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Australian Land Management Group submission on the implementation of a National Food Policy---to deliver a “*sustainable, globally competitive, resilient food supply, supporting access to nutritious and affordable food*”

Overview

The draft National Food Policy (NFP) rightly places considerable weight on the need for continued innovation.

There has been substantial innovation and structural adjustment in the farm sector over the past century or so leading primarily to increased production. Notwithstanding reasonably constant aggregate real farm costs this increased production has not been sufficient to offset lower real prices leading to lower aggregate real net farm income. The end result is a less profitable and less resilient farm sector with consequential increased pressure on the natural and social fabric.

This experience highlights the need to more deeply consider the purposes of innovation and its directional impacts on structural adjustment, particularly given the current emphasis on global and domestic food security. Arguably the focus should move away from production for production sake towards a more profitable and resilient farm sector with due regard to protecting the natural and social fabric. We need to find ways to more widely differentiate Australian farm products to enable them to be more competitive in higher priced markets.

The draft NFP identifies one important trend that being consumers are increasingly seeking information about the attributes of their food, including the nutritional benefits, production methods and environmental sustainability; and that empowered and informed consumers drive innovation and competition in well-functioning markets. One way to respond to this trend is to use verification systems to enable credence attributes to be embedded in food and fibre products.

There is an equal need for innovation in government policy and practice. The NFP initiative is an innovation in policy. However the benefit of the NFP will be miniscule unless there is parallel innovation in practice.

Our¹ focus is primarily on improving the interdependent environmental and profitability impacts of management.

There has been exponential growth in the emphasis from governments on improving land based environmental outcomes. However there has been little innovation in the instruments used with continued heavy reliance on regulation and on grant allocations.

The integrative and market-based themes underpinning the draft NFP provide foundations for a re-balancing of the policy instruments used by governments for securing environmental and related profitability and social outcomes. In particular governments could consider supporting true² market-based environmental verification systems.

An effective and efficient way for governments to support market-based environmental verification systems would be by channeling some environmental expenditure through such systems. To some extent this mechanism would replace project grants which invariably are short term, narrowly focused, have high transaction costs and have limited impact on private sector expenditure generally. Such an innovation would be transformational. It would have on-going and substantial impacts on the direction of private sector expenditure. This impact on expenditure generally is an absolutely critical consideration for the ratio of private sector expenditure to public sector grants through the Caring for our Country program is of the order of 150 to one³.

¹ The Australian Land Management Group (ALMG) is a landholder not-for-profit organization formed in 2003 to support landholders improve environmental and animal welfare outcomes in ways that enable their achievements and those of their support organizations and companies to be recognized and rewarded.

ALMG designed and manages an internationally recognized Certified Land Management (CLM) system. It is an integrating market-based initiative which could give effect to many of the draft National Food Policy (NFP) objectives, in particular the objectives of improved productivity and resilience.

CLM delivers private and public goods and benefits. It is a true market-based instrument open to all purchasers and providers. One of the many options open to government to support the NFP is for governments to use CLM to procure outcomes sought through regulation and project grants.

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² Distinguished from programs such as the Environmental Stewardship program which, although referred to as a market-based system, is in effect simply a way to use tenders to allocate project funds for a narrowly specified product. Unlike a whole-of-property environmental verification system the Environmental Stewardship program has no positive effect on the overall functioning of the property or on the competitiveness of the food and fibre products produced from that property.

³ ALMG defines land based environmental management as the management of the potential and realized environmental impacts of the activities of land managers with all activities potentially having positive or negative impacts. In contrast the ABS and related organizations define natural resource management (NRM) as the management of the natural resources leading to an arbitrary inclusion or exclusion of expenditure deemed to be NRM expenditure.

The National Food Plan

The Australian Government is developing Australia's first National Food Plan (NFP) to better **integrate** all aspects of food policy. The high level outcome is to ensure a sustainable, globally competitive and resilient food supply that supports access to nutritious and affordable food.

To achieve this outcome the government proposes to focus on the following objectives, helping the government better integrate what it already does and to help identify if and where a better approach might be needed.

- Identify and mitigate potential risks to Australia's food security
- Contribute to global food security
- Reduce barriers to a safe and nutritious food supply that responds to the evolving preferences and needs of all Australians and supports population health
- Maintain and improve the natural resource base underpinning food production in Australia
- Support the global competitiveness and productivity growth of the food supply chain, including through research, science and innovation
- Reduce barriers faced by food businesses to access international and domestic markets
- Contribute to economic prosperity, employment and community wellbeing in regional Australia.

The draft NFP documents state that the Australian Government will continue to support the sector's competitiveness and productivity to help it reach its full potential in the coming decades. Importantly the government will continue investing in innovation to help the food industry find smarter ways to do business. This includes public investments, providing incentives for private investment and encouraging the adoption of new technology.

Overall, the government believes a **market-based approach** remains the best way to help Australian food businesses take advantage of future opportunities.

Consumer desire for readily available, affordable, convenient and safe foods is influencing food supply chains globally and locally. Consumer choices affect what Australia produces and how it is produced and marketed.

One important trend is that consumers are increasingly seeking information about the attributes of their food, including the nutritional benefits, production methods and environmental sustainability. Empowered and informed consumers drive innovation and competition in well-functioning markets.

Principles for action

The draft National Food Plan (NFP) and related documents put forward several important principles for action, including:

- The need to better integrate across all aspects of food policy and across what government already does
- The use of market-based approaches to enable industry to take advantage of opportunities
- Empowered and informed consumers drive innovation and competition in well-functioning markets
- Consumers are increasingly seeking information about the attributes of their food including in relation to environmental sustainability.

Delivering outcomes

Analyses of the performance of the food sector and more particularly of the farm sector are peppered with references to productivity, competitiveness, terms of trade and the cost-price squeeze. Political and industry leaders talk of Australia having the world's most efficient farmers managing sixty percent of the country's land based resources, all driven by a Landcare ethos.

The achievements of the Australian farm sector have been truly phenomenal. However the farm sector's future is threatened by mythologies and by failure to unbundle the analytical and rhetorical.

Productivity gains have been achieved primarily through massively increased production enabled by technological innovation and structural readjustment leading to larger and fewer operators. The cost-price squeeze is essentially a consequence of falling real prices at constant aggregate real costs.

The simply expressed outcome is more production at substantially lower aggregate real profit.

This economic pincer movement results in increasing pressure on productive resources, in particular on the natural resources and the social fabric of rural Australia. All else being equal this translates into lower environmental and social resilience. Consequently improved profitability and resilience of the Australian farm sector need to be taken as key foundations of the NFP.

Improving profitability and resilience will require multiple integrating and integrated strategies. It is not our purpose in this submission to canvass all such strategies. Rather this submission focuses on just one such strategy and that is to support a voluntary system to enable market and non-market recognition of improving environmental and animal welfare. Australia's strong natural resource base and institutional capacity give it a unique capability to differentiate food and fibre products and services through a system incorporating the costs and benefits of environmental and animal welfare management in market-based arrangements.

If well designed such a system would enable:

- Product chain operators to more effectively compete in higher priced markets---through strengthened product and service differentiation
- Consumers to express their demands for information on production methods and environmental sustainability---hence driving innovation and competition
- Improved environmental and animal welfare management---through strengthened motivation and capability
- Improved effectiveness and efficiency of public sector expenditure ---through participation in a market-based mechanism to achieve public policy objectives.
- Evolution of new drivers to contribute to the outcomes sought through the NFP.

Why involve government?

Time and time again one hears commentary along the lines that if there is a market demand for improved environmental performance then a market will emerge. There is also the related observation that consumers do not give preference to environmentally credentialed products.

These positions seemingly reflect a lack of appreciation of the universal involvement of government in how markets function and of the difficulties in expressing preference for credentialed products if they cannot be accessed or at least not easily. The rationale for public sector support to establish market-based instruments to empower communities and consumers is further strengthened by there being:

- Market failure arising from the full or part public good nature of the outcomes and from externalities
- Substantial organizational impediments to integration, including the product-by-product charters of the dominant statutory organizations, and
- The long and often indeterminate lag times between investment and improved environmental outcomes

In short the market-based approach (and even more so a broadly based recognition approach which enables both market and non-market drivers) addresses the causes rather than the symptoms of less than socially optimal investment.

A consideration beyond whether government should be involved is the question of how governments should best be involved.

The draft NFP states that the government believes a market-based policy approach remains the best way to help Australian food businesses take advantage of future opportunities.

The literature on innovation and more generally on public sector instruments gives prominence to the potency of government procurement policies. When one combines this thinking with the NFP principles, particularly those relating to integration and the use of market-based mechanisms, one inescapably concludes that government should seek to achieve policy objectives, particularly those relating to resilience, through participation in a voluntary system that enables market and non-market recognition of improving environmental and animal welfare.

This approach enables multiple purchasers to relate to multiple providers hence sharing the costs across multiple investors and the benefits across multiple beneficiaries.

What not to do

Too often enquiries and their resultant reports focus only on what should be done and not on what should not be done. The draft NFP goes some way to avoid this problem in that it states in broad terms what governments won't do. It is useful to take this to a more detailed level to avoid interventions that have unintended adverse consequences.

The first thing not to do is to portray allocation of public funds through a pricing mechanism as a market-based instrument; they are simply illustrations of a purchaser-provider model essentially little different to systems based on competitive grant allocations. The Environmental Stewardship Program and various smaller programs operated by Catchment Management Agencies/Regional NRM organizations use a pricing mechanism to select preferred providers. These programs do not enable multiple purchasers to interact with multiple providers. Invariably they incur high purchase and /or transaction costs.

The second thing not to do is to artificially constrain the market to particular ecological components or to particular industries. Rather what is needed is an ecologically sound approach to defining the product and for the system to operate on a whole-of-farm basis that is, across land uses/industries. To segment ecological performance into bits is to ignore interactions and interdependencies hence markedly increasing the probability of the so-called bio-perversity problem. To establish markets incorporating credence attributes for each agricultural industry would be to ignore the fact that over 60% of Australian farms producing over 70% of the value of agricultural output operate two or more industries. In a similar vein it is necessary, given the export dependency of the Australian agricultural sector, to establish verification systems that can be recognized both domestically and internationally.

The third thing not to do is to base environmental and animal welfare verification on best management practices (BMP). The strongest practical reason against adopting a BMP approach to verification of performance is the difficulty in establishing a clear definition against which to verify or audit; in other words to codify the practice in a way that does not render its universal application ill-advised. For illustration, there are many forms of time controlled grazing and of minimum/no till cultivation yet there are substantial variations even within properties and over time in the way that these broad approaches are adapted to varying conditions and capabilities; and rightly so. There are several other reasons not to use BMP for verification standards purposes including:

- Having a negative effect on innovation
- Presenting a low bar for performance given the consensual approach necessary to establish the BMP
- BMP by definition are broadly industry specific and hence inappropriate for use as a whole-of-farm verification standard
- The improbability of a BMP being easily recognized internationally
- The impossibility of the approach being easily applied along product chains
