Nuffield Scholars' Presentation: 25 February

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1. Opening Address

Good morning ladies and gentlemen

The theme for the week, "has agriculture the capacity to meet societies' demand for food over the next 10-20 years?" is both very important and topical at the moment.

I want to give you a good idea of Australia's perspective on international agriculture and trade issues in this presentation.

In terms of the theme that you've identified for this conference, there are significant challenges ahead in meeting demand for food, not least in the international trading environment. However, with the right agriculture and trade policies and investments and with commitment from all countries, we can contribute to meet societies' demand for food.

So why does Australia worry so much about agriculture and trade?

We bother because Australia produces THREE times the amount of food and fibre needed to feed and clothe our 20 million people.

So, with over two-thirds of our agricultural products exported, the availability and access to export markets is CRITICAL to the growth and success of the agricultural sector.

- One in four jobs in rural and regional Australia are export-related.
- Exports provide around a quarter of regional Australia's income.
- Exports from regional Australia are growing THREE times faster than exports from metropolitan centres.

Of course, there are flow on effects too, for example, exporting businesses generate demand for local jobs, higher incomes, public infrastructure and improved services.

And YES international trade works both ways. While the word "imports" is so often portrayed in a negative way — imports are a necessary part of an efficient, modern economy.

Australia would not have an agricultural sector without imports.

- We import genetic material — both of animals and plants.
- We import fertilizer and machinery.

- And yes we do import agricultural products as well — many are specialty products that don't compete directly with Australian produce — other imports do compete directly and can pose some extra challenges for those sectors affected.

Overall though, international trade reduces the cost to farmers of new technology and some inputs, making our businesses more competitive and efficient.

I should also point out that what Australia exports must be imported somewhere – it would be hypocritical if Australia strongly supported deregulated export markets but then did not support deregulated imports.

I'll come back to some of the challenges in the international trading environment shortly.

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2. The importance of trade

First though a snapshot of what we export.

The importance of exports to a range of industries is shown in this slide.

In 2006-07 we exported more than $22 billion in agricultural products.

And as I mentioned before, this is roughly around two thirds of what we produce. For some products though, like wool, it's even higher – 95%.

Not surprisingly the traditional broad-acre crops and livestock products continue to dominate our exports — although combined they account for less than 50% of our agricultural exports.

This reflects the increasing importance of wine, dairy and horticulture exports.

3. Where does Australia export?

So where do our exports go?

The last decade has seen an increase in exports to the US and China.

Note the particular growth in the US from 5% to 11% and increased exports heading to China.

Reflecting the importance of Asia as a customer —over 55% of our exports go to Asian markets.

Europe and Japan have dropped slightly but having said that, those in the beef industry will be well aware that the Japanese market still offers excellent returns.

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4. From where do we import?

Agricultural imports have also grown substantially over the last 10 years (imports are now worth just over $7 billion), a reflection of my statement before that Australia would not have the agriculture sector it does today without imports.

And as you can see growth has come mostly from New Zealand and Europe, although China now accounts for 6 per cent of agricultural imports.

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5. Global challenges for Australia

Turning now to some of the challenges of operating in a global environment…

The farm sector has for some years faced a long-term decline in farm output prices relative to farm input costs (known as the farmers' terms of trade).

I am sure many of you will be familiar with this graph, and if not, you will probably be familiar with what it represents — which is that the price of farm inputs have been rising faster than the prices received for most rural commodities.

In the past 12-18 months, commodity prices have increased dramatically, with record prices set for wheat and dairy.

This is useful for farmers, but it should also be noted that some farm input prices are also hitting record levels: fertilisers and fuel in particular.

Whether this long-term trend in terms of trade continues is unknown at this stage.

In the context of the previous downward trend of real agricultural prices, current high prices offer opportunities for Australia's farm sector including increased export earnings and new markets. However, many of these benefits will only be fully realized with continued agricultural trade reform.

Looking at some of the influences on terms of trade is instructive:

Demand for food will continue to grow – the global population is growing, and, at least in India and China, a massive middle class is developing. This will change both the quantity of the food demanded and the make up of that demand, including increased demand for animal protein.

In terms of food supply, competition in export markets is intensifying as agriculture sectors expand in countries that have lower production costs such as Brazil and Argentina.

We can expect production and exports from lower cost countries to expand considerably in coming years, and increased supply on global markets generally leads to a fall in prices — of course, it also means increased competition for Australia's agricultural exporters.

6. More challenges facing Australia.

One of the biggest of those challenges is that the international playing field is not level.

Global agricultural markets continue to be distorted by high levels of production subsidies and tariff protection in some developed countries.

The OECD's percentage Producer Support Estimate (PSE) measures the monetary transfers from governments and consumers to agricultural producers expressed as a percentage of gross farm receipts *or* simply the level of support as a share of gross farm receipts, ie as farm revenue from production declines the percentage PSE increases.

And as you can see, in contrast with farmers in many developed countries, Australian farmers receive only around 6% of their gross earnings from government transfers.

This compares with around 11% in the US, 32% in the EU and a staggering 53% and 63% in Japan and Korea respectively. [NZ 1%]

The European Union's Common Agricultural Policy (CAP) has an annual budget of around €50bn (AUD$84bn) — representing almost half the entire EU budget.

Statistics show, the CAP has made large, wealthy farmers in Europe even richer giving the top 20% of farms (by size and wealth) around 80% of the funds. For example, latest figures indicate that the Queen of England and the Prince of Wales, receive around £360,000 (AUD $580,000) in CAP payments each year for their land holdings.

International trade is not a fair game and some may ask why don't we reciprocate with similar policies?

For a start, it is not possible (or in Australia's interest) to enter into a subsidy war against the big budgets of countries like the US or the EU.

Australia has long advocated substantial improvements in market access, substantial reductions in trade-distorting domestic agricultural support and elimination of export subsidies. More open and flexible international markets will open the way to more sustainable and productive agricultural systems.

In terms of market access Australian farmers are disadvantaged by the tariff measures used by some of our trading partners.

Average tariffs applying to agricultural commodities are more than 3 times those for non-agricultural goods, with some individual tariffs as high as 800%!

Tariff rate quotas can act as a barrier and prevent access of agricultural products to key markets.

Export subsidies allow products from developed nations to undercut domestic prices in developing countries amongst others, affecting their capacity to develop productive activities.

Finally, various forms of protection can lead to lower food supplies, by hiding market incentives to innovate and boost productivity.

Nor is the argument of the need for food security a rational or sensible response to those seeking trade reforms that would benefit all.

The guarantee of food security is best achieved not by closing borders but rather through promotion of an open trading system that allows many diversified sources of supply to develop through the promise of open, commercially viable markets.

Australia has long promoted open trade, as a means of promoting more equitable and efficient world development.

Factors such as climate change and an increased demand for bio-fuels are also challenges facing Australia.

But more on this later…

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7. Improving the playing field through multilateral and bilateral negotiations.

So what can we do about the unfair playing field?

The World Trade Organisation (WTO) is the best vehicle for securing new markets and removing distortion from global markets.

However where new market opportunities can be achieved in a shorter timeframe, Free Trade Agreements can make an effective contribution.

Through WTO negotiations we can achieve improvements in the rules governing trade, but also impose binding cuts to subsidies and tariff protection.

The stakes are high, and we remain committed to securing a deal in the WTO Doha Round negotiations that delivers a fairer playing field and greater export opportunities for Australian farmers.

The Chair of the Agriculture Committee released a draft modalities text in early February outlining possible cuts to farm subsidies and agricultural tariffs. The text has formed the basis of intensive negotiations and is an important step in moving the Round towards its final phase.

While some progress has been made, fundamental differences remain in the crucial area of market access and the depth of cuts to agricultural tariffs.

Pressure is building to finalise the Round before the US presidential campaign comes into full swing and France takes over the presidency of the European Union which may mean the Round is not finalised until 2009 at the earliest.

Prospects for securing a deal this year remain uncertain - some Members are eager to elevate the negotiations to a so-called 'horizontal process' allowing Ministers to finalise a deal by making trade-offs across the various areas of the negotiations such as agriculture and services.

Despite the challenges facing the Doha Round - the Government is committed to advancing the interests of Australian farmers through the WTO. We will continue to work with Cairns Group colleagues and other like-minded counties to secure a deal that offers genuine reform to agricultural trade.

Trade reform means real benefits for Australian producers.

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8. Technical market access barriers.

Through the WTO and FTAs we are slowly breaking through traditional forms of trade barriers (e.g. tariffs and quotas).

But, as these trade barriers are lowered, we are facing more and more technical barriers to trade.

Legitimate technical barriers are a result of attempts by countries to protect their territories against pest and disease incursion.

Like Australia, many of our trading partners regularly review their quarantine measures.

It is important under the WTO Sanitary and Phytosanitary Agreement that new technical barriers be scientifically justified.

A key element of the work DAFF does is monitoring of new quarantine arrangements imposed or proposed by our trading partners.

The challenge for government and industry is that while we always strive to deliver new market access opportunities, an enormous effort is often needed simply to maintain existing access.

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9. Recent gains in market access for Australia.

By working closely with industry, the Government has had some important wins in both maintaining existing market access as well providing new export opportunities for our industries.

An example of an achievement in this area is the successful negotiation with China and separately with Japan for accepting Australian citrus.

This is a good example of industry and government working together to achieve a good outcome for Australian agriculture.

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10. Review of Australia's quarantine and biosecurity arrangements.

Keeping on this theme for a minute, Australia's favorable pest and disease status allows our producers to benefit from higher productivity levels and greater access to international markets.

As you would expect, growth in international trade and more frequent international travel, increases the risk of exotic pests and diseases entering Australia.

As I mentioned earlier, the Australian economy depends on trade – both imports and exports.

It is simply not an option to reduce risk to zero by shutting Australia away from the rest of the world.

Instead, we have developed a strong risk management strategy to prevent pest and disease incursion.

To ensure Australia's biosecurity and quarantine systems continue to operate as effectively and efficiently as possible, the Australian Government has launched a review of its current biosecurity and quarantine arrangements.

Specifically, the review will provide recommendations on the appropriateness, effectiveness and efficiency of:

1. Australia's current arrangements to achieve our appropriate level of protection, consistent with our international obligations.

2. Look at the adequacy of the consultation and review processes currently in place.

3. Resourcing levels and systems and their alignment with risk in delivering requisite services; and

4. Governance and institutional arrangements to deliver biosecurity, quarantine and export certification services.

The recommendations of the review are to be finalised by 31 July 2008.

11. The future: climate, biofuels and genetically modified organisms

As I mentioned earlier, factors such as climate change and an increase in demand for bio-fuels are a major challenge facing Australia and the world, and are very relevant in exploring whether agriculture has the capacity to meet societies' demand for food over the next 10-20 year.

So I just want to spend a few moments exploring this further.

In the case of bio-fuels, current technologies require access to feedstock derived from existing agricultural land and practices. For example, in the United States, corn is a key input to the biofuel industry and a significant proportion of arable land is used to produce biofuel feedstock.

This has led to higher commodity prices for these inputs.

Higher prices suggest that we can expect a supply response for these products. That is, if they haven't already, farmers will deploy technologies that increase productivity (genetically modified organisms, more intensive agronomic practices), and bring into production more marginal land where production was not previously financially viable.

So farmers are producing more food, but a proportion of that food is being directed toward biofuel production. To give an indication of the tradeoff between food and fuel, a recent World Bank report indicated that it takes around 240kg of corn to refuel an SUV.

This challenge to food supplies is one matter, the other consideration is that consumers must pay higher prices for food – that is, the biofuel industry will change the distribution of food. Of particular concern here is that biofuel production receives subsidies in some countries, which shifts the distribution of food supplies towards biofuel production and away from consumers.

In the case of climate change, the Australian Bureau of Agricultural and Resource Economics (ABARE) recently released a report that provided a sober assessment of the impacts of climate change on Australian agriculture.

ABARE's report indicates that in Australia climate change may result in more frequent and more severe drought and also higher temperatures may increase evaporation rates and reduce general water availability. There are also concerns about the technological limits of conventional plant and animal breeding technologies, and the need to consider bio-tech alternatives. The recently released Australian Government commissioned climate change report by Economics Professor Ross Garnaut also reflects these comments with Garnaut going so far as to suggest that Australia will be more affected by climate change than any other country.

Both ABARE and the Garnaut report highlight the risks of inaction and invites those with a financial stake in the sector to begin the process of examining adaptation

strategies to climate change over the longer term, as well as a commitment to building a flexible business environment to enable maximum change in the shortest possible time.

Genetically modified organisms, or GMOs, may be one part of the solution to food security concerns. Other solutions also under development, and which have been ongoing for many years include improved management techniques and improved agronomic techniques.

Research is well underway into crop varieties that tolerate drought conditions, that tolerate saline environments, that require lower nutrient requirements, and that reduce reliance on herbicides.

Such advances reduce farmers' exposures to climate and pest risks, and so boost the average productivity of farmers.

Of course, many consumers may well demand non-GMO food. However, they may not be quite so concerned about whether their biofuels come from GMO crops.

Taking this into account, GMOs should always be considered as part of the solution to food security concerns.

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14. Concluding remarks

Yes! Global markets are heavily distorted.

Yes! There are technical market access issues impacting on exports

Yes! Climate change and bio-fuels pose a significant challenge to food security

With the right agricultural policies and investment-with a strong commitment –we can all contribute to the capacity to meet societies' demand for food.

Australia relies on investment in R&D to give Australia improved agriculture productivity, and so our contribution to food supplies increases. This is despite Australia having a relatively harsh environment for agricultural production, with highly variable rainfall, poor soils and large distances from ports and major urban areas.

Australia promotes undistorted production and marketing environments which lead to efficient and effective production and distribution of food around the globe.