



Welcome to the new, expanded version of *Farm Institute Insights*, the quarterly newsletter of the Australian Farm Institute. As well as providing information about the various activities of the Institute, the newsletter now includes a feature article and a number of regular columns on farm policy developments and issues.

## Feature Article

### 3 Farming the New European Subsidies

Commencing in 2005, the European Union (EU) has implemented some major reforms to its Common Agricultural Policy, with some of the biggest changes being the 'decoupling' of farm subsidy payments from farm production, and the consolidation of a range of different subsidy programs into a single farm payment scheme.



Terry Ryan visited a number of European farms during 2005 which formed the basis of this article.

In this article, Terry Ryan investigates changes to the EU farm subsidy system from the on-ground perspective of farmers in Scotland and Ireland. The article highlights some of the profound impacts the policy change is having, especially on landuse and commodity production decisions. Land previously used for farming in some parts of the Europe is now of little use, and land values have declined. The article also highlights that, despite the best intentions of policy-makers, the response of farmers to policy changes is not always what was anticipated.

## Regular Features

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A brief review of farm policy developments within Australia and internationally. In this edition: Australian agriculture skill shortages; predictions of a crash landing for Doha; valuing farmers' environmental contributions; Australian climate change policy uncertainty; greenhouse gas production and agriculture; Canadian farm incomes; Farm Bill season in the US; Brazilian farm exports; microchipping New Zealand farm dogs; Chinese farm plans; and cross-compliance in Ireland.

### 9 Following On – Dryland Salinity

A look at further developments on issues the Institute has researched. A parliamentary report on salinity reinforces how difficult it will be to overturn accepted wisdom concerning dryland salinity.

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A brief update on research the Institute is currently conducting, and projects that are due to commence in 2006.

### 11 Farm Policy Journal Update

The May 2006 edition of the Institute's *Farm Policy Journal* will focus on Australian drought policy in the light of the most recent drought experiences.





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## Institute Activities

### Contract Agriculture Seminar

The role of traditional livestock and produce markets is changing in Australia, as more and more farmers in some industries become contract suppliers for food processors or major retailers. However, contract farming is not inevitable or even preferred in some industries. Recent disputes in the wine and vegetable sectors highlight important lessons for the future of contract agriculture in Australia.

The issues surrounding contract marketing were the subject of the research report, 'Contracting & Australian Agriculture: Discussion of current trends and implications for farmers and policy-makers'. The report was released in April as part of a seminar conducted by the Australian Farm Institute, in conjunction with the Agribusiness Association of Australia.

The key findings of the project were presented by the researchers – Mark Barber, ACIL Tasman and Greg Cutbush, ACIL Tasman (formerly, now with CRA). Three other speakers provided their perspective on the implications of the changes that are occurring: Colin Gray, Chamber of Fruit and Vegetable Industries; Suzanne Thornell, Perfection Fresh Australia; and Nick Howarth, National Farmers' Federation. Copies of the report are now available to download from the Institute's website [www.farminstitute.org.au/publications/project\\_reports](http://www.farminstitute.org.au/publications/project_reports) or contact the Institute on 61 2 9690 1388 to purchase a hardcopy.

### New Staff Member

The Institute welcomes Cate Stewart. Cate replaces Clare Belfield, who has taken up a new role in Central Queensland. Cate grew up on a family-owned mixed farm in Bathurst. She has a Bachelor of Arts and a Bachelor of Laws from the University of Sydney. Since graduating she has predominantly worked as a writer and editor in print and online legal publishing. She has recently returned from living and working in London.

### 2006 Strategic Roundtable Conference

The Australian Farm Institute's 2006 Strategic Roundtable Conference will be held in Sydney on 2–3 November 2006. The Conference is held annually by the Institute with the objective of providing leaders in Australian agriculture with an opportunity to consider and discuss the strategic issues that are likely to shape the future of Australian agriculture over the next decade. The Conference will also provide an opportunity for broad industry input into the Institute's 2007 Research Program.

The theme of the 2006 Strategic Roundtable Conference is 'Future Agriculture'. The Conference will commence with a dinner at which a prominent keynote speaker will talk on the future of Australian agriculture. The Conference program also involves the presentation of preliminary results of one of the Institute's 2005–06 Research Projects. This will be followed by presentations from several guest speakers who will explore themes such as:

- energy and agriculture
- China and other emerging challenges
- Australian and global demographic trends
- climate and agriculture.

The event is targeted at agribusiness leaders, policy-makers and leading farmers. The 2005 Conference attendance was limited to 60 participants, however, a larger venue is planned this year to accommodate 100 people. For further details about the event contact the Institute on 61 2 9690 1388.

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## Feature Article

# Farming the New European Subsidies

Terry Ryan, Economist<sup>1</sup>

Farming in the European Union (EU) has changed dramatically in recent times. While EU farmers still receive very high levels of subsidy, these farm subsidies have been ‘decoupled’ from production forming a single farm payment which is unrelated to farm output. This single payment has been supplemented with a range of subsidies which claim to provide environmental benefits. EU farmers are still adjusting to the new subsidies. As they make those adjustments, unsubsidised farmers in Australia stand to be clear beneficiaries as EU dumping on world food markets should ease. However, there are some lessons to be learned from these changes in EU agriculture which could provide negative precedents for how Australian farms could operate. The practicalities of the EU farm subsidy changes are illustrated in the following hypothetical interview with a European farmer where the information has been constructed from field research with Scottish and Irish farmers.

**What major changes has the European Union made to your farming practices?**

Well, we used to farm EU consumers – twice in fact: once with much higher food prices in the EU than world prices; and secondly with EU taxes used to pay the subsidies required to dump EU food on world markets. Although the new EU reforms have eliminated many of these schemes and rolled them into something called a Single Farm Payment, which started last year. This payment has at least one advantage in that I don’t actually have to work the farm to receive it. On the other hand, ‘decoupling’ makes it transparent to taxpayers how much they are paying to look after us farmers and there is a definite time for expiry of this scheme, so we cannot bank on this type of funding continuing.

**How does this Single Farm Payment work?**

All the different subsidies that I used to receive have been amalgamated into this one payment and it is based upon my average stocking rates for the years 2000–2002. My current stock levels are irrelevant to the calculation – which is why I have reduced my production quite significantly. That way I receive income with few offsetting costs. It makes life a lot easier just collecting cheques from European taxpayers and not having to work for them. Many farmers do not like this system and actually continue farming as they used to – as much as that is possible – to justify to themselves that they are earning it.

**You have reduced your production significantly with this decoupling. What has been the effect on prices received?**

It is now very hard to make money out of farming. I am getting world prices for much of my production now. There is Brazilian beef coming into the market at very low prices and I am only getting A\$1 per gallon for my milk compared to A\$3 per gallon before the decoupling. These are the prices we were getting for our milk twenty years ago.

**What has been the impact of the changed subsidy arrangements on demand for farm land?**

There are fields that are vacant and cannot be rented at all. It is for a variety of reasons that they have lost all value. It is usually very marginal country and was used for cropping. There are significant costs in converting it back to pastureland for grazing and at current prices there is no or very little return.

There has also been a demand side effect in that the economy is booming and young farmers have all gone off to work in more dynamic parts of the economy. The older farmers like me are retiring and because the new environmental subsidies are targeted at small farmers there is a real disincentive to build up farm size.

The Single Farm Payment goes to the operator of the farm so if the land is rented it does not go to the landowner. Even so, landowners are still struggling to find people to work the land and pay the costs that are being incurred on it.

**But surely there are uses for the land other than for farming?**

The drop in prices has reduced the value of agricultural land everywhere except for that which can be subdivided for rural residential uses. Unfortunately, there have been much tighter restrictions put on subdivisions in recent times and it is not always an option.

**What is the size of a typical Single Farm Payment?**

Some of the larger farms around here can receive over A\$60,000 per year, though as you can imagine there are a lot of smaller farmers receiving much smaller payments. Farms here are all very small in production compared to Australian farms.

**Does this system disappoint you as European farmers were good at applying their skills to farming production subsidies?**

I have changed my farming practices, with much reduced inputs and much reduced production, which will provide a real benefit to Australian farmers through reduced world supplies. However, I am still farming subsidies, but they

<sup>1</sup> Terry Ryan is an economist who was previously the Policy Manager at NSW Farmers’ Association. He maintains a strong interest in farm policy issues. In 2005 he visited a number of European farms.

## Feature Article (cont.)

are different subsidies this time. The subsidies I get are no longer based upon my production, instead I am farming environmental subsidies.

**What are these environmental subsidies and how do you farm them?**

There is a new set of subsidies called the Rural Environment Protection Scheme (REPS). These subsidies are meant to reward farmers for carrying out their farming activities in an environmentally friendly manner.

**What do you have to do in your farming practices that are different to what you normally do?**

Under REPS there are 11 mandatory undertakings that I have to implement and two supplementary measures that I can choose from, which are basically designed to enhance biodiversity. I get paid for the 11 mandatory undertakings and additional payments for two of the supplementary measures, which is all I am allowed.

Many of the mandated practices I have to undertake are sensible things that any reasonable farmer would do anyway. Unfortunately, not all the practices that have been prescribed for me are agriculturally logical. You can see the fingerprints of bureaucrats who have never been near a farm but are determined to create their own pristine view of what a farm should look like. They call it 'carrying out farming activities in an environmentally friendly manner'.

**If they are sensible things, they should not cause you many problems?**

The general intent sounds all very well but they get right down into the nuts and bolts of actual farming and they set the rules for everyone without knowing the specific circumstances of individual farms.

**Can you give me an example of the level of detail required?**

I will start with the first mandatory undertaking, which is for a nutrient management plan. The intention behind this plan is good – it is to promote the efficient use of nutrients in an environmentally friendly manner. There is an evaluation of all the nutrients available and required on the farm and limits are set on the application rates. There are rules for the proper storage and timely use of farmyard manure. There is nothing wrong with the philosophy but they go into incredible detail, for example according to my plan I must store my farmyard manure in a compact heap at least 2 metres high and located at least 50 metres from any road, and I can only store it on my land between 16 January and 31 October in the same year. I am not allowed to spread manure between 1 November and 31 January as well.

When I spread the farmyard manure on my land they actually tell me what type of spreader I must use. Also when I spread it, no matter what the dilution factor they tell me that I must not exceed 25 cubic metres per hectare on my fields with limestone soils and 50 cubic metres on my other fields. If I should house my animals on another farmers' property, apart from having separate housing and waste storage facilities on his farm for my cattle, I have to bring the waste back to my farm for disposal. Before there were no restrictions on when and how much manure I could spread. I would make judgments after considering weather, the state of the fields and all other normal agricultural conditions. It was not in my interest to do anything damaging or stupid. I do not mind meeting these requirements but I do think they are overly prescriptive and take no account of any changes or opportunities arising from different weather patterns or new technologies that could arise very quickly.



**Are all these requirements to look after the environment?**

The 'Environment' is pretty much a broad brush word for this scheme. One of the measures that I have to fulfill is to maintain and improve the visual appearance of the farm and farmyard. My farm and yards must be neat and tidy at all times and I must remove all unsightly materials such as tyres, old cars, old machinery and the like. I do not mind doing such things. There are a lot of other requirements in keeping things neat and tidy but the one requirement in this area that I do not fully understand is that I must use appropriate roof and wall colors. Who determines those colours and how they are determined still concerns me. Do I have to get a fashion consultant in to help me fulfil this part of my farm plan?

**How do you know what you have to do to meet the requirements of the plan to get your subsidy?**

I have to have a very detailed plan prepared by a professional planner, who is approved by the government. The plan sets

out what I must do for the next five years on my farm in each year for all the various measures. The planner tells me what I must do in all aspects of the farm such as fertiliser usage, changing my animal housing facilities and preparing my plan to get the money. To do this I also have to undertake training in environmentally friendly farming practices so that I can get the tick for meeting the requirements of the plan.

#### Is there much of a payment to you under this REPS?

For the first 20 hectares of my property I get paid an annual payment of A\$330 per hectare. For the next 20 hectares I get an annual payment of A\$290 per hectare. The next 15 hectares are at A\$110 per hectare and after that only A\$16 per hectare. Fortunately I managed to get an appropriate subdivision of my farming property for my children so the farm payments are spread over my three children as well.



Because of the diminishing payments as farms get larger, there is a real disincentive against building up farms. These payments actively discourage rational restructuring of the EU farm sector.

#### That is a very high rate of return especially on your first 40 hectares. What other supplementary measures to you get a subsidy on?

The best scheme they have put in is called LINNET Habitat. It stands for Land Invested in Nature, Natural Eco Tillage Habitats. I can only put 2.5 hectares into the scheme but I get paid nearly A\$1200 (per year) for the first hectare and A\$1000 for the remainder. The intention of the scheme is to provide food for birds. The plan requirements are very detailed, telling me when I can plant, what I can plant and even the type of crop that I must put in. For example, my crop must be 20% Brassica and 80% cereal. It is a lot of bother but it pays better than growing any cereal crop for the market.

#### You did say supplementary measures, is there another scheme that you get a subsidy on?

You can only get a subsidy on two of these supplementary measures. My second choice is the one that aims to conserve rare breeds of livestock. Keeping Irish draught horses is eligible for a payment of A\$300 per year. The Irish draught horse is the foundation stock when crossed with thoroughbreds of most successful show jumping horses. This is my hobby and I like receiving an environmental subsidy to undertake my hobby! There are other measures such as maintaining traditional orchards and for organic farming but I think there is too much work involved to justify the returns.

#### You are getting fairly significant subsidies out of this scheme and there is a huge amount of paperwork and administrative requirements to meet or you get financially penalised. You do not seem very concerned about meeting your comprehensive detailed plan. Are these requirements easier to meet than you are making out?

Of course all farmers will try to meet their plans. This is actually the third scheme of this type. The previous two were very bureaucratic and were put in place before the decoupling and lower prices forced farmers to look for other sources of income. REPS 3 was negotiated with the government with the same restrictions as the previous ones but it is much more user-friendly. The major change is that we have a code of practice specifying the period of notice that has to be provided to farmers for property inspections. These inspections ensure that farmers are complying with their plan. No longer are there short notice visits by inspectors and these are not enforced as rigorously as the previous schemes, which is why the previous schemes were not very popular. It makes the scheme much easier for farmers to earn their subsidies.

#### Do you think that there are any lessons for Australian farmers from the experience of what is happening in Europe?

There are many lessons and I do not think that they are all to your advantage. Farmers in Europe are not getting huge production subsidies anymore and that is being reflected in the decline in production, which should be good for your farmers. There is still an adjustment occurring to these lower prices but it is happening and in future trade negotiations you will not be able to blame us for distorting world markets.

However, the real worry for Australian farmers in the long-term is the impact of environmental regulation on farming practices. We at least have set the precedent that farmers should be paid to meet environmental restrictions on their farming practices and for achieving environmental goals. I know enough about Australian agriculture to know that your governments are just regulating you to do things without offering any compensation. Environmental constraints are becoming much more intrusive throughout the world and are likely to increase. We at least are starting on the right basis regarding compensation compared to Australian farmers. ☺

## Farm Policy Progression

A summary of some Australian and international farm policy developments.

### Australian Agriculture Skill Shortages

Skill shortages in the agriculture sector are the focus of several parliamentary inquiries underway in Australia at present. Nationally, the House of Representatives Standing Committee on Agriculture is inquiring into the adequacy of agricultural education and research services, the skill needs of the agricultural sector, and the future role of the Australian Government in these issues. At a state level, the NSW Parliament's Standing Committee on State Development is conducting an inquiry into the current and future demand for labour in rural and regional NSW, and the economic and social impact of the current skills shortage. Simultaneously, the Victorian Parliament's Rural and Regional Services and Development Committee is holding an inquiry into factors that influence decisions by young people to remain in rural towns and communities – with employment and career opportunities being an obvious focus. Each of these inquiries is due for completion by mid-2006.

Two underlying issues that will no doubt be considered in all three of these inquiries are the future role of governments in agricultural research, extension and education, and the potential for immigration and seasonal guest-worker programs to address some of the shortages. Despite resistance from both the Prime Minister and the Treasurer, a growing list of economic commentators and industry groups have highlighted that developing seasonal guest-worker programs with Pacific island nations makes a lot more sense than contributing ever-increasing amounts of Australian foreign aid to these countries.

### Doha Heading for a Crash Landing?

The failure of negotiators involved in the WTO Doha Trade Round to agree on the broad parameters (modalities) of a trade agreement for agriculture ahead of the agreed 30 April 2006 deadline appears to increase the likelihood that no significant multilateral agreement will be able to be reached to reform agricultural trade in the near future. WTO Director General, Pascal Lamy, put a brave 'spin' on progress in a statement released in late April urging negotiators to redouble their efforts. He summed up the current state of negotiations as follows:

Using aviation language: we have missed our 'approach to modalities'. The plane was flying at too low a speed while the head wind was too strong and the plane was heavily loaded. What we need now is to review our flight plan: maintain course, increase speed and start the final approach to modalities.

While an aviation expert might be best placed to judge the appropriateness of the revised flight plan, it is hard to avoid the conclusion that a crash landing could be the most likely outcome, given that the necessary fuel to drive the negotiations seems to be running very low!

### Valuing Farmers' Environmental Contributions

Up until recently, governments in Australia simply enacted more regulations whenever a new environmental issue emerged, despite natural resource economists repeatedly highlighting that regulations are often unlikely to achieve positive environmental outcomes, especially on farm land. The recent Australian Government commissioned report into future agriculture and food policy – 'Creating our Future' – is the latest in a series of reports highlighting the limitations of the regulatory approach, and recommending that farmers be rewarded for providing environmental services that benefit the entire community. Australian Agriculture Minister Peter McGauran reacted positively to this recommendation by announcing a second round of the Market-based Instruments Pilot Program that has been implemented over recent years to encourage farmers to provide enhanced environmental services. A number of state governments have also implemented similar programs that are being administered by regional natural resource management authorities.

Unfortunately, both the Australian and State Governments seem to be reluctant to embrace environmental incentives and Market-based programs in a comprehensive way. International experience (the US Conservation Reserve Program has been operating for over 20 years) and simple common sense reveal that to be successful, environmental services markets and incentives need to be structured to match farmer's investment horizons; typically 15–20 years. Spending vast amounts of money designing highly complex computer programs to optimise environmental outcomes from incentive programs makes little sense if farmers are reluctant to participate because they can only secure very short-term contracts.

### Australian Climate Change Policy Uncertainty

The schizophrenic approach that both Australian and State Governments have towards climate change policy was also the subject of discussion in the recent 'Creating our Future' agricultural policy review. The Australian Government is happy to denounce the Kyoto Protocol (with good reason) yet at the same time claim credit for Australia being 'on-track' to meet its Kyoto Protocol target. This is despite the

fact that it is only due to state government bans on land clearing (the costs of which are borne entirely by farmers) that official estimates of Australian greenhouse emission levels are anywhere near Australia's Kyoto targets.

Meanwhile, Australian State Governments are busily proposing various greenhouse emissions trading schemes, while three of them (NSW, Queensland and Western Australia) are at the same time the owners of Australia's largest coal-fired electricity generators, which are the single biggest source of increased emissions over recent years (and coincidentally also provide major annual contributions to state government coffers through dividend and royalty payments). Notable in state government's consideration of carbon trading schemes are recommendations to exclude the farm sector from trading, and to assume that the State owns any agriculture sector emission reductions generated to date (which would have a value of more than \$1 billion per year if tradable on the European carbon market).

If agriculture is excluded from emissions trading, then farmers will bear the full brunt of any future carbon tax, with no ability to offset extra costs by raising prices, and no opportunity to offset a carbon tax by generating on-farm credits. As a consequence, the agricultural sector is sensible to suspect that climate change policies are much more likely to harm the sector than any actual change in the climate ever will!

## Greenhouse Gas Production and Agriculture

It was notable that the recent Council of Australian Government's meeting (February 2006) requested a report by the end of 2006 on emissions intensity benchmarks in agriculture. Presumably, this indicates a future intention to either discourage or limit agricultural activities that produce higher greenhouse emissions.

This raises the question of how much is really known about greenhouse emissions generated by Australian agriculture. At the recent ABARE Outlook conference in Canberra, a little-noted paper by Richard Eckard of the University of Melbourne highlighted that while agriculture is officially regarded as contributing almost 18% of Australia's emissions, this may be over-estimated. Field research has shown that emissions arising from the use of nitrogenous fertilisers under Australian conditions are much lower than under northern hemisphere conditions. As a result, Eckard concluded that:

This work is now likely to result in emission factors for Australian agriculture being revised downwards, thereby reducing the relative contribution of nitrogen fertilisers, and agriculture in general, to the national greenhouse gas emissions inventory.

Some interesting questions arise from this research. The first concerns the robustness of Australian agriculture's greenhouse emission inventory, given that it is apparently

based on European data. Perhaps this explains the reluctance of the Australian Greenhouse Office to release comprehensive results of a major emissions audit of Australian farms that was concluded in recent years. A second question is whether the suggested revision to the national emissions inventory is ever likely to occur – given that it could further increase the focus on emissions from the stationary energy sector, something which State Governments may not be keen to have happen.

## Canadian Farmers are Revolting!

The newly installed Canadian Government was given little time to settle in by farmers, who staged a protest at Parliament House on 5 April 2006 to express concern about the future viability of Canadian agriculture. The Canadian Federation of Agriculture highlighted that during 2004 the Canadian grain price index fell by 36.8%, and during 2005 crop and horticulture prices fell by a further 15%. At the same time, the soaring Canadian dollar and steadily increasing farm input and fuel costs imposed severe constraints on farm profitability.

In response, newly installed Prime Minister Stephen Harper committed to revamp the Canadian Agriculture Income Stabilisation scheme; committed an additional C\$500 million each year to farm support programs; and agreed to allow western grain farmers to decide for themselves whether they want to continue participating in the Canadian Wheat Board marketing arrangements. The Prime Minister also committed to require an average of 5% renewable fuel content in Canada by 2010 (thereby increasing demand for grain), as well as promising to reinvigorate Canadian efforts to lower international barriers restricting agricultural trade.

## Farm Bill Season for US Farmers

The five-yearly cycle of discussion about the future of farm support programs in the US has rolled around once again, with the current Farm Bill due for renewal in 2007. Agriculture Secretary Mike Johanns has conducted an extensive series of forums throughout the US, and the consultation process is being continued by the House Agriculture Committee. In a recent interview, Johanns highlighted that the current US farm support program results in 92% of subsidies going to growers of just five crops – corn, cotton, soybeans, rice and wheat – while producers of other crops that are just as valuable receive nothing. He also noted that conservation incentives, and the requirements of the World Trade Organization were likely to gain close consideration as the next Farm Bill is formulated, as are rural development and renewable fuel programs.

The next stage will involve United States Department of Agriculture economists releasing a series of papers analysing some of the proposals arising from the consultation process, before the political horse-trading gets seriously underway after the November 2006 congressional elections.

## Farm Policy Progression (cont.)

### The Brazilian Agricultural Behemoth Continues to Boom

Brazil generated record revenues of US\$2.9 billion from export sales of agricultural products in the month of January, with sugar, alcohol, meats and soy being the biggest contributors, according to figures supplied by the Brazilian Ministry of Agriculture, Livestock and Supply. Net agricultural trade was in surplus by US\$2.4 billion for the month, and despite the embargo imposed by 56 countries due to foot and mouth disease, export sales of meats rose 28% in January, and reached US\$608 million.

Exports of soybeans rose by 133% for the month in value and 103% in volume. Prices were 14.3% higher than in the same period last year. Sales of sugar grew by 26% and of alcohol by 94.5%. Sugar mills generated revenues of US\$268.2 million from exports as a result of a 33.4% increase in bulk product prices and a 50% increase in the price of refined sugar. Alcohol prices also rose 49%. For the last 12 months, Brazilian agribusiness exports totaled US\$43.9 billion, an 11.9% increase compared with the previous 12 months, and the net agricultural trade surplus for the year was US\$38.6 billion.

### NZ Farmers and their Dogs don't like Chips

Proposals by the New Zealand Government that all dogs (including farm dogs) must in future be microchipped have raised the hackles of New Zealand farmers and presumably their dogs as well. Federated Farmers of New Zealand President Charlie Pederson said in a recent press release that farmers are contemplating a range of options including protest action in response to government proposals to press ahead with legislation making dog microchipping mandatory for all dogs. Mr Pederson explained that a requirement for mandatory microchipping of farm dogs would be of no benefit to the community, the farmers or their dogs, and would not have any impact on the frequency of dog attacks. At the same time, it is estimated that the requirement would add NZ\$3–7 million annually to farmers costs.

### Chinese Farmers to Enjoy Higher Incomes?

The formal approval by the Chinese National Peoples Congress of the 11th five-year plan in mid-March signals a change in focus for the future economic development of China, with social development and sustainability being emphasised, and efforts being made to reduce the wealth disparity between urban and rural China.

According to the *Chinese People's Daily*, while actively promoting urbanisation, the new plan will focus on building a 'new socialist countryside' based on advanced production systems, improved livelihoods, a civilized social atmosphere, clean and tidy villages, and democratic administration.

The plan proposes to focus on developing agricultural productivity. It also proposes to extend the post-farm agricultural industrial chain to let farmers benefit more from the expansion of agriculture and develop farm produce processing, freshness preservation, storage, transportation and other services. It proposes: the accelerated implementation of rural water quality projects; the connection of all towns by sealed roads; improvement of the existing rural power grid; to connect all villages with telephones and to provide internet access in every town; to complete rural healthcare and medical aid systems; to introduce nine-year compulsory education in rural areas and eliminate tuition and incidental fees for rural students during the compulsory education period.

### EU Farm Subsidies come with Strings Attached for Irish Farmers

The introduction of the Single Farm Payment system for EU farmers in 2005 brought with it new requirements to meet what are termed 'cross-compliance' conditions – such as a requirement to identify and record all livestock. According to Peter Young of the *Irish Farmers Journal*, while the number of cross-compliance inspections has declined from 18,000 farms in earlier years to 9,000 in 2005, the range of criteria that are subject to audit has increased. Approximately 18% of inspected farms incurred a penalty as a consequence of failing to meet cross-compliance requirements, which ranged from 1–5% of the Single Farm Payment.

Amongst the cross-compliance requirements that farmers are required to meet are:

- calves must be properly tagged and accurately registered on the Cattle Moving Monitoring System (CMMS) database within 27 days of birth
- all movements into and out of the herd must be notified to the CMMS database
- all animals must be accurately entered in the bovine herd register on time
- a correct passport must be available for all animals on the farm older than 27 days of age.

In 2006 a further series of cross-compliance requirements were introduced. These include checks on: the use of plant protection products; the illegal use of hormones; food safety considerations for primary food producers; and the use of feedstuff on farms. While Australian farmers sometimes express envy about the enormous extent of EU farm support measures, they certainly would not be envious of the cross-compliance requirements associated with them.

The changes to the EU Common Agricultural Policy were the subject of a series of articles published in the May 2005 edition of the *Farm Policy Journal*. 

## Following on – Dryland Salinity

# The Challenge in Changing Accepted Wisdom about Dryland Salinity

The November 2005 issue of the *Farm Policy Journal* contained a series of papers discussing Australian dryland salinity policy. Two main themes emerged from these papers. The first was that the massive planting of trees that was initially proposed as the best solution for dryland salinity is no longer technically or economically sensible in the light of improved knowledge of the problem. The second was that the initial projections of the potential future extent of dryland salinity in Australia (up to 17 million hectares of salt-affected farmland within 50 years) now appear to be significantly over-estimated, with more recent data indicating that groundwater levels in many areas have either reached a new equilibrium or are receding, and the risk of dryland salinity in those areas is diminishing.

The suggestion that the potential future extent of dryland salinity in Australia might have been over-estimated gained significant media attention. Media organisations sought comments from scientists on the validity of the suggestion, and were surprised to find that many of them agreed that the much referred to statistics were substantial over-estimates.

The issues raised in the *Farm Policy Journal* were discussed as part of a Senate inquiry examining progress in addressing dryland salinity in Australia. When asked to respond to the *Farm Policy Journal* conclusions that the dryland salinity risk had been over-estimated, both Bureau of Resource Sciences and Department of Agriculture, Fisheries and Forestry (DAFF) representatives agreed it was the case. One response from a DAFF representative was as follows:

I think it is fair to say that, with increasing knowledge, it seems the picture may be a little more optimistic than we thought from the first review of salinity risk provided by the National Land and Water Resources Audit. For instance, I believe that, while the aggregate figures in the projections for salinisation in the wheat belt of Western Australia are still remarkably high, they have come down somewhat from the projections that were published in 1999 or 2000 from that work. With better understanding, we are also seeing the mechanisms of salinity and understanding them better. ... we are seeing that the hazard in eastern Australia is more specific and perhaps more manageable, so the picture is more optimistic than we thought.

However, contrary to this view, another witness to the Inquiry stated that the more positive outlook on dryland salinity in recent years was simply a function of the current run of dry years, which would have resulted in groundwater levels declining. The witness cautioned that as a result of the drought: 'We are having a bit of a honeymoon or spell

from dryland salinity at the moment'. A number of others have subsequently made similar comments, the implication being that the 2000 audit estimates remain appropriate.

The comment that the current dry climatic conditions are creating a false dawn in relation to groundwater levels, and hence salinity risk, is interesting because a common feature of the 2000 audit was a decision to ignore seasonal factors (which were inflating salinity estimates) in calculating future projections. Authors of state salinity reports noted that no adjustment had been made for prevailing climatic conditions (which were often wetter than normal in the early 1990s) in developing projections of the rate that groundwater levels were rising.

In several cases (notably in NSW), 50-year future projections were based on just two readings of groundwater levels in bores that were taken just a few years apart. And as a number of authors have highlighted, new bores are most commonly drilled during drought periods, which inevitably means the initial groundwater level recorded for that bore will often be below 'normal' levels. Any subsequent reading of groundwater levels in that bore will inevitably indicate a rising groundwater trend.

The exception was the salinity audit report for Victoria, which provided two projections of the future extent of dryland salinity in that state – one using groundwater level changes during a relatively dry 10-year period, and the second utilising groundwater data from a relatively wet four-year period. Using the data from the 'wet' four years and projecting forward linearly resulted in a future salinity estimate more than double that derived from the dry period. Despite the authors acknowledging the trend observed over the 'wet' period was not representative of a longer timeframe, this worst-case 'wet' estimate was the one used to calculate projections in the final audit report.

The information before the Senate Committee obviously created some unease, prompting it to recommend that updated assessments of salinity risks be undertaken, followed by detailed mapping of high risk areas.

Whether this will actually happen is an interesting question, as it would entail extra expenditure and concerted dryland salinity monitoring efforts by state governments. In addition, if the results do indicate that the risk of dryland salinity is not as great as previously thought, it might result in that state government receiving less commonwealth salinity funding – an outcome the State Governments might not be happy with!



## Research Program Update

# 2006–2007 Program Development

Following on from the 2005 Strategic Roundtable Conference held by the Australian Farm Institute, the Institute's Research Advisory Committee met during February 2006 to develop a portfolio of research projects. The Committee identified four issues of strategic importance to agriculture and has now finalised Terms of Reference for research projects into these issues. A brief summary of each research project follows.

### Value of Environmental Services Provided by Australian Agriculture

Australian farmers are increasingly being called on to provide public-good environmental services and, despite much discussion, little has been done to secure sensible remuneration arrangements for the provision of these services.

A major reason for this failure has been the lack of objective, robust estimates of the value of environmental services provided by farmers. In the absence of such information, communities will always perceive payments to farmers purely as a cost, rather than as a purchase of a valued benefit.

Given the generally negative community sentiments that exist in relation to the impact of farming on the environment, there could be substantial advantages in the sector having available some estimates of the value of the environmental services it provides. This would act as both an alert for the wider community about those services, but also as a step along the pathway towards having the community recognise and potentially contribute at least some of the cost associated with the provision of those services.

The objective of the project is to develop objective and robust estimates of the value of environmental services provided by Australia's farm sector.

### Impact of Changing Global Diets and Energy use on Australian Agriculture

Increasing wealth and changing energy demand in developing countries is leading to significant changes in demand patterns for Australian agricultural exports. As developing country populations increase the proportion of animal protein in their diets, it is likely that demand for grain for stockfeed will increase, and trends suggest that demand for grain for human consumption will remain relatively static. At the same time, oilseed and dairy products are both experiencing increased demand, which is likely to continue. Understanding these changes and planning for them will be a critical future requirement, and the aim of the project is to develop sound projections of future demand as a basis for strategic planning.

### Relative Availability of Essential Services in Regional Australia

It is generally acknowledged that essential services that are available in regional Australia and the infrastructure that provides them have declined and continue to decline in comparison with services available in major urban areas, and that this decline is partially contributing to unacceptably high rates of de-population in regional areas.

Despite years of agitation, regional Australians have not been able to secure concerted government action to ensure some parity exists in the availability of essential services in urban and regional areas.

The research project aims to provide a critical tool to overcome this by developing some objective comparisons of the availability and cost of essential services in regional and urban Australia.

By objectively quantifying the cost differentials of accessing essential services between regional and urban Australians, the project aims to provide a means of ensuring that regional essential service availability does not become a limit on future regional growth in Australia.

### Future Labour & Skill Needs of Australian Agriculture

Regional population decline and the changing nature of farm enterprises are resulting in labour and skill shortages in regional Australia. While various initiatives to address these shortages have been proposed, there has been no overarching analysis of the labour and skill needs of the sector, either currently or, especially, in the future.

The research project aims to address these questions by examining three basic issues pertinent to planning for the future skill needs of the agricultural sector:

1. To examine current and likely future changes in the sector specifically as they relate to labour and skills requirements.
2. To identify changes and trends that are occurring in the sector in relation to labour and skill needs.
3. To develop likely projections of the future labour and skill needs of the sector over the next 10–20 years.

The project will result in the development of a much clearer picture of future labour and skill needs of the sector, enabling the development of well-structured programs to ensure future needs can be met. 

## Farm Policy Journal Update

# Drought Policy – Will Progress Ever be Made?

One of the longest-running debates in Australian agriculture is the debate concerning drought policy. Seemingly every new drought brings with it calls for either abandonment, reform or enhancement of drought support measures, often with little objective reference to the results of policies that have gone before. The end of a drought usually brings with it the end of drought policy discussion, only for the topic to again re-emerge as a new drought occurs.

Given the experiences of the 2002–2005 drought, which is still having an impact in many areas of Australia, now is an appropriate time to seriously evaluate Australian drought policy while recent experiences are still fresh in policy-makers' minds. The May 2006 edition of the *Farm Policy Journal* will contain a series of papers discussing Australian drought policy with the emphasis being not so much on what is deficient about current policies, but what steps might be necessary to move towards a better set of policies. Papers in this edition of the Journal have been written by policy-makers from a range of different backgrounds and include:

- **Peter Arkle** is a Policy Manager for the National Farmers' Federation. His paper traces the history of drought policy development in Australia, highlighting the significance of the 1992 National Drought Policy agreement, which aimed to encourage self-reliance by farmers in response to all except the most severe droughts. Arkle's paper challenges some of the commonly held views about the extent to which Australia's current drought policies discourage self-reliance.
- **Bill Malcolm** is a Professor of Agricultural Economics at the University of Melbourne. His paper examines developments in drought policy over the past 30 years, concluding that many of the arguments used in support of public funding being made available for farmers affected by drought do not stand up when subject to close scrutiny. The paper discusses developments in financial instruments that will allow farmers to trade drought risk, and stresses the importance of a wide range of transparent information systems in the development of more appropriate drought policies.
- **Arthur Ha** is an agricultural economist with the Victorian Department of Primary Industries. The paper by Ha and his colleagues examines the characteristics of both recipients and non-recipients of drought assistance during the current drought. They conclude that recipients of drought funding tend to be owners of larger farms with more assets and higher debt. The

paper evaluates a range of drought policy proposals against principles such as the need to avoid adverse selection and moral hazard. A contract-based approach is proposed as a better alternative than current policies.

- **Rob Brown** is a financial advisor with 20 years experience of working with farmers. He argues that current drought policies have little impact on farmer decision-making pre-drought, but that drought relief is inappropriately targeted at a minority group of farmers and does little to achieve drought policy objectives. The paper proposes a series of initiatives to help farmers respond to drought, including research and development investment, improved information systems, psychological support systems, and mandated consideration of drought risk when arranging financial, land and water transactions.
- **Bruce Chapman** has long been a proponent of income-related loans as an alternative to government payments. The paper prepared by Bruce Chapman and his colleagues proposes that income-related loans would be a preferable form of drought support, with farmers required to repay the loans once threshold levels of gross farm income are achieved post-drought. The paper addresses the administrative issues associated with such arrangements, and provides some modelling results of differing repayment regimes. It highlights that administrative costs associated with income-related loan schemes are quite low.
- **Jim McColl** has a long history of involvement in the development of drought policy in Australia. In the paper prepared with Mike Young, he argues that attempts to impede structural change by providing farmers with drought support are often misguided, and can backfire on people, regions, resource productivity, industries and the national economy. The paper argues that improving institutional arrangements in relation to the rights and obligations of resource users, and providing better information and training systems for farmers is more likely to produce positive long-term outcomes than current policy settings.

This edition of the *Farm Policy Journal* will be released on 5 June 2006 and can be viewed at [www.farminstitute.org.au/publications/journal2](http://www.farminstitute.org.au/publications/journal2) 

# Australian Farm Institute Publications List

## Research Reports

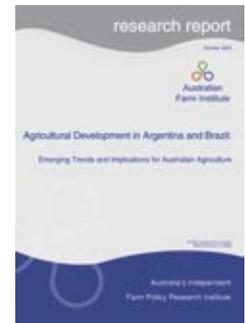
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Vertical Contracting and Australian Agriculture: *Discussion of current trends and implications for farmers and policy-makers*

Agricultural Development in Argentina and Brazil: *Emerging Trends and Implications for Australian Agriculture*

Australian Farm Sector Demography: *Analysis of Current Trends and Future Farm Policy Implications*

Australia's Farm-Dependent Economy: *Analysis of the Role of Agriculture in the Australian Economy*



## Farm Policy Journal

Members A\$27.50 (Incl. GST) & Non-members A\$44 (Incl. GST)

agricultural research & development – a private future?	Vol. 3   No. 1   February Quarter 2006
salinity and native vegetation – policy solutions required!	Vol. 2   No. 4   November Quarter 2005
marketing on-farm environmental services – any buyers?	Vol. 2   No. 3   August Quarter 2005
EU agricultural policy – reforming or rebadging?	Vol. 2   No. 2   May Quarter 2005
industrial agriculture – farming the food chain	Vol. 2   No. 1   February Quarter 2005
climate change – can agriculture take the heat?	Vol. 1   No. 3   November Quarter 2004
biotechnology - agriculture's gene revolution	Vol. 1   No. 2   August Quarter 2004
the future of farmers and farming	Vol. 1   No. 1   May Quarter 2004



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