

AGRICULTURAL POLICY IN AUSTRALIA
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BY JAMES C. McCOLL
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I am pleased to have the opportunity to deliver a paper on Agricultural Policy at this Conference held to mark the 50th (Golden) Jubilee of the formation of the Australian Institute of Agricultural Science. Agricultural Policy is, of course, an enormous subject, frequently considered within a somewhat limited framework of economic analysis, concentrating on policy objectives and instruments, and barely venturing into that difficult area of institutions. I intend to try to paint a broader canvas, covering the macro scene, micro scene, farm costs and returns, marketing, extension and research.

I have some mixed feelings speaking on this subject at this time, given recent demonstrations of rural unrest and concern about the future. It is very reminiscent of the early 1970's with wheat quotas and wool prices at disastrously low levels. Agriculture in Australia survived that period and will again, and continue to contribute substantially to Australia's export earnings. It will also continue to have to adjust quite significantly, particularly in certain industries, with sometimes painful experiences at individual levels. We must always remember that Australia is a trading nation, with a significant natural resource base, and a limited local market. Australia cannot afford to protect substantially its agricultural and manufacturing industries as is the case in some other countries or political groupings (for example the EEC) with much larger domestic markets and economies. This seems unfair, but it is reality. There are a number of agricultural industries where market forces will need to be allowed more influence in determining the appropriate structure. The international trading environment is particularly difficult at the moment with a severe weakness in world agricultural commodity markets for a number of reasons. This situation is likely to continue for some time.

Farm costs have been rising appreciably, leading to a significant fall in farmers' terms of trade in recent years. Nevertheless, there are a number of areas in which Australia can improve the position of the rural sector.

Fiscal and monetary policies, through their influence on exchange rates, can affect both commodity returns and prices of imported farm inputs. In addition, these policies can influence farm costs through their impact on the general level of inflation and on particular input prices, such as wages and interest rates.

The future course of Australia's exchange rate will depend, among other factors, on the Government's overall borrowing requirements and the level of domestic savings. The significant reduction in the budget deficit just announced is an important recent move.

In determining the appropriate mix of monetary and fiscal policies, a broader perspective must be taken than simply adopting the position that what is good for the rural sector is necessarily good for the Australian economy.

Tariff policy not only directly influences costs of imported inputs but also indirectly influences the cost of labour and other items and affects farm returns through the impact on the exchange rate. Tariffs impose a penalty on the farm sector far beyond their immediate adverse effect on costs of imported inputs and farm machinery. Budget - removal of excise on diesel and shift to bounty from a tariff on harvesters. This means that the cost of supporting local manufacture of harvesters will be borne by the community not just by farmers. Tariff reform is a continuing issue for farmers, and exporters in general. Progress in this area has been disappointing and it is necessary to keep the issue alive (IAC 1984).

It may be tempting for farmers, particularly in the face of protection afforded to other sectors, to presume that cost problems should be alleviated by way of input subsidies. It is perhaps natural to consider that some responsibility for cost increases should be borne by government, particularly when services are supplied by government authorities, such as marketing boards and water supply authorities.

Direct service charges by government and semi-government authorities account for a significant part of farm costs. In fact around 27 percent of cash costs in the agricultural and grazing industries since 1978-79.

The important issue is - how can farmers ensure that they obtain government-provided services at least cost? In those areas where there is no competition, it may be appropriate to examine the extent of the powers assigned to such organisations and ensure as much accountability as possible.

Let's have a look at marketing.

Marketing efficiency studies raise questions about whether existing marketing arrangements are still appropriate. Change in marketing regulations has often been piecemeal and the question now is whether some industries are "over-regulated".

One general conclusion from these studies is that deregulation has the potential for substantial savings in marketing and production costs. However, it does not necessarily follow, nor is it implied, that significant cost savings could be achieved by immediate moves to a free market system or perfect competition. Realities are such that "free markets" in some cases are unobtainable for political or other reasons, or are undesirable.

The rate of adoption of technological innovations in marketing is in part related to the institutional framework and marketing regulations. There are examples in the

marketing of Australia's primary products where opportunity exists for significant improvements in marketing productivity.

On the positive side, there are examples of greater cooperative effort and less competition enhancing the rate of uptake of technological innovations.

The key to improving productivity is not only to ensure an adequate flow of improved technologies through research but also to bring about the appropriate institutional environment.

The power of marketing boards to raise prices is limited because they generally lack control over production. (There are exceptions, for example, sugar and rice).

The sharing of the higher priced home market amongst all producers by pooling has been the usual approach, but this masks the real marginal returns (that is, export prices) and over-production can result. An alternative approach is an entitlement scheme for the high priced home market.

This approach has not been particularly favoured by the IAC in recent reports, for example on dried vine fruits or dairying, as its introduction makes any future desirable reduction in assistance levels more difficult to achieve unless conditions of the scheme (for example its duration) were specified in advance of its introduction. Negotiable entitlement schemes for which terms and conditions are clearly specified before their introduction, could be a useful transitional approach to necessary industry adjustment, rather than substantial immediate exposure to market forces. There is no doubt that this issue is leading to considerable concern in some industries which are being required to adjust to lower output and assistance levels.

It seems clear that less assistance will be provided to agriculture in the future through the traditional avenue of marketing arrangements. Other avenues for

government support such as research and resource protection will be increasingly used.

Agricultural research has been recognised as improving the technology level and income of the agricultural industries in Australia. It is also evident that the benefits from research in agriculture are very difficult to measure and capture, hence government and rural industries are the main contributors to rural research. Private companies have limited their research effort to areas such as engineering and agricultural chemicals where they can capture the gains.

The Commonwealth has legislation before the Parliament to raise the subsidy that can be paid on rural industry research funds (RIRF's) from the current 0.25% to 0.5% of the gross value of production of an industry. This will change the research scene in Australia, giving more influence to the new research councils. Because each project accepted by the RIRF's has a large associated component financed from the research institutions, the new councils will have an increased influence over research resource allocations within these agencies.

The national attitude to research and development is of course CSIRO in the five years from 1978 to 1983 has allocated about 35% of the total CSIRO budget into the rural industries. There is pressure mounting to direct more of CSIRO's resources into research for the manufacturing and mining areas. This of course would not be in the best interests of agriculture.

The recent announcement by the Federal Government of the 150% tax relief for large companies in the manufacturing sector to undertake research and development should induce these companies to increase their research and development activities in Australia. This is a similar financial incentive to that provided as a matching grant offered by the Commonwealth Government in the rural industry research funds. To a substantial extent, this minimises the need for expansion by CSIRO into manufacturing research at the expense of the rural sector. Companies in the manufacturing sector now have a very positive incentive to

undertake research and development. They can more readily capture the gains from manufacturing research than the rural sector can from rural research.

There have been significant improvements made in research management in recent years, moving from a somewhat *laissez faire* approach to a more critically planned approach - setting priorities and reallocating resources.

Coordination and rationalisation of agricultural research is necessary. There have been a number of moves made in recent years and some progress achieved. The Commonwealth Council for Rural Research and Extension was never very successful and was disbanded by the Commonwealth Government.

The Standing Committee on Agriculture, which has always had as one of its key terms of reference, the coordination of research but which had not tackled the problem seriously, established the Australian Committee for Priorities in Rural Research and Extension. A Bureau of Rural Research was recommended by the Senate Standing Committee on National Resources. While there is general agreement that a national coordinating body for rural research is required, suitable machinery has not yet been developed.

The Balderstone Report (Balderson et al 1982) emphasised the need for State Departments of Agriculture to review continually their extension activities. There are a number of important factors influencing changes in extension services. Whilst these changes are not very evident at the moment, they are undoubtedly occurring and the rate of change may well increase dramatically in the future. These factors include the following:

- Improvements in technology, particularly in communications technology.
- Changes in the characteristics of, and expectations of clients, including governments.
- Reductions in real resources being made available by governments for agriculture within the context of general pressures for reduced overall government expenditures.

- Increasing competition with other areas of government responsibilities.
- Increased accountability of government services being required by government and the community
- Increasing demand for services by clients.

The traditional approach to providing extension/advisory services has been through a local extension officer (e.g. agronomist) visiting individual farmers and holding field days, etc.

Changes currently underway include new forms of service delivery utilising communications technology, greater emphasis on the team approach to solving district/regional problems as distinct from individual management problems, and more planned programs. In other words, a pro-active approach rather than an "ad hoc" reactive approach is being developed in response to increasing demand for services and decreasing real resources available.

The effective implementation of such changes requires considerable effort within the extension agencies through training programs and positive leadership in regions and districts. It will also required "marketing" with farmers and farm organisations. A significant gap in farmer understanding exists between expectations involving the traditional forms of extension delivery and the reality of these changes occurring in service delivery.

Effective communication with rural industries and regions/ districts by extension services in determining priorities is obviously important, developing to a point where both the extension services and the industry/community see themselves as accountable for programs. It must also be recognised that government extension services will be required to address long term issues of wide community interest (for example, environmental and resource conservation). Occasionally there may be some conflict between objectives, which will need to be managed carefully. Extension services have not done an adequate job of reporting to the community

they serve or to the community at large. A more informed public can make better decisions about the type of extension service they want.

This increased accountability requirement will call for quite significant changes in the extension services, and staff capabilities.

At present the community at large funds the cost of agricultural extension services. It is expected that there will be moves towards charging the costs of services to consumers, particularly for services directly provided to individual farmers. There are difficulties in using a simple fee for service approach by government agencies except in certain very specific types, for example, soil and plant analysis. Possible approaches include the introduction of contract extension, or funding through an industry levy.

The complementary relationship between government and private extension provision needs to be further developed. Government will need to assess carefully which services are best provided by government and which are more effectively and efficiently provided by the private sector, and be prepared to develop some innovative approaches to encourage an expansion of private services.

Resource management and protection issues and, in fact, some of the traditional agricultural practices, for example animal husbandry practices, are receiving increasing attention from wider community interests. This is being reflected in government attitudes, and hence in policy development.

The resource protection area covers a wide array of issues including soil conservation, water conservation and management, environmental pollution, pest plant and vertebrate pest management and plant and animal quarantine.

There has been increasing interest in soil conservation recently by governments, as shown by the development of the National Conservation Strategy for Australia and the National Soil Conservation Program.

There will be a greater public involvement in land resource management, and a need for increased research into this issue for a better understanding of the causal factors and of the modifications needed to land management practices. There has been some interesting institutional developments in the water resource area in recent years, for example, in South Australia and Victoria.

It is anticipated that future developments in the conservation and management of water resources will include the following:

- Little, if any, additional public investment in new irrigation schemes at least in southern Australia, but significant public investment for rehabilitation and salinity control in existing projects.
- Some portions of irrigation areas being taken out of production.
- Transferability of water rights resulting in a more effective use of the available water resources.
- Water prices increasingly reflecting productivity value rather than the costs of providing water.
- Water distribution managed by private organisations. Government agencies will provide water to and drainage from the districts, and will be responsible for the overall management of the water resources.
- Metering of irrigation water supply which will be the rule rather than the exception.
- Government control of water use and pollution, particularly in groundwater areas.
- Modern irrigation technology using sprinkler, drip and low volume large scale units becoming increasingly significant.
- Extensive use of irrigation crop management services and computer controlled irrigation systems.

- More flexible cropping patterns in irrigation areas, because of the need to grow high value crops with special marketing requirements.

Environmental pollution, particularly of water in agricultural catchments, is of increasing concern.

In the past few decades the water quality in stream catchments throughout Australia has deteriorated due to land clearance, irrigation development, land use changes from grazing to cropping and other forms of agricultural intensification. Pollutants in agricultural run off include sediment, salts, nutrients and pesticides.

There are point sources and non point (diffuse) sources of agricultural pollution. Agricultural point sources are readily identified and legislation is generally available to enforce effective disposal of wastes produced.

Non point sources (NPS) are difficult to identify. It is often impossible to allocate the responsibility for NPS pollution and thus direct control by legislation is impractical. The only policy option to minimise NPS pollution is to adopt improved practices of land management. Cooperative behaviour through community awareness by education and extension is more likely to be successful than draconian legislative control.

Although State Governments contribute significantly to the finances of controlling pest plants and animals, funding comes also from local sources - in most cases from the agricultural sector.

It should be recognised that those responsible for administering the relevant legislation have little chance of eradicating the pest, whether it be animal or plant, and the best that can be hoped for is economical control.

Greater emphasis is now being placed on a preventative approach to pest control as indicated by recent Commonwealth legislation in the form of the Biological Control Act and the Wildlife Protection (Regulation of Exports and Imports) Act.

The involvement of conservation interests, particularly in the extent of their involvement, is relatively new. Over the past 20 years we have seen the establishment of government environmental departments and a mushrooming of environmental and conservation groups

It is clear that the management of all lands of the State, particularly government lands, will increasingly come under public scrutiny. The traditional approach of controlling pests, both plants and animals, on agricultural land, and when really pushed, on the margins of government lands adjoining that agricultural land, is changing. Land once regarded as useless for agriculture was "unwanted" land and money and effort spent on its management was never considered justified.

Now, however, any land, together with its particular plant communities, its animals and its own unique characteristics is regarded as a valuable community resource and one which the public requires to be appropriately managed.

Animal and plant quarantine used to be regarded as the attempt to exclude unwanted exotic animal and plant pests and diseases from a nation or continent. It is now seen as a positive mechanism aimed at optimum movement of animals and plant material within assessed risk parameters.

As a major trading nation which seeks access to international markets, Australia has obligations regarding the scientific justification of quarantine measures. The General Agreement on Tariffs and Trade (GATT) seeks to avoid the use of health and quarantine conditions as non-tariff barriers to trade. It is in Australia's interest to pursue such activities with vigour as a means of ensuring access to markets.

Better quarantine facilities are being built both on-shore and offshore (for example, Cocos Is.) to cater for the general increase in importation, and the importation of animals and plant materials from countries of higher disease risk.

By way of final comment, Australia is a trading nation with a strong comparative advantage in agricultural production. It is a comparatively small economy with a small domestic market and a need to trade freely internationally. The increasing exposure of Australia's agricultural industries to the uncertainties of international markets requires a sympathetic understanding by governments and the community, and a continuing effort in refining and developing rational policies and efficient institutions aimed at maintaining our international competitiveness and preserving our valuable biological resource base.