

Droughts, extreme weather and empowered consumers mean tough choices for farmers

Written by Steve Hatfield-Dodds, Executive Director, Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES)

This is an edited version of Steve Hatfield-Dodds' opening address to the Bureau of Agricultural and Resource Economics [National Outlook Conference](#) to be delivered on 5 March 2019.

The National Farmers Federation wants to lift the value of Australian agricultural production to [\\$100 billion by 2030](#).

While that might be possible – on the current trajectory it is forecast to reach \$84 billion by 2030 – we should be mindful of the substantial, and sometimes painful, reforms that have been needed to achieve the growth we have in recent decades; and that [price increases accounted for 90% of that past growth](#).

Furthermore, the rate of productivity growth has been slowing. Key reasons include adverse shifts in climate and seasonal conditions, reduced investment in research relative to the value of production, and that fact that the easiest productivity gains have already been made.

This suggests nothing can be taken for granted.

Instead, we should recognise that achieving the best for agriculture, our rural communities and the national economy will require tough choices.

Making farming attractive to workers and investors

The sector is well aware of the need to attract workers with the right mix of skills, and is taking steps to do it. The [2018 Budget](#) provided funds to improve our evidence base about labour force issues.

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It is encouraging to see sector leaders [acknowledging](#) the need to eliminate exploitation of workers, particularly seasonal workers and other vulnerable groups, but actions are always going to speak louder than words in ensuring a positive experience for farm workers.

Investment is crucial to lifting productivity and strengthening supply chains. Unfortunately agriculture faces some headwinds in attracting investment, including high seasonal variability relative to other nations and some persistent policy uncertainty.

This makes it crucial that Australia's foreign investment rules are applied transparently and predictably, respecting [community caution](#) that investment should deliver social and economic benefits, while maintaining Australia's reputation as a [stable and attractive investment destination](#).

Harnessing innovation

Australia is not immune to global shifts in research and development.

This includes [slower growth](#) in public R&D, which in the past has provided the foundation for growth in private R&D.

Our distinctive use of government and levy funded [Research and Development Corporations](#) has served us well in the past, but needs some adjustment to ensure that the resources available deliver the best possible outcomes for agriculture and the nation as a whole.

Priorities should include reducing fragmentation and improving collaboration on “whole of sector” challenges, greater clarity and consistency around contributions and benefit sharing, and achieving faster adoption and commercialisation of successful research.

Promoting resilience

Australian farmers manage very significant variability, including variability in climate and prices. [Climate variability is increasing](#)

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and extreme events, such as droughts and floods, are becoming more frequent and severe, impacting on output and incomes. Increased variability is also likely to contribute to more volatile global prices.

It is a good bet in these circumstances that future droughts and weather events will continue to trigger calls for government to do more to help farmers. But policy makers should continue to be careful in how they respond, as poorly designed policies have the potential to slow farm adaption and structural adjustment, [hurting productivity](#).

Australia's [national drought policy](#) rightly establishes a clear separation between promoting proper risk management by farm businesses and providing support to farm households and communities in need.

Read more: [Helping farmers in distress doesn't help them be the best: the drought relief dilemma](#)

Eligibility criteria for the Farm Household Allowance are more generous than those that apply to income support available to other groups.

Programs such as the Farm Household Allowance, the Farm Management Deposit Scheme and tax concessions provide important relief for farm households and are consistent with Australian community values.

Overall, their current settings are unlikely to undermine resilience and drought preparedness or to have substantial adverse impact on agricultural productivity.

This is an achievement worth defending against well meaning – or occasionally self-interested – calls to blur the lines between household support and business assistance.

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And we should always seek further improvements. Here the remaining policies that provide business assistance, such as concessional finance, need careful assessment.

Over time, the perceived need for such policies could be reduced by further development and uptake of market-based risk management tools, such as multi-peril crop insurance, and index-based insurance for cropping and livestock.

Persisting with water reforms

The Murray-Darling Basin Plan was inspired, in part, by the 2003 [Living Murray Initiative](#) and its vision of a “healthy working river” and in part by a reaction to the realities graphically exposed by the Millennium drought.

It was predicated on the conviction that healthy communities and regional economies required a healthy river, and that achieving it required substantial changes to water management.

[These changes were twofold](#) : promoting water trading across the basin, which allows water to move to higher value uses and altering the balance between consumptive and environmental uses to achieve healthy river ecosystems.

Read more: [***It's time to restore public trust in the governing of the Murray Darling Basin***](#)

This view that healthy industries require healthy catchments has not always been visible in recent debate and finger pointing, which is often framed in terms of trade-offs between “industry” or “development” versus the “environment”.

It is self evident that achieving the National Farmers Federation aspiration for agriculture will

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require sustainable management of scarce water resources.

Irrigated crops are one of the strongest growing agricultural sectors, with excellent future prospects. Realising the full potential of the irrigation sector will require clear and confident water policy settings which support the sector's social licence, and avoid the uncertainty associated with acrimonious ongoing debate.

Respecting evolving consumer expectations

Staying ahead of the curve on consumer expectations sits at the heart of agriculture's value proposition, reputation, and future growth – and can only be effectively led by industry.

Shifts in social expectations may well be both the greatest opportunity, and the greatest threat, facing Australian agriculture.

Rising real incomes allow consumers and citizens to care about issues they have previously ignored, and to express this care through their purchasing decisions and networks. These issues might be personal – such as health – or more general – such as concern for the environment or animal welfare.

Shifts in consumer sentiment can occur rapidly, and be difficult to predict. In 2016, for example, around 15% of milk consumers voted unexpectedly with their wallets by [shifting from cut price \\$1 milk to more expensive branded milk](#), delivering an additional \$100 million in sales revenue, in response to [concerns about the plight of dairy farmers](#).

Read more: [***Low milk prices unearth the supply chain's dirty secrets***](#)

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But capitalising on consumer concerns over the long term involves risks and hard work.

Back in 2003, Perth-based [Austral Fisheries caused some waves](#) when it set out to secure independent Marine Stewardship Council sustainability certification for Patagonian toothfish, as a first step in a sophisticated customer engagement strategy.

Their persistence paid off: today more than half the global catch is certified, its [premium market position](#) has been restored and prices increased by around 300%.

Some shifts will involve more threats than opportunities, at least in the absence of stronger engagement by industry. Producers are particularly exposed on environmental and animal welfare issues, where real or perceived poor behaviour by a few players can tarnish the reputation or market access of an entire sector.

Assessing these risks and opportunities requires industry to understand how consumers think and feel, even when this is confronting.

As an example, debates about land clearing can be polarising, generating more heat than light. To be hard nosed about this, however, it is in industry's interest to consider how the economic rewards of land clearing for some graziers stack-up against the potential risks to the reputation, social licence and market position of the industry nationally, and the various ways these risks could be managed.

Focusing on the main game

Australian agriculture has many advantages, and a track record of good performance, underpinned by tough choices.

If we continue in this tradition Australian agriculture will prosper, enhancing the well-being of producers, consumers, regions, and the nation.

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Steve Hatfield-Dodds does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.

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Read more <http://theconversation.com/droughts-extreme-weather-and-empowered-consumers-mean-tough-choices-for-farmers-112857>