

Section 6

6. Impact of the drought on farm businesses in regional Australia

In its general Wage-Setting Decision 2007, the Australian Fair Pay Commission (Commission) deferred the 2007 general wage increase for some employees in the drought affected agricultural sector.

In making that decision, the Commission assessed a wide range of information including:

- data relating to the economic impact of the drought on farm businesses;
- the potential impact of granting a deferral of any wage increase on the agricultural sector;
- information obtained from site visits to farms in Wagga Wagga and Roma; and
- submissions to the Commission's 2007 Minimum Wage Review.

The Commission accepted that the drought had a significant detrimental effect on farm businesses in declared Exceptional Circumstances areas, in particular primary producers receiving the Exceptional Circumstances Interest Rate Subsidy (ECIRS). Accordingly, the Commission deferred its 2007 general wage increase for employees of agricultural sector employers receiving ECIRS.

To ensure that employees affected by this decision were not unreasonably disadvantaged, the Commission limited the duration of the deferral to 12 months. The Commission emphasised that:

...its decision only defers the increase granted in Wage Setting Decision 3/2007 and that within 12 months all eligible businesses will be required to pay the 2007 increase in addition to any further increases subsequently awarded by the Commission.¹⁶⁰

6.1. Stakeholder views

In submissions to its 2008 Minimum Wage Review, the Commission received a wide range of views about the impact of its deferral of the general Wage-Setting Decision 2007. The Australian Workers Union (AWU) considers that the deferral was 'disappointing and backward looking',¹⁶¹ and proposes the Commission:

...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.¹⁶²

In their submissions, the Australian Council of Trade Unions (ACTU) and the South Australian Government agree that the deferral should not continue beyond 1 October 2008:

'Given the public position of the NFF regarding the *chronic national labour shortage for agricultural employment* the ACTU believes that any AFPC decision in 2008 should not be deferred for these workers. The employers received and retain the benefit of deferral of the 2007 wage increase... There is no justification for a continuing freeze on the minimum wages of agricultural workers.'¹⁶³

¹⁶⁰ AFPC, *Wage-Setting Decisions and Reasons for Decisions*, Commonwealth of Australia, July 2007, p. 81.

¹⁶¹ AWU, *Submission to the Australian Fair Pay Commission Minimum Wage Review 2008*, 2008, p. 2.

¹⁶² AWU, 2008, p. 2.

¹⁶³ ACTU, *Australian Council of Trade Unions Submission to the Australian Fair Pay Commission*, March 2008, p. 132, paras. 11.13-11.16.

Section 6

'If the 2008 decision results in a further deferral, the effect would be that one group of low paid workers' disadvantage is being compounded over the years. It would also have the effect of leaving certain businesses with a significant increase to pay when the deferral is ultimately removed.'¹⁶⁴

Submissions from the National Farmers' Federation (NFF), the Australian Chamber of Commerce and Industry (ACCI) and the South Australian Employers' Chamber of Commerce and Industry Inc (Business SA) are positive about the deferral.

The NFF provides evidence that the deferral has been taken up by a number of its constituents:

'The NFF released a survey through its member organisations in December 2007, and now reports on the responses received to 14 March 2008. 176 responses were received by the NFF after widespread distribution to the memberships of its State member organisations as they stood in October 2007. Approximately 30 per cent of all respondents were in receipt of ECIRS payments, and 21 per cent of all respondents stated they had adopted to pay employees at the deferred rate, or would do so if eligible. Some respondents who were ineligible indicated that they would pay at deferred rates if eligible, although of these respondents a number stated that they were unsure about what eligibility entailed, and of all respondents, many were unfamiliar with what the deferred rate is. This class of respondent represented a small class of respondents. Looking specifically at those who were eligible and actually adopted to defer the increase, the survey results show that approximately 38 per cent of those eligible adopted to defer the increase. Although the sample size is notably small, extrapolating from the total estimated to be eligible of 13,000, this suggests that up to 4,940 (with margin for error both ways) adopted to defer the increase. Those who were expressed the noteworthy view that whilst they would utilise the deferred rates if they were eligible, they would pay well above minimum rates upon entering drought recovery...The NFF strongly believes that the continued decrease in unemployment has largely stemmed from the moderate approach adopted by the AFPC in its 2007 wage decision...The NFF also believes that the deferral has contributed to the preservation of employment levels, and arguably even resulted in a mild increase in employment levels, within the sector.'¹⁶⁵

Business SA submits that:

[The deferral] was an important measure for those enterprises [who used it], and remains a relevant tool available to the AFPC to what is clearly an ongoing drought challenge.¹⁶⁶

ACCI agrees with these views and states that:

If any party seeks drought based relief of the type granted in 2007, ACCI calls on the AFPC to again seriously consider such relief, and to defer, qualify or adjust wage increases as requested/merited.¹⁶⁷

6.2. Economic data from the farm sector

Farm activity

Australian Bureau of Statistics data indicate that real gross domestic product in the Agriculture, forestry and fishing (farm) industry increased by 5.7 per cent over the four quarters to March 2008. After extended periods of negative growth due to the drought,

¹⁶⁴ Government of South Australia, *Submission to the Australian Fair Pay Commission's Review of the Federal Minimum Wage 2008*, 14 March 2008, p. 22.

¹⁶⁵ NFF, *Submission to the Australian Fair Pay Commission, General Wage Review*, 14 March 2008, pp. 8-14, paras. 3.2 and 4.4.

¹⁶⁶ Business SA, *Business SA's Submissions – AFPC 2008 Minimum Wage Review*, 14 March 2008, p. 10, para. 4.2.6.

¹⁶⁷ ACCI, *2008 Minimum Wage Review: ACCI Submission*, March 2008, p. 21, para. 1.99.

Section 6

there was a 18.0 per cent increase in the sector's GDP in the September quarter of 2007. Increases in the production of certain crops, such as wheat and legumes, were major contributors to this recovery. However, the strength of the recovery in the farm sector remains uncertain.

Recent forecasts from the Australian Bureau of Agricultural and Resource Economics (ABARE) point to a recovery in crop production from the significantly low levels recorded in 2006-07 and 2007-08. Total crop production is forecast to increase by 28 per cent in 2008-09, led by an expected 98 per cent increase in wheat production.¹⁶⁸ Similarly, gross value of farm crop production is expected to increase by 27.4 per cent in 2008-09.¹⁶⁹

The Australian Government forecasts farm production 'to increase by 20 per cent in 2008-09 following two consecutive drought years'.¹⁷⁰ However, the Government describes the expected recovery in farm GDP as weak by historical standards, with low water storage levels persisting in some areas and the forecasts subject to considerable downside risk.¹⁷¹

An expansion of the Exceptional Circumstances declared areas since the Commission's 2007 Minimum Wage Review is consistent with the weak conditions continuing in 2007-08. Parts of Tasmania and the Northern Territory became Exceptional Circumstance declared areas in late 2007, while Victoria, South Australia and Queensland also experienced increased coverage.¹⁷² However, if a general increase in production in 2008 and beyond occurs as forecast, this may result in the Exceptional Circumstance declared areas contracting.

Employment and earnings

Employees make up just over half of the total workforce in the farm sector, compared with about 90 per cent in the non-farm economy. Own account workers (i.e. workers who operate their own unincorporated enterprises) comprise one third of farm employment, followed by employers and contributing family workers.¹⁷³

Farm employment has fallen sharply, from 216 300 to 175 500 employees between February 2002 and February 2008. Most of this decline occurred between February 2002 and November 2002, when employment fell by almost 20 per cent.¹⁷⁴

Since 2004, growth in full-time earnings for employees in the farm sector has exceeded that in all industries. However, full-time earnings in the industry remain around 22 per cent below full-time earnings of employees in all industries.¹⁷⁵

The Australian Government expects farm profits to be strong in 2008-09, in line with the recovery in farm production and high world prices for rural commodities.¹⁷⁶

¹⁶⁸ ABARE, *Australian commodities March quarter 2008*, Canberra, Commonwealth of Australia, 2008, p. 306. Total crop production is defined as the sum of grains, oilseeds and industrial crops.

¹⁶⁹ ABARE, 2008, p. 309. Gross value of farm crop production is defined as the sum of grains, oilseeds, industrial crops and horticulture.

¹⁷⁰ Commonwealth of Australia, *Budget Paper No.1: Budget Strategy and Outlook 2008-09*, Canberra, AGPS, 2008, p. 2-21.

¹⁷¹ Commonwealth of Australia, 2008, p. 2-21.

¹⁷² NFF, 2008, p. 31, para. 72.

¹⁷³ ABS, *Labour force, detailed, quarterly, Australia, December 2007*, Catalogue No. 6291.0.55.003.

¹⁷⁴ ABS, December 2007, Catalogue No. 6291.0.55.003.

¹⁷⁵ ABS, *Employee Earnings, Benefits and Trade Union Membership, August 2006*, Catalogue No. 6310.0.

¹⁷⁶ Commonwealth of Australia, 2008, p. 2-31.

Section 6

Labour costs make up around 11 per cent of total farm costs.¹⁷⁷ Reflecting this fact, the NFF suggests that the 2007 decision to defer the minimum wage increase for Exceptional Circumstance declared areas had a minimal but positive effect on employment in the industry.¹⁷⁸

Furthermore, the NFF argues that the practice of paying above minimum wages prevents adjustment of statutory minimum wages from having any great impact on employment in the agricultural industry, with factors other than minimum wages being the primary determinants of employment in the sector.¹⁷⁹

The South Australian Government indicates that, while drought conditions continue to prevail in some areas, there is serious doubt that deferral of wage increases assist in the retention of employment within regional communities affected by drought. It considers that a further deferral would compound the disadvantage of one group of low-paid workers and leave certain businesses with a significant expense when the deferral is ultimately removed.¹⁸⁰

6.3. Termination of deferral

While the Commission accepts that deferral for drought affected farm businesses provided a positive impact, it considers a continued deferral unnecessary.

In accordance with Wage-Setting Decision 4/2007, the deferral of general Wage-Setting Decision 2007 for employees of employers in the agricultural industry receiving ECIRS will cease on 1 October 2008.

¹⁷⁷ ABARE, *Australian commodities March quarter 2007*, Canberra, Commonwealth of Australia, 2007, pp. 233-234.

¹⁷⁸ NFF, 2008, p. 8, para. 3.2.

¹⁷⁹ NFF, 2008, pp. 26-28, paras. 6.13 and 6.17.

¹⁸⁰ Government of South Australia, 2008, p. 22.