricing them at a target of 10% above the cost of conventional food. The Cornucopia Institute's white paper – *Wal-Mart: The Nation's Largest Grocer Rolls-out Organic Products – Market Expansion or Market Delusion?* – argues that Wal-Mart is poised to drive down the price of organic food in the marketplace by inventing a 'new' organic food from corporate agribusiness, factory farms, and cheap imports of questionable

quality. Mark Kastel, Senior Farm Policy Analyst for the Institute, says that these new industrial-scale factory farms will hurt family farmers:

'Organic family farmers in this country could see their livelihoods disintegrate the same way so many industrial workers saw their family-supporting wages evaporate as Wal-Mart and other big-box retailers put the screws to manufacturers [sic] – forcing a production shift to China and other low-wage countries.'

The move into organics may also create uncertainty amongst investors according to Daniel Stranahan, Investment Committee Chair of the US-based The Needmor Fund:

'Wal-Mart's move into organics is worrisome to investors who realise that the credibility of [the] organic label, and the sustainability of organic farming, is of greater significance to their returns than the mere branding of the term organic.'

The Cornucopia Institute white paper can be viewed at www.cornucopia.org

Fifth and final Farm Bill analysis paper released

The US Agricultural Secretary, Mike Johanns, released the fifth Farm Bill analysis paper entitled *Strengthening the foundation for future growth in US Agriculture*. According to Mr Johanns, the fifth and final paper provides a thorough analysis of the state of US agriculture and presents issues and alternatives for public consideration.

The first four analysis papers covered risk management; conservation and the environment; rural development; and energy. All five analysis papers will form the basis of the 2007 Farm Bill discussions.

Wal-Mart makes its largest acquisition in China

Wal-Mart, the world's largest retailer, has agreed to acquire China's second-largest hypermarket, Trust-Mart, for about A\$1.32 billion.

A purchase of Trust-Mart, which is privately owned by Taiwanese entrepreneurs, would represent one of Wal-Mart's largest acquisitions in recent years. Industry analysts rated China's Trust-Mart as an attractive target because it owns more than 100 stores in some of the country's more affluent southern and eastern cities.

According to industry analysts, China has become an important battleground for international supermarket chains, as its rapid urbanisation and rising standards of living create a new consumer class.

In order to comply with rules set when it joined the WTO, the Chinese Government recently made it easier for international chains to invest in China. However, this most recent deal could be held up by regulatory approval from China's Ministry of Commerce.

Change of heart on New Zealand climate policy

The New Zealand Government recently signalled that it would follow trading partners on climate change policy and delay carbon emissions trading till after 2012.

New Zealand was criticised for signing the Kyoto Protocol ahead of key trading partners in the Asia-Pacific including Australia, the US, Japan and China. In early October, Energy Minister David Parker told a Climate Change Policy Symposium that:

'The pace and extent of New Zealand's response needs to take account our national interest. It should be in step with what major emitters are doing – including our major trading partners. This is in line with the long-term position being taken by other developed countries.'

According to Mr Parker, New Zealand is faced with a challenging position – with 50% of carbon emission coming from agriculture and another 20% from vehicles. If New Zealand moves before its trading partners on emissions, it risks being on its own in the Asia-Pacific region and, hence, will be forced to shoulder extra costs. 

Following on – Drought Policy

Drought has re-emerged and with it the debate about drought policies

The May 2006 edition of the *Farm Policy Journal* contained a series of papers discussing Australian drought policy. The edition was timed to coincide with the assumed cessation of drought conditions across Australia, and to provide a review of what aspects of current drought policy had or had not worked in recent times. Unfortunately, drought has re-emerged as a major challenge across most of southern Australia, and with it the debate about appropriate government responses.

Critics of Australian drought policy focus in particular on the business support measures, which are made available in the form of interest rate subsidies for those farmers judged to be viable in the longer term, but facing short-term difficulty. The strong view of critics (many of which are farmers) is that these measures discourage appropriate risk management by farmers, and impede farm adjustment by allowing otherwise unviable farmers to remain.

Based on the views of authors of papers included in the *Farm Policy Journal*, four key points emerged about reform of drought policy:

1. Welfare safety-net measures for low-income farm families should be retained.
2. Policy measures that provide incentives for better drought preparedness would be more equitable and effective than interest rate subsidies.
3. Where drought payments are made available, some degree of mutual obligation should apply – either by way of contract agreements about

drought preparedness, or adopting best-practice management standards, or agreements to repay funds.

4. New arrangements should be implemented in a careful but committed fashion, with farmers given plenty of time to make any necessary adjustments.

The conclusions about the interest rate subsidy measures were also echoed in a report prepared by the Drought Review Panel that was established by the Australian Government, and that released its recommendations in 2004. The Panel found that there was strong support for drought preparedness incentives to be a focal point of future drought policy, and concluded that there would be wide support for a shift in focus towards drought preparedness measures at the expense of business support measures such as interest rate subsidies.

Unfortunately, the latest resurgence of drought conditions has come so hot on the heels of the 2002–04 drought that there has been little time for farmers or governments to make any adjustments to either management or policy settings.

That hasn't prevented serial critics of Australian drought policy from again securing extensive media coverage by reportedly arguing that the subsidies just prop up bad farmers, that 5% of farmers are unviable, and that farmers should be moved off land in marginal areas. Despite these comments being made routinely when government's announce drought assistance measures, the specific regions or the specific farmers that should be exited from farming are never identified, and nor is any supporting data provided.

Almost equally unfortunate has been the response of the Prime Minister in justifying drought support measures. He has stated on various occasions that drought support is necessary because without it, Australia would lose an important part of its psyche as a nation, as Australian rural communities fell below a critical mass. While these sentiments might provide an initial warm, fuzzy feeling, they are uncomfortably close to the long-standing sentiments expressed by European politicians in justifying the high subsidies and trade protection afforded their farmers, which has had such a long-term negative impact on Australian agriculture. It would perhaps be better if the Australian Prime Minister was able to advance some sound economic arguments in favour of Australia's drought support policies.

One of these emerges from some recent farm survey data published by ABARE. The surveys analysed the differences between farmers receiving interest rate subsidies and those not receiving the subsidies. The surveys found, not surprisingly, that the farms that receive the greatest assistance from drought interest rate subsidies are those farms with the largest debt. However, perhaps contrary to expectations, the survey also found that these farms are the largest farms; that the majority of their farm debt is for farm expansion, farm development or investment in new technology; and that the farms are often operated by younger farmers in the expansionary phase of their careers.

It seems that, contrary to the views of the critics, these farmers are the better farmers who are doing exactly what they should be in expanding their farms and adopting new technologies, but severe drought has caught them at a vulnerable time. 

Institute Research and Events

Enhancing the Customer Focus of Australian Agriculture

Big changes are needed for Australian agriculture to remain globally successful according to the Institute's latest Research Report, *Enhancing the Customer Focus of Australian Agriculture*.

The report was launched at a seminar in Melbourne on 23 October.

Speakers at the seminar included:

- **Dr Selwyn Heilbron**, lead author of the report
- **Dr Susan Nelle**, Managing Director of National Food Industry Strategy Ltd
- **Tim Leviny**, National Business Development Manager for Elders Australia Ltd
- **Professor Snow Barlow**, a member of the Institute's Research Advisory Committee and Head of the School of Agriculture and Food Systems, University of Melbourne.

Extracts from the Report follow:

The Consumer Revolution

A revolution is underway in world agriculture. Consumers in both developed and developing countries are now firmly driving change with a speed that is surprising – even to the world's largest and most experienced multinational corporations and trade-oriented policy-makers.

Australia's competitors

Latin American countries and some Asian countries have quickly adopted strategies to take advantage of this new consumer-driven revolution.

The successful new agricultural export nations are: closely integrated into consumer-driven signals; are increasing their focus on product integrity; have

close links between government programs and farm businesses; tap into international intelligence flows; and maintain a dedicated network of international market specialists.

Australia seems to be slipping in all of these areas, with only an average export performance in recent years and its agricultural sector experiencing a loss of market share in global markets.

In domestic markets, Australian agriculture is also losing market share, as import penetration increases. Australia's imports of farm products, which totaled US\$4.8 billion in 2004, have increased at nearly double the rate of growth of Australian agricultural exports over the period 1994–2004.

How should Australian agriculture respond?

Farmers can fall into the trap of making production decisions based on their own enterprise preferences or their current capabilities, instead of producing what the consumer – the ultimate customer – really demands. Understanding what customers want and focusing totally on meeting those needs is the essence of survival and prosperity in contemporary global agricultural markets.

Most farmers accept the need to create value for consumers, but meeting the demanding product specifications and standards required by consumers in higher value markets costs money.

Many farmers have concerns about whether the extra costs associated with meeting the needs of higher value markets will be rewarded by greater returns. While this is a legitimate question, it needs to be remembered that the costs of not meeting consumer

needs may greatly outstrip the costs of doing so. It is also noteworthy that premiums exist in many specific markets for those who can meet higher product standards.

The key to value capture is for farmers to be empowered by business-relevant information and personal insights so they negotiate from a position of strength and first-hand knowledge, and play a more powerful and profitable role in supply chains.

There are no long-term, sustainable growth prospects in simply producing low-value agricultural products, especially when competing with low-cost developing and non-Organisation for Economic Cooperation and Development (OECD) countries.

Australia's strategy should be to build value on its foundations as an efficient exporter of bulk commodities. Farmers and processors will need to maintain the benefit of high throughput of commodity products while they identify high-value product opportunities. The transition towards more high-value products will require innovation in production and marketing to achieve greater flexibility, increased responsiveness and above all a focus on what the consumer wants.

Researchers Dr Selwyn Heilbron and Terry Larkin conclude the report by recommending a series of strategies to help re-position Australian agriculture as a customer-driven industry. These includes strategies both for farmers and for farm organisations, agencies and policy-makers.

To purchase a copy of the Report call the Institute on 61 2 9690 1388 or visit www.farminstitute.org.au/publications/project_reports 

Farm Policy Journal

EMS and farm accreditation – is there value in the cost?

Against a background of rapidly emerging developing country agricultural exporters and increasing demands for enhanced environmental performance by marketers and consumers, formal environmental management systems (EMS) and associated third-party accreditation are being promoted by many as providing an opportunity to improve environmental performance and differentiate Australian farm produce, especially in higher value markets.

The November edition of the *Farm Policy Journal* examines EMS and their application to agriculture from Australian and US perspectives; and from the perspective of both producers and consumers.

Issues addressed include: What are the benefits of EMS? Is there a need for EMS in the wool industry? What has been the experience of farmers who have used EMS? What are the key aspects of good EMS design?

Genevieve Carruthers is an Environmental Systems Specialist with the NSW Department of Primary Industries. Her paper discusses on- and off-farm environmental, economic and social benefits that are being achieved as a result of EMS implementation by land managers in Australia. However, she warns that Australia risks losing its pre-eminent position in the use of EMS in agriculture through lack of ongoing support and facilitation of EMS uptake.

Tony Gleeson is a land manager, freelance researcher and Executive Director of Australian Landcare Management System Ltd. Together with Genevieve Carruthers, he

examines key elements for the effective implementation of EMS in rural Australia. Gleeson outlines key features for designing EMS and stresses that the application of EMS must be underpinned by an understanding of its purpose; appropriate performance criteria; and recognition of achievement in order to encourage voluntary adoption of EMS.

Dr Mark Risse is Professor of Biological and Agricultural Engineering with The University of Georgia in the United States (US). Together with his co-authors, he examines the potential roles of, and limitations to, implementing environmental management systems on diverse US livestock operations, by reference to the Partnerships for Livestock Environmental Management Systems (PLEMS) project. Risse discusses the extent to which farmers who participated in the PLEMS project took up EMS practices and how they viewed the benefits of EMS. He concludes by drawing conclusions about how to encourage use of EMS by making it more attractive to producers, and by emphasising the importance of educating the agricultural community.

Ralph Leutton is the Program Manager of Policy and Legislation for Cotton Australia. His paper reviews some Australian agricultural industries that have taken steps to develop and implement voluntary EMS. He highlights the importance of EMS uptake in demonstrating to the community that farmers can be responsible environmental citizens and stresses that:

‘[c]lear policies and strategies that focus on and deal with issues such as business management, climate change and environmental management need to be top of the agenda [for industry leaders]’.

Australian Wool Innovation (AWI) and the Queensland Department of Primary Industries (DPI) recently commissioned market research into the demand for ethical wool apparel in the developed countries/regions of Western Europe, Japan and the US, as part of a broader project about the potential for use of on-farm EMS in the Australian wool industry. The outcomes of that research are examined by Russell Pattinson, Director of consulting firm Miracle Dog Pty Ltd., together with Lester Pahl, a Principal Scientist with the DPI, and Mimi Han, Senior Project Officer with AWI. Among the interesting outcomes of the research was the finding that: ‘[w]hile companies may gain some benefit from marketing their products as ethically-produced, they can potentially lose far more from being identified as unethical’.

AWI, Meat and Livestock Australia (MLA) and Grains Council Australia (GCA) commissioned market research to define current and future minimum requirements for broadacre producers to demonstrate environmental stewardship to a range of domestic stakeholders including regulators, catchment management authorities and banks. The outcome of that research is discussed in a paper by AWI, MLA, GCA and Russell Pattinson.

The November edition of the *Farm Policy Journal* will be released on 4 December 2006.

It can be viewed by members and subscribers, or purchased by non-members, at www.farminstitute.org.au/publications/journal2 

Institute Support Opportunities

Like to see better farm policies delivered by Australian governments?

Major government initiatives such as land and water policies have a significant impact on businesses and individuals. Accordingly, understanding where government policies come from is important for the future development of agriculture in Australia.

Policies start as a problem

Most issues that might require government action initially emerge through interest groups, bureaucrats or politicians working to highlight a particular problem. The media often has an important role in this process.

However, just creating publicity doesn't change policy. Factors such as public opinion, existing policies, government budgets, electoral cycles, and economic and political implications can all result in an issue disappearing just as rapidly as it emerged.

Policy development: a lengthy process

Even in situations where governments decide to respond to an issue, the pathway to a policy decision can be long and tortuous.

Ministers wanting to change existing policies or introduce new policies usually circulate a Cabinet submission to all relevant government departments for comment.

Even if a proposal is then passed by Cabinet, the fine detail of legislation has to be negotiated. Once enacted through Parliament, there can be further delays before funding and resources are organised, and programs are put in place to implement the policy.

Through all these processes, politics is a constant factor, tempered only by credible and objective data and analysis.

A strategic approach

How can Australia's agricultural sector influence these processes?

The reality is that, based purely on voter numbers, agriculture has only limited ability to influence government policies.

Agricultural lobby groups have very important roles in communicating with the community and policy-makers on current issues, but are usually not able to tackle longer-term strategic issues.



Australia's Salinity Crisis: What Crisis?

It's an apocalyptic story of environmental disaster we all know so well. The Murray Darling basin is being poisoned by salt. Adelaide's water supply is threatened, along with some of our most productive farmland – and our beautiful rivers are dying. It's a frightening scenario. But is it true? This week on Sunday, reporter Ross Coulthart takes a look at the real threat posed by salinity – and finds things are going badly wrong in public science. *May 25th, 2006*

The Australian Farm Institute's activities complement the work of industry lobby groups by producing the objective information that is essential in shaping government and industry responses to specific issues.

The Institute's aim is to promote positive policy agendas for agriculture, rather than to respond to agendas set by others. Informing and influencing policy-makers' attitudes towards the sector is an essential part of this.

The Institute's research has already had a significant impact.

The Institute's research is having an impact

A recent Institute project – *Australia's Farm-Dependent Economy* – quantified the extent to which other sectors of the Australian economy depend on agriculture. That research highlighted that governments need to consider agriculture as part of a much bigger and integrated sector of the economy, and showed why drought has a big impact on the Australian economy.

A recent Institute publication on salinity has dramatically challenged prevailing community views that most of Australian agriculture is disappearing under a sea of salt, and has the potential to result in major changes in some natural resource policies.

Support the Institute

Becoming a member or donating money to the Institute is an important way of contributing to the long-term future of agriculture in Australia.

For more information contact the Institute on 02 9690 1388.

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Enhancing the Customer Focus of Australian Agriculture

Vertical Contracting and Australian Agriculture: *Implications for farmers and policy-makers*

Agricultural Development in Argentina and Brazil: *Emerging trends and implications for Australian agriculture*

Australian Farm Sector Demography: *Analysis of current trends and future farm policy implications*

Australia's Farm-Dependent Economy: *Analysis of the role of agriculture in the Australian economy*



Farm Policy Journal

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drought – developing policy before the inevitable dry

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salinity and native vegetation – policy solutions required!

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industrial agriculture – farming the food chain

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climate change – can agriculture take the heat?

Vol. 1 | No. 3 | November Quarter 2004

biotechnology – agriculture's gene revolution

Vol. 1 | No. 2 | August Quarter 2004

the future of farmers and farming

Vol. 1 | No. 1 | May Quarter 2004



Corporate Membership

The Australian Farm Institute would like to welcome the Commonwealth Bank, which recently became a Gold Corporate Member of the Institute. The Commonwealth Bank is one of Australia's leading financial institutions. With over 130,000 distribution points across the country and businesses in New Zealand, Asia and the United Kingdom, the Commonwealth Bank is a diverse organisation with a long history in the Australian banking industry.

The Australian Farm Institute has established three corporate membership categories with differing access to Institute information and differing levels of recognition including: Platinum (annual contribution > \$25,000) Gold (annual contribution > \$10,000) and Silver (annual contribution > \$2,000). If you are interested in Corporate Membership of the Institute, please contact the Executive Director, Mick Keogh on 61 2 9690 1388 or email keoghm@farminstitute.org.au

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