

AUSTRALIAN NUFFIELD FARMING SCHOLARS ASSOCIATION

**REPORT OF THE STUDY TOUR TO
SOUTH EAST ASIA,
UNITED KINGDOM & IRELAND**

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1998 NUFFIELD SCHOLAR***

SUBJECTS:

EXPORT POTENTIAL FOR W. AUSTRALIA

&

**HOW TO ATTRACT YOUNG PEOPLE INTO A CAREER IN
AGRICULTURE**

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ACKNOWLEDGEMENTS

AUSTRALIA

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I must also thank my sponsors Nestle, particularly Ken Bosse for sponsoring my application and making the whole tour possible.

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I felt privileged to have been chosen and sponsored and to share some superb times with an excellent group of people who offered warm friendship and support throughout the Tour.

Unfortunately I was forced to cut my Study Tour short due to family illness and I was only able to embark on the initial part of the Tour. I was therefore unable to complete the individual study programme to the extent I planned.

UK HOSTS

The success of the Tour relies heavily on the encouragement and support you receive from all those key people you meet on the Tour. This includes your hosts who welcome you in the UK and I must thank William and Brigid Waterfield for their kind hospitality.

I must also thank all those who assisted me with their knowledge and expertise and this includes fellow farmers. A special mention to Brian Barnett and his wife Heather who not only assisted me in my studies but also provided a much valued special friendship.

INTRODUCTION

When I embarked upon the Study Tour the focus was to look at ways to attract young people into agriculture. Conscious of the decline in young people entering our industry in W Australia, I wanted to look at what initiatives were being adopted by other countries to attract young people back into Farming.

However, as the tour progressed and I viewed the scale of the missed export opportunities for the dairy industry, for W Australia, I broadened my brief and spent time considering the export potential that existed for the W Australia Dairy Industry in world markets, with particular emphasis on Europe,

The initial part of the tour when we looked at South East Asia was enlightening. It highlighted the huge and under exploited export opportunities that exist in that region for our dairy products. Whilst our Eastern neighbours capitalise on some of the opportunities, it appears that the W. Australian dairy industry has largely ignored this valuable marketplace.

In terms of attracting young people onto the land, I discovered that in Asia conditions are so poor in farming that young people would prefer to move to the big city in spite of the likelihood of simply falling into the "sex trade". I have to say that I found this negative attitude to farming by young people prevalent in most countries that I visited.

After the tour of the Asia Pacific region, the remainder of my time was spent in the UK, Ireland, France and Portugal before I returned home. It was unfortunate that I was unable to embark on the planned Switzerland, USA and Japan leg of the trip to complete my studies.

EXPORT MARKETS FOR AUSTRALIAN FARM PRODUCE

During the course of my Study Tour, I became very aware of the potential export opportunities within Europe for Australian produce. After spending an initial period of the tour in the Asia Pacific region, I was very aware of the huge dairy export market that exists on our own doorstep!

Whilst this area was not the focus of my study, it has since become a recurring theme for me upon my return as a direct result of determining that the export opportunities that I believed existed in Europe before I left Australia in February 1999 do not actually exist. However the potential for dairy products, specifically milk to be exported to the Asia Pacific region, is enormous.

There are 374 million people in the EC and the current policies of market protection will prevent us from ever being able to penetrate these potential markets to any extent.

The total subsidy bill for the EC is less than 2% of the GDP and if you look at it in % terms it sounds like a small sum. However in reality it is \$4billion dollars so in monetary terms it is a significant sum and there is no logical reason why this situation should ever alter.

The basis for subsidies in the past has been to ensure security of supply of commodities by means of payments for headage, acreage etc.

For example a vealer sold at 500kgs should return

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|-------------------------------------|-------------|
| One pound per kg | £500 |
| Achieve £84 per head payment | £ 84 |
| Achieve £36 per suckler cow | £ 36 |
| TOTAL | £620 |

This means that within the EC the price per baby beef is A\$1,550. In Australia we would currently receive A\$600.

Are we prepared to accept that Australia is unable to export an animal to the EC even with our expensive abattoirs and inefficient wharves at a significantly less price than the EC price but at a higher rate than the home market?

The question arises as to whether the EC is actually producing products it needs and is it not indeed paying a very high price for that product? The level of capital investment and the resources devoted to producing these products is amazing and to the lay person seems a very complex system just to feed people.

It is important to understand the reason for the foundation of the EC. The reasons were twofold, firstly to provide food security after the Second World War and secondly to help keep peace in European region. The purpose has been exceeded with key developments in agricultural production activities.

Wheat for example, the EC produces 215 million tonnes with consumption being 173 million tonnes. They have now agreed to drop the amount of subsidised export wheat from 31 million tonnes to 25 million tonnes as a result of the W.T.O. agreement. This means that they can only fill Australia's total wheat production twice on world markets with their subsidised supplies.

I can't help thinking that the farmers are encouraged to grow produce against the will of nature and at enormous cost as a direct result of the distorted market situation that is brought about by EC subsidies.

The question must be asked if ever there has been any sums done by EC economists to calculate the net cost of importing these subsidised products from the countries which can produce them cheaply and only grow the products they need? E g domestic milk, potatoes

This may leave the EC with more net dollars to be directed to environmental repair and reduce the impact the excessively intensive farming practices are having in terms of the environment and animal diseases.

The change of basis on which the subsidies are directed will mean that the same amount of net dollars will be injected by the EC but on an environmental or social basis "green Box" rather than an economic basis. However this will have the same effect of making exporting to the EC even more difficult.

The EC argues that it is undergoing change based on GATT reform with the main line being:

Ensuring continued competitiveness by sufficiently large price cuts that will guarantee growth of home market outlets and increased participation by community agriculture in the world markets. These price reductions should be offset by an increase in direct aid payments in order to safeguard the producers' incomes.

However what is the point of the exercise when ultimately the true cost of producing this product is hidden by means of an income subsidy to the producer under another name?

You may call an income supplement another name but it is ultimately a subsidy if paid to a food producer to fill the difference between price received and the cost of production.

It seems to me that many dairy farmers in the UK and Ireland have to figuratively speaking "roll back the rock" from the front of their dairy door each morning to face a new day. I estimate they are currently going through an industry rationalisation many of us went through over 25 years ago. Australia gave the British people over 400 years start and they are now over 25 years behind us. Just how slowly have they been travelling?

The Australians have rationalised our agriculture long before our forefathers because of exposure to the free market system. The EC is only now becoming exposed to the free market through deregulation and as a result of Agenda 2000 and CAP Reform II which is in effect a process to de-couple payments from a product to indirect payments to supplement income.

When the EC was first established, the main goal was to ensure food security in Europe as a result of food shortages in the Second World War. Today however, as farming is increasingly being supported and promoted by the EC the focus appears to have shifted, and the main role the EC performs appears to be in supporting rural development and acting as the custodian of the countryside.

When you look at the comparative Australian model and more particularly the Western Australian situation, we have so many comparative advantages favourable to the production of milk. I am amazed to find we are not world leaders in terms of milk production.

Australia has favourable advantages in the following ways:

- 1) Geographically well located for easy access to world markets.
- 2) Favourable climate, relatively cheap land, infertile soils but stable and at the very least are able to hold animals in the upright position in very wet conditions.
- 3) Good infrastructure in terms of transport but behind in terms of commitment by milk companies to large efficient milk processing plant.
- 4) Very fortunate to have concentrates of very high quality at relatively low cost.
- 5) There are opportunities to greatly increase grass production per hectare by the use of efficient irrigation systems in drier areas and move away from the traditional irrigation areas. These are limited by the nature of the soil and ability to manage it in wet conditions.

The trend world wide particularly in the EC is to move away from the smaller farms they have perpetuated by paying a higher price for produce. However when there is any price squeeze these farms immediately come under threat and are usually unable to survive. The same situation applies to any industry in any economy where they permit high prices for any commodity that subsequently creates inefficiency.

Economies with large domestic populations can afford to subsidise high prices but countries with a large reliance upon exports can ill afford to subsidise and carry these inefficiencies as many of the EC countries are finding as they head towards becoming export competitive.

Ireland is a real example of this situation with 80% of its milk production being exported, 40% to the EC and 40% on to the world markets. Ireland has only a small domestic population of 4,000,000 people of which 145,000 are farmers.

Ireland currently has 35,000 dairy farmers with a herd average of 30 cows producing approximately 5,000 litres per cow. It is expected that within ten years they will have only 5,000 dairy farmers producing the countries milk supply at the same level.

Dairy companies in W.A. are too comfortable with Quota and the price they receive for domestic milk achieving a comfortable margin. This is not forcing them to aggressively seek new markets and upgrade plant as well as encourage greater throughput and production from farmers.

Dairy companies need to address the enormous inefficiencies they perpetuate with the current transport system with an unfair cost burden being passed on to the farmers.

Supermarkets need to be more open and held accountable to farmers in terms of their share of the margin from a commodity to the public. Unless they become accountable they will be subject to public scrutiny and picketing as in the case of Irish Farmers and more recently UK farmers who are rapidly winning over public support.

In Ireland milk consumption per head is the highest per person of anywhere in the EC and this is not a result of luck. Supermarkets in Ireland have an agreement with farmers not to sell milk in supermarkets below the price of home delivered milk and this does much to ensure the milk is consumed.

The Tesco supermarket chain tried to import milk from the UK to undercut this scheme and they were immediately subject to picketing by Irish farmers. Australian farmers should consider follow suit as clearly militant action is achieving the desired results for Irish, English and French farmers.

SUMMARY

We have a sympathetic public in Australia and we have a responsibility to make them very aware of the inequitable situation that now exists within the dairy industry between the producers and the retailers.

The dairy industry in W Australia cannot afford to be complacent as we may find that the EC will become very serious competitors in our traditional markets in the future if the level of rationalisation continues as this will be accompanied by keen price competitiveness.

We must remember that the EC are in a powerful position to subsidise price of export commodities with a large domestic market and beat us at our own game.

Australia must be the most efficient producer in the world if it is to compete and we must be prepared to make the hard decisions at all levels of our industry in order to bring about these efficiencies.

ATTRACTING YOUNG PEOPLE INTO A CAREER IN FARMING

Every country I visited on my Nuffield Tour, including Malaysia, Thailand, U.K. France, Portugal, Belgium, Ireland and my own experience here in Australia, have clearly demonstrated an ageing farming population, the worst case being Ireland, where over 45% of the Farmers are 55 years of age and above.

Irish Agriculture has the potential to lose 70,000 farmers in the next ten years. Not only is this level of attrition frightening, but there is the problem of aged population currently in farming who traditionally find it so hard to adopt new farming techniques which in effect stalls our industry development.

Currently Irish Agriculture is about to embark on a revolution in order to become more efficient and survive so it desperately needs younger people to become involved in the revolution of Agriculture if it is to prosper.

World- wide young people see the attraction of alternative lifestyles, bright lights in cities and companionship accompanied by regular income and often very pleasant working conditions.

In Asia conditions are so poor in farming that young people would prefer to take a chance on no job in the city and become sex workers rather than endure the hardship of a life on the land.

Ireland on the other hand is undergoing the effects of the "Celtic Tiger" with a booming economy offering very attractive alternatives in the employment stakes for young people who may otherwise return to the agricultural sector.

Each country has its unique problems in terms of tax laws, cultural rules for land transfer and leasing requirements. These often place enormous restraints on the transfer of land. For example, in Asia the land area owned by a family is divided between the children equally.

HOW DO WE GET YOUNG PEOPLE ON TO THE LAND?

There are several initiatives from several countries that I believe are worth considering. However none have the "magic formula", but together they offer a combined front which may well be applicable and provide a partial solution to this difficult challenge.

Currently the three options for entering farming are as I see it:

- 1) **Inheritance** – However sometimes parents or relatives take a long time to die and often they put restrictions in place which enable them to control the farm long after they have passed on. “Farming from the Grave” as my father would affectionately call it!
- 2) **Marriage** - Finding a rich farmers daughter! However I can vouch from my own personal experience that this is extremely difficult! (I have been trying for years without success!) However once married the potential for “half a farm” theory comes into practice.
- 2) **Lottery** – By winning a lottery and buying a farm, however how many people who win a large sum of money would rush out to buy themselves a seven day a week job? A couple in America who owned a farm won Lotto at 70 years of age. When asked what they intended to do with their new fortune, they replied they would “keep farming until it was all gone”.

Buying a farm is becoming more difficult as the return margins are less. The size of the farming operation is becoming larger and therefore the amount of capital required makes it bad business sense to invest in the first place.

The challenges I have outlined act as hurdles to young people wishing to return to the land and are not unique to Australia they are a world- wide problem.

WHAT CAN BE DONE?

Training is essential. It is pointless having people come back to work on the land if they don't have the skills necessary to adopt to the requirements of modern farming. Technical skills and business management skills are essential for the growth and long term expansion of farms. Most countries are doing this by various means including apprenticeship schemes, agricultural colleges and short- term managerial courses through university's and technical colleges.

In Asia for example things are very difficult, but farmers are being educated by means of extension services, They travel to farms and pass on knowledge to farmers, their families' and their workers. They have employed the use of central demonstration farms.

This must be the responsibility of both government and farmers to work together providing the educational facilities, staff and research material to provide potential farmers with the necessary technical training. Farmers need to provide the practical positive working environment for agricultural employees to develop their skills in all areas of farm management.

Farmers need to remember these people are often made or broken in this environment so their role is very important whether it is as an apprentice or farm practice as part of their training and they should not be seen as slave labour.

HOW DO WE MAKE FARMING THE CAREER CHOICE OF THE FUTURE?

I suggest that information on potential farm labour should be stored in the form of a C.V. setting out the skill set and availability and should be centred through some special Agricultural Employment Agency data bank. In this way peoples' agricultural skills can be easily recognised and accessed by prospective employers seeking either casual labour or more specialised full time labour seeking a career path.

Clever advertising in a very modern up market way could do much to promote agricultural employment as a desirable way to be employed in the modern age. More upmarket terminology should be used e.g. agricultural business and explain the extent of the opportunities that exist for new entrants.

One idea would be to launch a radical advertising campaign, government funded, that should be based on the Armed Forces approach and depiction of young farmers in an "action role". It could focus on farmers in the field and outline the range of work and the necessary skills required with opportunities to train.

Visit Schools accompanied by young, middle aged and older farmers who enjoy farming, are positive and are able to promote farming as a positive and rewarding career path for young people. Farming offers a good way of life for ambitious hardworking young people who are prepared to work. They can prosper and enjoy a good life running their own business.

The business opportunity for young people via a farming career cannot be understated in any advertising programme.

The true extent of the opportunities available to young people is the most important thing to consider if young people are to seriously consider farming as a potential career of the future.

France does much to encourage young people back to the land. The French Government give a 700,000 franc grant equivalent to A\$25,000 to anyone under 40 years of age who must remain on the land for not less than ten years. For the first three years of farming they also offer 1,000,000 francs loan fixed at 2.65%, no income tax liability and half the social security tax.

The French Government operate a branch of their Agricultural Department who is working on allocating young potential applicants to those who wish to retire from farming. The Government also paid 25,000 francs for three years to the older couple to vacate the house attached to the farm and allow the young farmer and his family to live there. *Last year they placed ten young farmers with older couples in one region alone.*

Ireland pays £10,000 for retiring farmers each year to encourage more to hand over their farms to younger farmers. Young farmers are also offered a one off payment of £5,800 to help them to set up in farming.

Duty is discounted with a farmer under 35 years of age who is agriculturally trained is eligible to pay only 2% Stamp Duty when purchasing a new property. They also offer Stock relief. As a young farmer accumulates more cattle 100% for four years do not attract tax as part of income accrued.

As with every country I visited, herd sizes are being enlarged to ensure survival in the future. The Government of Portugal views it as so important to encourage people back that they offer the following package:

- Loans at 4% interest
- Grants of 40% on land purchase
- Free milk quota up to 1 million litres
- 30% grant on cow purchase
- 25% on all new machinery costs
- 60% on any new buildings
- 25% on pivot irrigation
- 45,000 escudos grant on project approval
- variable pension deal to retire old farmers

As a result of this large corporate farms are already starting up in Portugal.

WHERE DO WE GO FROM HERE?

- 1) It is my belief that as a result of my travels the solution to the loss of young people from agriculture lies in three main areas. The first and probably the most important is regular promotion through an astute contemporary advertising campaign in every media form to promote the many benefits of a life on the land.
- 2) Secondly farmers must begin to plan now for the future by offering the young people an opportunity to enter the farming industry at a young age on a concession basis. This could be in the form of "share farming" "apprenticeship" or partnership with a path to farm ownership.
- 3) Thirdly we must implement an industry programme that encourages the training and education of older farmers who are in a position to take on potential young farmers. It should focus on the areas of finance, people management and farm succession.

CONCLUSION

The ultimate aim for young people considering a life on the land has to be the opportunity for a secure future through career progression and ultimately through land ownership. Young people considering a life on the land must see a future, a clearly defined career path. If this is not on offer they will either lose direction very quickly or become disillusioned with the nature of the work if no clear prospects are in sight.

The concept of 'share farming' in its many forms has the capacity to offer them that future. It also has the potential to provide ageing farmers with an escape route that can offer them certainty, security and income in their old age.

There is no point in a farmer waiting until they reach retirement age or until they can't work through ill health and then try and off-load an enormous unaffordable asset to a young farmer who may then find himself burdened with a lifetime of debt and despair.

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