



**Submission to:
Tasmanian Department of Premier and Cabinet**

Tasmania's Place in the Asian Century Issues Paper

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ABOUT THE TFGA

The TFGA is the leading representative body for Tasmanian primary producers. TFGA members are responsible for generating approximately 80% of the value created by the Tasmanian agricultural sector.

In 2009/10, the farm gate value of agriculture and fishing was \$1,683 billion – which represented approximately 6% of the gross state product. More than seventeen thousand people are directly employed in farm related activities. Taking into account basic multiplier factors, this meant the farm dependent economy contributed c\$5.4 billion dollars (18%) to gross state product and 1 in 6 jobs.

Not only that, the sector is one of very few in the state that have continued to deliver improved performance in the long term. Over the past 25 years, the average annual rate of increase in farm gate GVP has been 4%. Over the five year period from 2003/2004 to 2008/2009, the actual increase was a massive 42% - from \$1.35 billion to \$1.68 billion.

These figures clearly demonstrate the importance of the sector as an economic driver for the state's economy – and also demonstrate that agriculture is a more significant contributor to the Tasmanian economy than it is in any other state. With this in mind, it is evident that Tasmania needs to ensure that the agricultural base of the state remains competitive and profitable. One of the pivotal factors in achieving this goal is the maintaining of an appropriately skilled workforce.

INTRODUCTION

TFGA welcomes the opportunity to make a submission to Tasmania's Place in the Asian Century issues paper. As the peak body for agriculture in Tasmania, TFGA appreciates the effort to better understand Asia and the potential opportunities presented by its rapid growth. The main opportunities for Tasmanian agricultural producers lie in understanding the great variety of consumers, cultures, languages and markets that exist within Asia, in order to target high quality and high value products to export to selected markets.

There is little doubt that a large, increasingly affluent population in our region will provide significant economic opportunities for Tasmanian farmers. Additional benefits that can accrue from the provision of a reliable and affordable food source are increased national security and national prosperity.

Unfortunately, there are a number of factors which, when combined, are having a detrimental effect on the industry and severely impairing its ability to capitalise on these opportunities.

CURRENT EXPORT PERFORMANCE

Tasmanian farmers are well ahead of the game in recognising the importance of Asia as an export destination.

In 2011/2012, total exports from Tasmania were valued at \$3,195.56 million. Agricultural products represented some 30% of that total – approximately \$1,000 million. Almost 25% of total exports (\$502.25 million) were destined for ASEAN countries. Agricultural products valued at approximately \$121 million represented 25% of that total.

ASEAN countries have become increasingly important destinations too, with overall exports increasing marginally over the past three years; and food exports alone increasing significantly from \$71.16 million to \$95.62 million over the period 2009/2010 through 2011/2012.

Major products exported to ASEAN countries included dairy (\$42.28 million); seafood (\$31.63 million) and wood products (\$19.5 million estimated from private forestry sector). Key destinations included Japan (35%), China (21%), and Hong Kong (21%).¹

CHANGING DEMAND & SUPPLY DYNAMICS IN ASIA

The changing demand and supply dynamics in Asia have been well documented and clearly point to an enormous opportunity for Tasmanian (and Australian) agriculture. These include the following factors:

Food security

Greater economic integration is in Asia's and Australia's best interest in terms of ensuring food security. However, a number of Asian countries such as China, Japan and Thailand have publicly stated that they are striving towards greater agricultural self sufficiency, focusing on staples such as rice and grains rather than fruits and vegetables.

In China, agricultural output per hectare is already high and agricultural land is under pressure from road and urban expansion, so future growth will depend significantly on new, high value products as well as growth in consumption. In India, yields are low and the potential for agricultural expansion is constrained by poor infrastructure and excessive regulation².

Thus, Australian farmers must understand the intricacies of the Asian market and cannot expect an instant increase in demand for Australian produce across the Asian markets. Tasmanian farmers in particular must selectively target high quality and high value products to deliver to specific Asian countries.

Population growth

Asia's population has nearly quadrupled during the 20th century. With a current population of approximately 4 billion people, Asia is the world's largest and most populous continent. While it covers 29.9 per cent of the world's land area, it hosts 60 per cent of the world's current human population.

¹ Tasmania's International Exports 2011/2012, Department of Economic Development
http://www.development.tas.gov.au/__data/assets/pdf_file/0004/63517/Exports11-12.pdf

² FAO (Food and Agriculture Organization of the United Nations). 2006. Rapid Growth of Selected Asian Economies: Lessons and Implications for Agriculture and Food Security: China and India. Regional Office for Asia and the Pacific. Bangkok.

The United Nations projects that the world's population is expected to grow by 2.2 billion in the period to 2050 (an increase of 32 per cent from 2010). Asia's population is forecast to increase by more than one billion during this time. This is expected to include 400 million additional people in India and 63 million people in China³.

According to the Global Land Assessment of Degradation published by the United Nations' Food and Agricultural Organization (FAO), nearly two billion hectares of land worldwide has been degraded since the 1950s. Asia, while still possessing extra arable land capacity, has the largest proportion of degraded forest land. It is believed that there remains some 2.7 billion hectares of land with potential for crop production to some degree. Yet this land is unevenly distributed between regions and countries and there is believed to be virtually no spare land available for expansion in South Asia.

Compared to the rest of the Asia Pacific region, Australia is in a fortunate position with regards to the availability of arable land. Our nation is currently ranked first in the world according to the FAO for actual arable land per capita, at 2.67 ha/per capita. In comparison, China has only 0.08 ha per capita⁴.

Increasing per capita incomes (changing diets)

The World Bank estimates that the share of the developing countries in global output is expected to increase from about one-fifth to nearly one-third, and represent half of the world's purchasing power by 2030. Per capita incomes in the developing countries of East Asia are forecast to grow by between 4.5 per cent annually and in South Asia by between 2.5 and 5 per cent annually⁵.

The effect of growing incomes will be improved diets and higher potential food consumption. Consumption of livestock products, vegetable oils and, to a lesser extent, sugar, is expected to form an increasing proportion of food consumption.

In South Asia, annual meat consumption is projected by the FAO to increase to 18 kg a person through to 2050. East Asian annual meat consumption is forecast to grow from 39.8 kg a person in 2000 to 73 kg a person by 2050. Consumption per person of vegetable oils in South Asia, is forecast by the FAO to almost double in this period and consumption of fresh fruit and vegetables is projected to expand in countries including China⁶.

The Australian Farm Institute notes that Japan, South Korea and Taiwan (representing just 2.8 per cent of world population) went through similar economic growth and dietary changes during the 1960s and 1970s and the result was major new markets for Australian agricultural products. In contrast, China, India and Indonesia alone account for 40 per cent of the world population, suggesting that the impact of demographic and social changes in just these three Asian nations on

³ Moir, B and Morris. P. 2011 'Global food security: facts, issues and implications', ABARES Science and Economic Insights, Issue 1 – 2011

⁴ Campbell P, 2011, *The Future Prospects for Global Arable Land*, Future Directions International, Strategic Analysis Paper

⁵ Moir, B and Morris. P 2011 'Global food security: facts, issues and implications', ABARES Science and Economic Insights, Issue 1 – 2011

⁶ Moir, B and Morris. P 2011 'Global food security: facts, issues and implications', ABARES Science and Economic Insights, Issue 1 – 2011

global agricultural demand over the next two decades could well be 13 times as great as was the impact of the economic transition of Japan, South Korea and Taiwan⁷.

Biofuels

Internationally, there has been a large diversion of maize, canola, palm oil and other crops from food markets, for the production of ethanol and biodiesel. This switch to biofuels has been driven by a multitude of elements including a perceived need to ensure 'energy security', and regional development. Production of biofuels has increased demand for food crops and put significant upward pressure on food prices, including across the Asian region⁸.

Tasmanian farmers are well positioned to capitalise on this opportunity. We will benefit from rising food prices, particularly in westernising affluent Asian markets where there is less than usual price sensitivity. Furthermore, we have significant resources that could be used to produce biofuels, including timber and even woody weeds (eg gorse).

INDUSTRY REQUIREMENTS TO CAPITALISE ON OPPORTUNITIES

Tasmania has many potential opportunities as a partner in the Asian region. We should be able to capture new markets strengthened by our global reputation and integrity as a cool climate island state producing clean "safe food" which is disease free. This would boost the state's agricultural export opportunities. Future expansion and further innovation could occur in the area of both unprocessed and value added agricultural products. As reported in the Issues paper – Tasmania's Place in the Asian Century, August 2012 'the agriculture sector has significant opportunities to expand production including dairy, wine, beef, fruit and vegetables.'

China's rapid economic growth, industrialisation, urbanisation and expanding middle class present real opportunities for Tasmania – as do the growing westernised middle class cohorts in India and Indonesia. The increasing two-way trade in goods, services, knowledge and people between Tasmania and Asian countries will be increasingly important in providing both export income and investment in our economy.

Market Access

Asia's robust economic performance over three decades, as well as a growing and increasingly affluent population, provides positive trade prospects for Tasmanian products. There are opportunities for certain products to earn significant returns to the agricultural industry in the export market. These are likely to be counter seasonal, niche and of high quality.

Tasmania needs a strategic approach to identifying and developing new high value and high growth export markets. To exploit the potential growth in export markets for agricultural produce, the federal government must push for consistent market access regulations across Asian countries, as these barriers have a significant impact on production processes and agrochemical practices.

⁷ Australian Farm Institute. 2011 'Farm Institute Insights', Vol. 8 | No. 4 | November 2011

⁸ Stoeckel A, 2008 'High Food Prices – Causes, implications and solutions', commissioned by the Rural Industries Research and Development Corporation

Harmonisation of phytosanitary standards and regulations for fresh produce imports are crucial for an optimal trading environment between Asia and Tasmania.

Genetically Modified Organisms (GMOs)

The TFGA understands that a review of the state's moratorium on GMOs will be undertaken next year. From our point of view, the potential for GM crops to increase productivity will need to be carefully investigated as farmers need to gain even more efficiencies in light of constant pressures on ever-diminishing margins.

Foreign Investment

TFGA recognises that foreign investment has been a feature of Australian agriculture for over 200 years. We appreciate that without this investment much of the development in Australian agriculture would not have occurred. Major Australian pastoral companies have had large international shareholders since their beginning and this pattern continues today.

Investment by foreign individuals and private shareholder owned companies is welcome, as we recognise the benefits this kind of foreign investment has in the Australian economy.

However, there are two main points of concern.

Firstly, there is no one comprehensive source of data on foreign ownership, nationality and type of entity of agribusiness companies. This can lead to speculation and the development of policies based on anecdotal evidence rather than well researched fact.

Secondly, whilst investment by privately owned or publicly listed enterprises is welcome, there is a possibility foreign state-owned businesses may use Australian land to ensure a secure supply of produce in their home country. Some countries, such as Saudi Arabia and Qatar, are quite open about their goal to provide food security for their own country by purchasing land and production facilities abroad⁹.

Whilst this is merely the logical end point of a free market in operation, it is recognised that there is some community concern about the prospect that government-owned enterprises may not be bound solely by profit making considerations and thus may distort markets. Our view is that, if this is a legitimate concern, it is a public policy matter – and the cost of any distortion of the market place which results from interference by the Australian government should not be borne by farmers.

In other words, if the Australian community believes farmland should remain in Australian ownership, it must be prepared to fund any cost differential experienced by a farmer who is precluded from selling their land or their product to the highest bidder.

⁹ SWFI (Sovereign Wealth Fund Institute) 2010. Qatar's Hassad Food to buy sugar project in Brazil-QNA
<http://www.swfinstitute.org/tag/hassad-food/>
Trading Economics 2012 <http://www.tradingeconomics.com/australia/currency>

Industry Profitability

There is a need to improve the profitability of the industry to ensure that it is in a position to capitalise on emerging opportunities. Currently, the Tasmanian/Australian market suffers from massive distortions and an imbalance of market power.

The regulatory environment in Australia is much more demanding than in most other jurisdictions, and these requirements add significant costs to production. Tasmania has the most stringent regulatory requirements of any Australian state, and so our farmers are at an even greater disadvantage. Tasmanian farmers therefore face significant challenges in competing in export markets – but particularly in markets such as those in Asia where costs of production are low.

Furthermore, domestic producers are subject to a range of market behaviours designed to maximise profits at the retail end to the detriment of the production end of the value chain. The continual downward price war being engaged in by the two major retail outlets is taking its toll – with many farmers already driven out of business.

It is clear that if Australian farmers are to remain viable, let alone capitalise on the many identified opportunities for growth and expansion, we will have to innovate in a third agricultural revolution. Many commentators are recognising that here has to be a concerted effort to deliver on-farm cost efficiencies if we are to meet global food needs without a major expansion in agriculture's footprint.¹⁰ This will require the trend of declining investment in research, development and extension activities to be turned around sharply; and the Australian community has to be prepared to reinvest in integrated food, water and energy research, development, extension and education (RD&E) here in Australia.

Even assuming this happens, if producers are to be able to respond to the output from RD&E efforts, they must have sufficient capital to adopt the new practices. This requires the ability to invest over a relatively long timeframe with a reasonable expectation that current profitability will be sufficient to cover the investment in new equipment, varieties and practices.

Industry technology

Agricultural technology in developing countries is crucial for smallholder income, labour opportunities for the poor, environmental sustainability, and linkages with the rest of the rural economy.¹¹ Technological change is a critical factor in determining the future of food production and whether food prices will preserve their long-run, downward trend, as well as the likely patterns of trade and structural change.

Land and water resources are relatively scarce in Asia, which puts food production systems at a great risk.¹²

¹⁰ See for example Julian Cribb, *The Coming Famine*, University of California Press, 2011

¹¹ DFAT (Department of Foreign Affairs and Trade). 2012. *Agriculture and the WTO*.
http://www.dfat.gov.au/trade/negotiations/trade_in_agriculture.html

¹² FAO (Food and Agriculture Organization of the United Nations). 2011. *The state of the world's land and water resources for food and agriculture (SOLAW) - Managing systems at risk*. Food and Agriculture Organization of the United Nations, Rome and Earthscan, London.

Australia has much to gain from building on its international reputation for excellence in agricultural research, extension and policy, by being a proactive international player, helping other countries (especially our neighbours) to feed themselves. Strategically, we have much to gain by helping countries in the region to lift their own food production sustainably, exporting our know-how and services.

There is thus an opportunity for Tasmanian farmers to share the state of the art agricultural technology we are developing here. This would include such things as Wealth from Water and Sense-T, as well as our intellectual capacity as evidenced through the resources of the Tasmanian Institute for Agriculture (TIA).

CONCLUSION

The Tasmanian agricultural sector is in theory well positioned to capitalise on the Asian Century. Changing demand and supply dynamics in the region combined with Tasmanian agriculture's fortunate characteristics, positioning and reputation mean the relationship between Tasmanian agriculture and Asia should grow stronger.

However, this potential will only be achieved with the assistance of enabling policies. Efforts to maintain the focus on trade liberalisation in the region will be paramount to ensuring that the opportunities for Tasmanian farmers in the Asian Century are maximised.