

The Australian Workers' Union

Submission to the Australian Fair Pay Commission

Minimum Wage Review 2008

Introduction

In July 2007, the Australian Fair Pay Commission (AFPC) decided to exempt farm businesses which qualify for an exceptional circumstances (EC) interest rate subsidy under the existing drought relief arrangements from immediately passing on the Minimum Wage increase of \$10.26 per week. The AFPC placed a twelve month freeze on the flow on of its decision to affected farm business employees from the date its decision came into force (ie until 1 October 2008).

The AWU considered the decision to be disappointing and backward looking.¹

The AFPC's decision was in response to submissions by the National Farmers' Federation (NFF) that an exemption should apply to all recipients of EC assistance. The AWU argued against such an exemption on the grounds that the outlook for the farm sector was forecast to improve and that the sector needed to attract and retain skilled workers in order to prepare for recovery.² The farm sector is set to earn \$31 billion in exports in 2008-09, but the outlook is under threat if workers do not get a fair go.

This submission urges the Commission to review its decision to place a freeze on the flow on of its wage decision - affecting thousands of agricultural workers - with a view to removing this condition forthwith in line with the general improvement in the economic prospects in the farm sector.

There is also a lag in being drought declared and the actual situation on the ground which is likely to add to delays in the receipt of wage increases for those workers who are employed on farms which should no longer be eligible or entitled for EC assistance but will continue to receive it. Prior to October, as long as these farmers continue to benefit from the public purse, their workers will miss out.

The AWU agrees with ABARE's assessment that reliance on interest rate subsidies can impede decisions promoting more efficient and productive farming, promote excessive levels of debt and delay adjustment decisions.

The AFPC's decision rewards bad farm management practice because it has allowed eligible farmers to pass onto workers the costs of managing fluctuations in cash flow caused by climate variability at a time when better farm management practices are required to manage these risks.

The AWU wants to emphasise the issues of regional Australia.³ The Bush is where the AWU - the oldest union in Australia - started. The Union is especially proud of the fact that more than half of the AWU membership lives and works in regional Australia. The AWU will campaign to secure the jobs of members in regional Australia and to expand investment and jobs in the regions to provide opportunities for AWU members' and their families.⁴

Background

2007 Basic Wage Decision

The AWU considered the AFPC's decision to exempt farm businesses which qualify for an EC interest rate subsidy was aimed at appeasing the NFF.

Our submission on the other hand argued that the outlook for returns in the agricultural sector were predicted by Treasury to be positive in 2007-2008 and beyond. At the time of its submission, the AWU argued the outlook for the farm sector is much brighter than even a few months ago. Recent rains and record agricultural prices have confirmed the AWU's view that the freeze in pass-through of the Minimum Wage Decision until October 2008 was unjustified. The Reserve Bank of Australia (RBA) in its February Statement on Monetary Policy⁵ and the Australian Bureau of Agricultural and Resource Economics (ABARE) in its latest Australian Commodities outlook⁶ have confirmed the outlook for the farm sector

The AWU shares the views of the ACTU at the subsequent hearings of the Australian Industrial Relations Commission on the treatment of the various Awards affected by the AFPC's 2007 decision that in any industry there'd be some employers who are doing quite well and others that aren't doing well. There is a view that those employers that are receiving interest rate subsidies in agricultural, horticultural and pastoral industries would not be capable of providing wage increases, moderate as they might be, to workers in those industries. That is a position however which is in dispute.

We continue to believe there is no blanket incapacity to pay in those industries, or indeed a blanket incapacity to pay for wage increases to any employee or any employer in those industries. In fact, circumstances are continuing to improve for many farmers.

Outlook for the Farm Sector

Rural commodity prices have picked up significantly over the past year.⁷ Following the recent rainfalls, the outlook for the rural sector in the year ahead has improved substantially.

Based on information from ABARE and other rural agencies, farm output is expected to increase by 2 per cent in 2007-08, after falling substantially in 2006-07. [Note, this is consistent with Treasury's Budget time estimate of a positive contribution by the farm sector to GDP.]

The 2007 wheat crop was estimated by ABARE in December to be 12.7 million tonnes, around 30 per cent higher than the 2006 crop, although well below the average annual crop. However, wheat prices have doubled in the last year.⁸

As the RBA notes, climatic conditions in the farm sector have improved over recent months. Consistent with changing weather patterns associated with the La Nina weather system, recent rainfall across many of the major cropping regions has been well above average; severe flooding was experienced in north-east New South Wales and south-east Queensland. The long-range outlook is for average or above-average rainfall for the next few months.

While heavy rains are likely to disrupt farm production in the short term, the RBA notes the outlook is becoming much more positive for 2008-09. The recent rain has resulted in a significant improvement in flows into the Murray-Darling system in January, while water storage in Queensland has also increased significantly.

Rural bank, Rabobank nominates cereal, dairy, wool and sugar as some of the key agricultural segments well placed to capitalise on an improvement in fortunes.⁹ Rabobank's Australian Agriculture in Focus report notes that subject to rains, grain and crop farmers had the brightest outlook for 2008.¹⁰ The report notes that it is extremely likely that (grain and oilseed) farmers, should they have a crop to sell, will achieve prices well above long-term historical averages.

Adding to the cyclical improvement, the report notes a structural uplift in pricing is emerging for agricultural commodities. based on higher food demand driven by global population growth and increasing global wealth, the emergence of new demand from the energy sector for biofuels and a limited ability to grow supply rapidly enough to match demand growth.¹¹ There is a growing consensus that we are in the midst of a soft commodities boom based on a fundamental shift in demand that would underpin commodity prices for at least the medium term, if not the long term.¹²

The National Farmers' Federation-Westpac Commodity Index indicates that agricultural commodities rose 21.8 per cent in Australian dollar terms in the past year. The National Australia Bank has forecast farm GDP would rise \$2 billion to about \$7 billion, and add about half a percent to overall GDP in 2008-09. Farm production could rise almost 30 per cent while farm income is forecast to rise 43 per cent.¹³

In its most recent Commodities outlook¹⁴, ABARE note that if seasonal conditions are average, the value of farm exports is forecast to be \$31 billion in 2008-09, an 18 per cent increase on the previous year.¹⁵

Export earnings are forecast to increase for grains and oilseeds, cotton, sugar, wine, beef and veal, lamb and most dairy products. If grain growing areas receive a good autumn seasonal break there is a very good chance of a bumper winter grains crop in 2008-09, the report says.

Some sheep flock and cattle herd rebuilding is also expected to take place, if there are reasonable conditions. The report indicates that the medium-term outlook for Australia's agriculture sector is strong in historical terms as a result of high global commodity prices and continued high levels of farm equity.

It is recognized that a sustained period of well-above-average rainfall will be needed to return the irrigated sector to more normal conditions over the medium term. However, the AWU does not believe that the AFPC considered that the farm sector employees should be held hostage to a medium term timetable before benefiting from *any* wage increase. On these grounds, it also makes little sense to retain an arbitrary timetable for the wages freeze of 1 October 2008.

Given recent rains and the underlying strength of commodity prices, the AWU believes the pace of transition from a drought focus to one of looking to maximize production - in order to take advantage of higher prices as quickly as possible - is occurring. Already the Queensland Government has officially declared SE Queensland drought free alongside water consumption measures and thresholds for when water restrictions can be lifted.¹⁶ It has been reported that some growers in north western NSW are experiencing their best season in over 50 years.¹⁷

Because of tighter financial conditions and slower world growth, growth in non-farm GDP is expected to slow from the strong rate of 4.5 per cent seen over the year to the September quarter 2007, to around 2.75 per cent over 2008 and 3 per cent over 2009. However, with farm sector output expected to recover over the next year or so, total GDP growth is forecast to be stronger than non-farm growth over 2008, at around 3.25 per cent.¹⁸

In fact, higher farm sector GDP helps to offset some of the decline in non-farm sector GDP resulting in total GDP falling only slightly from 3.5 per cent to 3.25 per cent for the 2008 calendar year.

Don White of the consultancy firm Weatherwatch has been reported as saying there were always two types of drought in Australia, meteorological and political. "Some of my clients are telling me they are heading to their best season ever, yet they are still drought-declared."¹⁹

The AWU is concerned that there is little incentive for farmers or their representatives to seek the removal of drought declaration and therefore eligibility for EC assistance when public subsidies and limits on workers wages apply to eligible recipients. With the rapid improvement in seasonal conditions, the administrative and bureaucratic delays associated with processing the changing status of drought declaration across Australia will mean that many farmers may be still drought declared but experiencing their best seasonal conditions in a generation.

At the same time, farmers will be positioning to take advantage of improved demand conditions noted above. The wages freeze is in these circumstances an impediment to recovery in the farm sector. The AWU believes the AFPC should be anticipating this change in circumstances as soon as possible in order to a) acknowledge the change in the actual situation well in advance of the expiry of its 2007 Decision; and b) to provide incentive and reward for achieving higher output with the cooperation of the farm sector workforce.

Why the freeze should now be lifted

Living Costs

Mortgage rates are likely to continue to rise after the RBA indicated it expected inflation will exceed its target until 2010.²⁰ The RBA has revised up its expectation for inflation this year from 3.25 per cent to 3.5 per cent, well above its target band of 2 to 3 per cent.

"Absent a further shift in economic risks to the downside, monetary policy is likely to need to be tightened in the period ahead," the Statement said. The warning came before the Reserve Bank lifted its cash rate to the highest in over a decade to 7.25 per cent on 4 March. The AWU agrees with the comments by Prime Minister Kevin Rudd that the latest rise in official interest rates is a double blow for families still struggling with last month's increase.²¹

As farm sector workers are not exempt from these interest rate increases, it is vital that their ability to cover their repayments is enhanced with the immediate follow on of the 2007 Minimum Wage Decision. Further delays will see these workers fall further behind.

To fight inflation the Rudd Government needs to promote a new economic partnership involving unions, business, community groups and government.²² The AFPC needs to recognize its own role as well and play its part.

Investing in our regions and building for recovery

Apart from mining, farming is the biggest industry in regional Australia. It employs over 355,000 people (3.8 per cent of the workforce), produces \$27 billion gross domestic product and ranks second in value of exports. The farm dependant economy of processing, manufacturing and distribution represents 12 per cent of GDP and 17 per cent of employment (2.8 million people).

We need to encourage renewal in our regions by attracting investment - including from our superannuation funds – to our regions rather than see investment turn away from them. The AWU's aim is to contribute to building thriving communities which ensure young people can choose to stay in country towns. The financial attractions of the mining boom

will be on-going. It is critical at this time that the farm sector remains competitive in order to attract and retain skilled workers who are vital to increased productivity and growth.

The nation needs its second wing to fly. This means vibrant, productive and sustainable regions to complement our capital cities.

Investors such as Australian Farms Fund see it as a great time to be looking to invest in real assets - such as farm land and water. These real assets produce real goods. We need farm produce to ensure we remain self reliant for our food and fibre. In addition, we are well placed to supply China, India and other growth markets in Asia and the Middle East.²³

It makes good sense for a balanced and diversified portfolio to invest in the farm sector. Real assets, producing real goods in regional Australia means real jobs and career paths. It also means good returns. The better farms' total returns over the last 30 years have only been slightly less than shares - the best performing asset class over the long term - and they have beaten commercial property by close to 20 per cent per annum.²⁴

Rewards bad management practices

The AWU notes ABARE's critical view of the effectiveness of current drought policy in limiting farmers' ability to make changes that increase production and efficiency. ABARE's conclusion is that business support measures such as interest rate subsidies can distort the decisions that "farmers might otherwise make to pursue productivity gains, encouraging the accumulation of excessive levels of debt or delaying adjustment decisions."²⁵

Importantly, the report goes on to note that measures such as the interest rate subsidy appear to reduce the incentive that farmers have to use risk management tools such as farm management deposits to manage fluctuations in cash flow caused by climate variability."

The Fair Pay Commission's wage freeze decision is a blunt instrument which rewards bad farm management practice because it allows farmers to pass onto workers the costs of managing fluctuations in cash flow caused by climate variability and avoid implementing appropriate risk management practices.

Conclusion

The best performing farms do not rely on government drought assistance payments and wage exemptions.²⁶ The best farmers make good profits due to their scale and diversification, e.g. operating in various locations and good management practices.

Reliance upon a wages freeze is exactly the wrong message which the sector should be sending its workers and potential workers. It makes a decision on whether to take a higher paying job in the mining sector away from home all the more easy to make.

The sector does not need handouts and protection. It needs to encourage top tier productive sustainable farm management practices by attracting investment, retaining skilled workers, attracting new workers and a commitment to skill and train. This is surest way for the whole sector to stand on its own feet, recover from drought and thrive in the years ahead. The AWU stands ready to assist in this effort.

The AWU urges the AFPC to consider carefully the most recent objective information on the outlook and prospects for the sector, including from ABARE's Australian Commodities outlook and Outlook Conference, rather than relying on the views of particular vested interest groups.

Endnotes

¹ Rural Workers Punished by Wage Decision, July 2007, http://awu.net.au/national/news/1183610311_19281.html

² Submission to The Australian Fair Pay Commission, Australian Workers' Union Response to Submissions by the National Farmers' Federation to the Australian Fair Pay Commission 2007 Minimum Wage Review, http://www.fairpay.gov.au/NR/rdonlyres/08EA4F3A-38C9-4EAA-96BB-8E652628DCE2/20526/Australian_Workers_Union_Submission_2007.pdf

³ Making our regions the engine room of Australia's economy, Paul Howes, AWU National Secretary, 31 January 2008, http://awu.net.au/national/news/1201732942_3765.html
And Rural Jobs Push - a National Priority, Paul Howes, AWU National Secretary - **30 January 2008**
http://awu.net.au/national/speeches/1202424268_9897.html

⁴ Also see address to the National Press Club by Paul Howes, National Secretary, AWU on 30 January 2008.
http://awu.net.au/national/speeches/1201745104_12358.html

⁵ Reserve Bank of Australia, STATEMENT ON MONETARY POLICY, February 2008, http://www.rba.gov.au/PublicationsAndResearch/StatementsOnMonetaryPolicy/statement_on_monetary_0208.html

⁶ ABARE, Australian Commodities, March quarter 2008
http://www.abareconomics.com/publications_html/ac/ac_08/ac_march08.pdf

⁷ As above

⁸ Farmers hope for great year, Darren Gray, February 13, 2008 <http://www.theage.com.au/news/national/farmers-hope-for-great-year/2008/02/12/1202760299461.html>

⁹ As above

¹⁰ The report is also upbeat about the prospects for the dairy industry this year, largely thanks to a boom in global demand for dairy products. It attributes the surging global demand to increasing urbanisation and westernisation in developing countries, and heavy promotion of dairy produce.

¹¹ Australia's 2008 Farm Outlook Optimistic – Rabobank. Ray Brindal, Dow Jones Newswires <http://www.loyds.com/CmsPhoenix/DowJonesArticle.aspx?id=381050>

¹² Farmers to reap record grain prices, Asa Wahlquist, Rural writer | *February 20, 2008, The Australian*

¹³ As above

¹⁴ ABARE, Australian Commodities, March quarter 2008 http://www.abareconomics.com/publications_html/ac/ac_08/ac_march08.pdf

¹⁵ Commodity earnings to hit record levels. The Age, 4 March 2008

¹⁶ SE Queensland declared drought-free, Andrew Fraser | *February 11, 2008* <http://www.theaustralian.news.com.au/story/0,25197,23194565-11949,00.html>

¹⁷ Rains wash away much of drought, John Stapleton and Ryan Emery | *February 11, 2008* <http://www.theaustralian.news.com.au/story/0,25197,23191599-11949,00.html>

¹⁸ Reserve Bank of Australia, STATEMENT ON MONETARY POLICY, **February 2008**, p30 http://www.rba.gov.au/PublicationsAndResearch/StatementsOnMonetaryPolicy/Statements/statement_on_monetary_0208.pdf,

¹⁹ Rains wash away much of drought, John Stapleton and Ryan Emery | *February 11, 2008* <http://www.theaustralian.news.com.au/story/0,25197,23191599-11949,00.html>

²⁰ RBA flags rate hikes, **Jessica Irvine**, February 11, 2008 Sydney Morning Herald

²¹ **RBA lifts rates to 7.25% will monitor inflation outlook , 4-March-08 by AAP**, <http://www.wabusinessnews.com.au/en-story/1/61189/RBA-lifts-rates-to-7-25-will-monitor-inflation-outlook>

²² Making our regions the engine room of Australia's economy, Paul Howes, National Secretary, AWU 31 January 2008, http://awu.net.au/national/news/1201732942_3765.html

²³ **AWU is on the right track (Australian Farms Fund)**, Arthur Apted, Executive Chairman, 1 February 2008

²⁴ As above

²⁵ ABARE, Australian Commodities, March quarter 2008 http://www.abareconomics.com/publications_html/ac/ac_08/ac_march08.pdf, p28

²⁶ According to Australian Farms Fund, the Federal Government has paid out over \$1.2 billion over the last five years, \$4.6 million per week. The state governments have also made large payments and concessions.