

CHAPTER 12: THRIVING ECONOMY

Key findings of the Committee:

- 12.1** Based on the achievement of \$7.2 billion in food and fibre exports in 2006, the Victorian Government will need to achieve a significant increase in the level of exports in the agricultural sector in future if it is to reach its original target of \$12 billion by 2010.
- 12.2** Although the proportion of freight transported to and from ports by rail has showed a downward trend since 2001-02 due to seasonal conditions and economic factors, the government is committed to retaining and working towards achieving its rail freight target of 30 per cent by 2010 by upgrading Victoria's rail freight network.

12.1 Introduction

In considering the budget estimates pertaining to the *Thriving Economy* vision of the *Growing Victoria Together* initiative, the Committee asked a total of 108 questions, which represented 15.7 per cent of all questions asked during the budget estimates hearings.

Answers provided at the estimates hearings were recorded in *Hansard* and the transcripts of evidence were contained in Appendix 1 of the *Report on the 2007-08 Budget Estimates – Part One* and the *Report on the 2007-08 Budget Estimates – Part Two*. The material received to the questions on notice and unasked questions since the Part Two report, is presented in full in Appendices 4 and 5 respectively of this report. These responses are categorised according to the applicable *Growing Victoria Together* vision to which they relate.

This chapter sets out an analysis of various issues pursued by the Committee at the estimates hearings that relate to the *Thriving Economy* vision.

12.2 Food and fibre exports

12.2.1 Background

According to the *Growing Victoria Together* initiative, a target has been set for Victoria to increase exports to \$30 billion by 2010. Food and fibre exports comprise a commodity sector within Victoria's agricultural and total export base.

Accounting for 27 per cent of Australia's total food and fibre exports, Victorian exports in this sector for 2006 were valued at \$7.2 billion.¹⁵⁷ The key food and fibre commodity groups for Victoria's exports continued to be dairy and meat, which accounted for 50 per cent of food and fibre exports. Wine continued to show significant growth as Victoria's third most valuable commodity group. Important markets for Victorian food and fibre exports in 2006 were China, Japan and the USA.¹⁵⁸

¹⁵⁷ Mr J Helper MP, Minister for Agriculture, 2007-08 Budget Estimates hearing, 17 May 2007, presentation slide 2

¹⁵⁸ www.dpi.vic.gov.au under Trade and Investment, accessed 30 July 2007

In July 2006, the Minister for State and Regional Development stated the following in a media release:¹⁵⁹

The Bracks Government remains strongly committed to regional Victoria and particularly to the agricultural sector which is so vital to our economic growth.

... the government was fully committed to a food and fibre export target of \$12 billion by 2010.

Achieving this target will add up to 2.5 per cent to Victoria's Gross State Product (GSP) and generate up to 60,000 new direct and indirect jobs – with the majority located in regional Victoria.

... the government had helped to revitalise the agricultural sector by ensuring a competitive cost base, investing in science research and development, improving rural infrastructure, lifting skills and encouraging sustainable farm practices.

12.2.2 Past coverage by the Committee

By way of background in terms of examining this area, the Committee, in its *Report on the 2004-05 Budget Estimates*, foreshadowed that:¹⁶⁰

... the government will need to assess on an ongoing basis whether the \$12 billion food and fibre export target to be achieved by 2010¹⁶¹ is in fact realistic and attainable, given the Minister's comment that 'in terms of food and fibre we hit \$8 billion two years ago and that has dropped back to \$6 billion'.

Continuing with its interest in this area, the Committee drew attention in its *Report on the 2006-07 Budget Estimates* to the following two trends over the past ten years:¹⁶²

- the continuing strength in wine exports as a result of high production levels; and
- the ongoing increase in lamb and sheep-meat production at the expense of wool.

12.2.3 Food and Fibre export target for 2010

The Committee raised with the Minister for Agriculture at the 2007-08 Budget Estimates hearing how the government plans to raise the current level of food and fibre exports from \$7.2 billion to \$12 billion over the next three years.¹⁶³

Given that Victoria is experiencing a one in a hundred year drought,¹⁶⁴ the Minister explained to the Committee the adverse affect of drought on the agricultural export sector.¹⁶⁵ The Minister also brought to the Committee's notice the effect of the appreciation of the Australian dollar on agricultural

¹⁵⁹ Hon. J Brumby MP, Minister for State and Regional Development, *Victoria's farming sector up to the challenge: Brumby*, media release, 11 July 2006

¹⁶⁰ Public Accounts and Estimates Committee, *Report on the 2004-05 Budget Estimates*, p.540

¹⁶¹ Budget Paper No.3, *2004-05 Service Delivery*, p.31

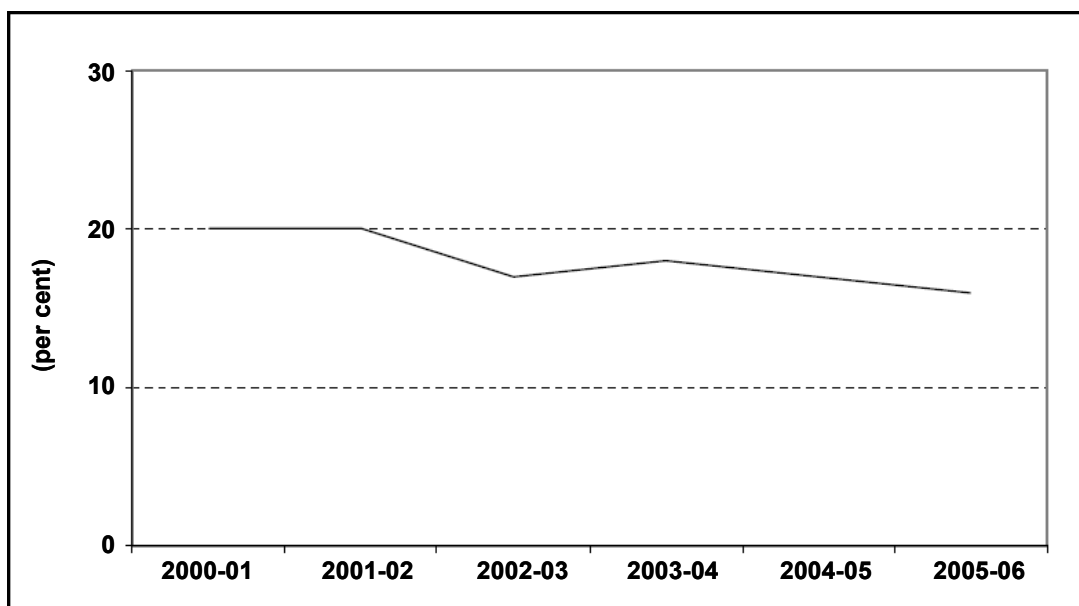
¹⁶² Public Accounts and Estimates Committee, *Report on the 2006-07 Budget Estimates*, pp.371–373

¹⁶³ Mr J Helper MP, Minister for Agriculture, 2007-08 Budget Estimates hearing, transcript of evidence, 17 May 2007, pp.5–6

¹⁶⁴ www.dpi.vic.gov.au – Drought information for Victoria, accessed 28 August 2007

¹⁶⁵ Mr J Helper MP, Minister for Agriculture, 2007-08 Budget Estimates hearing, transcript of evidence, 17 May 2007, pp.5–6

Figure 12.1: Proportion of freight transported by rail to and from Victoria’s commercial ports (Melbourne, Geelong and Portland)



Source: Budget Paper No.3, 2007-08 Service Delivery, p.363

According to the budget papers, demand for freight transport between regions and the Victorian ports, predominantly carried by rail, has been reduced in recent years. In particular, export grain volumes through the Port of Melbourne in 2005-06 were less than half that of 2004-05.¹⁶⁹ At the estimates hearing the Minister advised that there is a higher proportion of freight moved by rail that is essentially moved as agricultural product than on Victoria’s roads.¹⁷⁰ However, largely as a result of the drought and other economic conditions, a lot of the material that has been transported by rail freight system has been reduced in terms of volume.¹⁷¹

In terms of maintaining the 2010 target, the Minister brought to the Committee’s attention the following matters:¹⁷²

In a broader sense, the government has taken a view that we are committed to working towards achieving this target. Yes, it is an ambitious target, but, quite frankly, this is an ambitious government. Our objectives are served most effectively, I think, when you look at the sort of infrastructure spend that the government is putting in place and working in cooperation with others in terms of achieving it. Our view about the most efficient way of achieving the rail freight target is not to simply say that economic conditions and drought have brought down the proportion of rail freight but to recognise we can make an investment in a very substantial sense in terms of upgrading the rail freight network, and that is what we are doing. The Dynon port rail link – \$138 million being incorporated into that activity. That will essentially ensure that there will be more access to the port and make rail freight that much more attractive. One of the great difficulties for rail freight is, of course, certainty of access into the port in terms of timeliness, being able to secure efficient access, not only into the port

¹⁶⁹ Budget Paper No.3, 2007-08 Service Delivery, p.363

¹⁷⁰ Mr T Pallas MP, Minister for Roads and Ports, 2007-08 Budget Estimates hearing, transcript of evidence, 10 May 2007, pp.16–17

¹⁷¹ *ibid.*, p.16

¹⁷² *ibid.*, p.17

but in the decommissioning of freight once it is achieved in the port. So there are a number of structural things that government can do.

The Committee noted that the winter crop forecasts for Victoria for 2007-08 reveal that as most of Victoria received above average rainfall in May and further rainfall in June that has been ideal for early sown crops, winter crop prospects are very positive at this early stage of the season.¹⁷³ The area sown to winter crops in Victoria is forecast to increase by 8 per cent in 2007-08 to just below 3 million hectares.¹⁷⁴ Assuming average yields, total winter crop production in 2007-08 is forecast to reach around 6.3 million tonnes, almost 5 million tonnes more than was produced in the previous season.¹⁷⁵

The Committee is of the view that if the government is to virtually double the proportion of freight transported to and from ports by rail over the next four years despite the affect of possible climatic and economic factors, the government will need to closely monitor from a budgetary perspective whether there is a need for more investment in rail freight, such as the upgrading of rail links to the ports, relative to the investment in roads. The Committee also believes that performance measures should be developed to assess whether rail freight is obtaining efficient access to Victorian ports. The Committee will be interested in monitoring whether there has been an increased role of rail freight in Victoria's freight transport system in the years ahead.

The Committee recommends that:

Recommendation 37: **In terms of ensuring that resource allocation decisions promote the efficient movement of freight between Melbourne and regional Victoria with a view to ensuring that the proportion of freight transported to and from ports by rail will increase to 30 per cent by 2010, the government will need to monitor the adequacy of its investment in the rail freight network.**

Recommendation 38: **To assess whether rail freight is obtaining efficient access to Victoria's ports, the Department of Infrastructure develop pricing and timeliness indicators and incorporate this information into the appropriate outputs in the budget papers.**

¹⁷³ ABARE, *Australian Crop report No.142*, published June 2007, p.10

¹⁷⁴ *ibid.*

¹⁷⁵ *ibid.*