

02 September 2016

SUBMISSION TO THE DEPARTMENT OF AGRICULTURE and WATER RESOURCES

Working holiday maker visa review

Potatoes South Australia Incorporated

Potatoes South Australia Inc is a “not for profit” membership-based incorporated association providing the voice for seed producers, fresh market producers, processing producers, packers, processors, marketers, exporters, wholesalers, retailers, service providers, restaurants and consumers.

The Association aims to ensure that the National Potato Levy is invested in relevant research and development (R&D) for the increased profitability, productivity, sustainability and competitiveness of the industry.

Potatoes South Australia makes representations on behalf of the potato industry value chain to ensure its interests and concerns are communicated to all levels of government, the private sector and the general public.

Potatoes South Australia has liaised with Ausveg and Voice of Horticulture in the preparation of this document.

Queries

For more information regarding this submission please me on [REDACTED] or at [REDACTED]

Yours sincerely



Robbie Davis
Chief Executive Officer



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Executive Summary

There is widespread community concern regarding the proposed taxation of working holiday maker visa holders.

In particular, the proposed tax rate of 32.5 per cent for non-resident 417 and 462 visa holders; known as the 'backpacker tax', has been widely seen as a potential disincentive for backpackers to take on roles that are not being met by Australian workers.

Imposing such a tax will particularly hurt the broader agriculture and horticulture industries that are heavily reliant on a large annual backpacker workforce to ensure that crops are harvested. Without this workforce a large proportion of the nation's food production would not be harvested.

The more disturbing issue is that the rationale for increasing tax revenue in this model is heavily flawed. The loss of revenue from a large backpacker workforce resident and spending in regional areas is significant without any consideration of the fiscal impact of a smaller crop production. Our assessment is that the proposal will result in a negative fiscal result due primarily to a significant loss of production and revenue.

Considering the core economic impact of primary industries on the national economy, the proposal will guarantee an economic slide, an accelerated loss of regional investment and population, and add significant additional infrastructure costs in urban areas that will have to absorb an accelerated loss of regional population.

The reality is that targeting a vital rural workforce and ensuring its reduction or loss is economic stupidity in the extreme. It sends a dangerous signal by the Government that far from being "open for business" the Government is keen to see a vital Australian industry close its doors.

It is an avoidable loss that needs to be considered in the context of a major restructuring of the economy. Far from imposing unrealistic imposts upon the industry, the industry needs stronger guarantees to support what is clearly an essential national food production industry.

If the issue under consideration is purely about revenue, then the backpacker superannuation proposal makes much more sense as it provides the Government with a very significant source of revenue that can build over time to become a large national fund. This fund could be used towards industry-led dedicated training initiatives to upskill Australia's workers with the necessary skills.

Currently the backpacker super contributions are a significant annual revenue loss to Australia as backpackers can immediately claim their super contributions after leaving Australia. These are employer contributions that provide no long term benefit to the industry.

The biggest problem that the industry will face from this ill thought out proposal is the loss of its harvest workforce. Backpackers choose countries that can provide them with a rewarding year abroad with income that will sustain them during their stay. Reduce that income and they will simply choose other destinations such as New Zealand.

Backpackers pay quite high accommodation rates in Australia and if we reduce their net pay they simply will not stay as it will be uneconomic to come to Australia.

Australian primary industries need these people to maintain the industry. There are no other options currently.

While appreciating the importance of ensuring that Australian jobs are available for Australian workers, the truth of the matter is this that the average Australian does not wish to travel to regional or remote locations for work and especially for short periods of work often for a one or two month duration.

Potatoes South Australia urges the Government to abandon this ill-conceived proposal before our core primary industry is driven into contraction. We remind the Government that by any measure, the loss of any percentage of our workforce will have a huge fiscal impact as this workforce provides substantial production value-add and revenue value-add in all regional communities.

It is our view that ensuring the safety and security of the backpacker workforce, especially from unscrupulous labour hire contractors, is an essential requirement to ensure we maintain this workforce.

The lack of regulation in this area has already had a negative effect on backpacker arrivals and we are keen to ensure that all temporary workers, including backpackers, are protected from mistreatment.

There have been several high-profile cases of labour hire firms taking advantage of temporary workers' vulnerability to exploitation, including through underpayment for contracted work, requiring excessively long working hours and housing workers in squalid accommodation.

The unconscionable behaviour of these rogue operators must be stopped. A licensing scheme for labour hire firms with protections for vulnerable workers falling under the terms of reference for this review, is strongly encouraged.

1. Potatoes South Australia

Potatoes South Australia Incorporated is the peak industry body representing the whole value chain for the potato industry. It is the voice for seed producers, growers, fresh market, packers, processors, marketers, exporters, wholesalers, retailers and consumers.

Established in 2012 after wide industry consultation, Potatoes South Australia represents the state's and nation's largest horticultural sector which produces some 80% of the nation's bagged potatoes.

Potatoes South Australia is supported by a Board of industry Directors covering the seed, processing and fresh markets, Independent Directors and an Independent Chair.

2. Themes of the Review

Visa labour requirements of the agricultural/horticultural sector

The agricultural industry in Australia employs over 290,000 workers¹, of which the horticulture industry employs over 75,000². Potatoes South Australia believes in the importance of providing as many of these jobs to local workers as possible, especially in regional and rural economies whilst

¹ Cat. no. 6291.0.55.0033 *Labour Force, Australia, Detailed, Quarterly*, Australian Bureau of Statistics (2016)

²*Seasonal Worker Program: demand-side constraints and suggested reforms*, J Doyle and S Howes (2015)

recognising that there are significant factors that require both skilled overseas workers and a large, mostly overseas, temporary workforce.

The agriculture industry has a proven preference for employing local workers and strengthening the regional economies in which the industry's members live and work. In 2001, agriculture accounted for almost 14 per cent of non-metropolitan employment in Australia³, and a 2006 survey of growers in the Murray Valley found that, if possible, 31 per cent of them would prefer to employ domestic workers over an international workforce⁴.

However, if the industry were to rely solely on domestic labour, it would not survive. The industry's use of visa labour is not a result of passing over domestic workers in favour of foreign labour, as the Productivity Commission has recently noted;

Some participants to the Commission's Migrant Intake into Australia inquiry argued that temporary migrants, particularly working holiday makers, crowd out domestic workers from the labour market. However, the available evidence at the aggregate level suggests agricultural businesses and those in regional areas rely on temporary migrants to fill labour gaps.⁵

This foreign labour overwhelmingly takes the form of backpackers, particularly those working for the second-year extension to the subclass 417 visa attainable by undertaking specified work in regional Australia.

A 2014 survey found that 46 per cent of respondent farmers indicated backpackers were their main source of labour, and that of over 75,000 workers employed by the horticulture industry annually, some 40,000 of them are backpackers⁶. Essentially, backpackers are "a structural feature of the industry"⁷.

This has also been noted by previous parliamentary inquiries into other aspects of Australia's temporary labour system. For example, following their inquiry into the Seasonal Worker Program, the Joint Standing Committee on Migration reported that:

It is clear that the horticulture industry relies significantly on the second working holiday initiative, with over 40,000 visa holders, to fill its seasonal labour requirements.⁸

Other visa programs also provide temporary labour for the Australian horticulture industry, with the most relevant to this review being the Seasonal Worker Program, which also provides Australian growers with unskilled labour.

Potatoes South Australia supports the Seasonal Worker Program and believes it plays a much-needed role in ensuring that Australian producers have access to workers which they can employ over several seasons.

It also understood that there is a belief that the working holiday maker program as a labour source for the Australian horticulture industry should be lessened in favour of increasing the Seasonal Worker Program's effectiveness as a labour source and as an aid program.

³*Trends in Australian Agriculture*, Productivity Commission (2005)

⁴*Labour Shortages in Murray Valley Horticulture: A survey of growers' needs and attitudes*, P Mares (2006)

⁵*Regulation of Australian Agriculture*, Productivity Commission Draft Report (2016)

⁶*Seasonal Worker Program: demand-side constraints and suggested reforms*, J Doyle and S Howes (2015)

⁷ Ibid.

⁸*Seasonal change: Inquiry into the Seasonal Worker Program*, Joint Standing Committee on Migration (2016)

Caution regarding any policy decision designed to have this effect is urged. While seasonal workers are extremely valuable, policies designed to lessen the availability of backpackers as a labour source which are made before the Seasonal Worker Program is able to pick up the slack from any reduced labour pool could prove disastrous for Australian horticulture industry.

Given that the Seasonal Worker Program has seen low, although consistent, levels of growth in the years it has been operational, this may be well into the future. Specifically, the Seasonal Worker Program granted 2,801 visas in the financial year to 31 May 2015⁹. This is less than 7 per cent of the amount of second working holiday (subclass 417) visas granted in 2014-15¹⁰.

For this reason, Potatoes South Australia strongly recommends avoiding any policy changes designed to increase uptake to the Seasonal Worker Program at the expense of backpacker labour until the Seasonal Worker Program becomes better established. The Seasonal Worker Program's current track record and high cost participation for employers suggests that it will never fill the seasonal labour gaps that the industry has each year.

Relevant unemployment and training policies

It is vitally important to ensure that Australians are attracted to work in agriculture, and specifically horticulture. Over the long term, attracting a new generation of labour to the vegetable industry, including through youth outreach and increasing engagement with horticulture as an option for tertiary education, will help to manage a transition to the new phase of our industry.

Currently the priorities for education and training in agriculture and horticulture are wanting in the extreme with few tertiary programs available and very low levels of funding support for VET courses. It is almost as if the Government has not recognised the critical importance of this industry to the economy and social wellbeing. Clearly, engaging more Australian will require a more dedicated funding support program to train people in what is increasingly a quality and high technology industry.

In its supporting material for this review, the Department has included a reference to the Youth Jobs PaTH (Prepare-Trial-Hire) Program. This suggests that the Government is considering using PaTH as a mechanism for increasing the domestic labour force in place of (or possibly complementing) the working holiday maker program.

It should be noted that PaTH is untested to date, and its effectiveness in supplying consistent, reliable labour in any capacity, particularly to rural and regional Australia is unknown. Based on a major initiative undertaken by the Primary Industries Skills Council, the Regional Skills Mobility Program, such programs simply do not deliver people to regional areas. The choices young people are making are based around urban living expectations, much of which is unavailable in regional and remote areas.

When the horticulture industry relies heavily on backpacker labour during peak seasonal periods because domestic labour is unavailable, it would be extremely ill-advised to take any action which could risk further reducing the amount of working holiday maker visa holders in Australia.

It is important to maintain access to a reliable and consistent source of labour during any period in which the Government trials new and untested models which we are not likely to succeed based on previous studies. While the further investigation of possible supply models for Australian workers is welcomed, it must not in any way reduce the capacity of the industry to recruit backpackers who represent the most effective and most suitable labour force currently available to the industry.

⁹Submission 2 – Department of Employment, Joint Standing Committee on Migration Inquiry into the Seasonal Worker Program (2016)

¹⁰Working Holiday Maker visa Program report: 31 December 2015, Department of Immigration and Border Protection (2016)

The Association recommends caution in attempting to adjust the structural mechanisms which have resulted in the current reliance on backpackers in the horticulture industry before an alternate source of labour is properly established.

Tax treatments for visa holders

Potatoes South Australia is opposed to the proposed “backpacker tax”, which would introduce a tax rate of 32.5 per cent from the first dollar earned on working holiday maker visa holders. This taxation measure could have a very damaging impact on the Australian horticulture industry by acting as a deterrent to backpackers who would otherwise visit Australia for their working holidays.

Research undertaken by Monash University has found that 60 per cent of backpackers currently in Australia say they would not have visited if the backpacker tax had already been in effect¹¹. This would mean a huge reduction in the amount of labour available to the Australian industry, forcing producers to rely on an insufficient domestic labour market resulting in reduced productivity.

Imposing this tax measure on backpackers as a revenue-raising method would ultimately be counter-productive. Due to its expected impact as a deterrent to backpackers, it is expected that the tax would collect much less revenue than forecast.

By acting as a deterrent to backpackers visiting Australia, the tax would also damage rural and regional economies. In the Productivity Commission’s draft report into Australia’s migrant intake, it was noted that

In aggregate, working holiday makers can be expected to deliver a net positive contribution to the economic wellbeing of Australians.¹²

Additionally, the National Farmers Federation has previously identified that backpackers make an annual contribution of more than \$3.5 billion to Australia’s economy¹³.

On a broader scale, imposing the backpacker tax could be disastrous for Australia’s horticulture industry. As covered extensively by previous research and other reviews, the industry relies on backpackers for its labour needs. Damaging this labour source before suitable alternatives have been established would result in huge labour shortages.

Potatoes South Australia and stakeholders in the potato industry value chain urge the Government to abolish the proposed backpacker tax to prevent this damaging, short-sighted policy decision from having a serious impact on the productivity of the Australian horticulture industry.

Protection for vulnerable workers

When considering protections for vulnerable workers, it is vital that consideration is provided to the significant impact of the behaviour of rogue labour hire firms.

These labour hire firms are largely characterised by their mistreatment and exploitation of vulnerable foreign workers. This mistreatment has historically included underpayment, unconscionably long working hours, and inhumane or sub-standard housing and accommodation.

The implementation of an accreditation scheme requiring labour hire firms to prove compliance with relevant Australian law is recommended. The concept of a labour hire licensing scheme has gained significant momentum and is included as Recommendation 32 from the final report from the Senate

¹¹‘Backpacker tax’ research shows travellers would avoid visiting Australia, YHA Ltd (2016)

¹²Migrant Intake into Australia, Productivity Commission Draft Report (2015)

¹³Submission31– National Farmers Federation, Productivity Commission Inquiry into the Migrant Intake into Australia (2015)

Standing Committees on Education and Employment's Inquiry into the impact of Australia's temporary work visa programs on the Australian labour market and on the temporary work visa holders. The text of that recommendation reads:

The committee recommends that a licensing regime for labour hire contractors be established with a requirement that a business can only use a licensed labour hire contractor to procure labour. There should be a public register of all labour hire contractors. Labour hire contractors must meet and be able to demonstrate compliance with all workplace, employment, tax, and superannuation laws in order to gain a license. In addition, labour hire contractors that use other labour hire contractors, including those located overseas, should be obliged to ensure that those subcontractors also hold a license.

This recommendation was echoed by the Joint Standing Committee on Migration in the report from its Inquiry into the Seasonal Worker Program, with the Committee noting that it:

Supports the recommendation of our Senate colleagues and urges the Australian Government to establish a licensing regime for labour hire contractors by implementing the recommendation as worded¹⁴.

This proposal would help protect vulnerable workers, including backpackers. This review of the working holiday maker program presents an excellent opportunity for the Government to introduce a licensing scheme for backpackers and protect not only backpackers, but all vulnerable workers hired by labour hire firms.

3. Recommendations

- That the Australian Government abolish the proposed "backpacker tax" to prevent this damaging, short-sighted policy decision from having a serious impact on the productivity of the Australian horticulture industry; and
- That the Australian Government implement a licensing system for labour hire firms requiring their compliance with Australian taxation, employment, immigration and workplace health and safety laws.

¹⁴Seasonal change: Inquiry into the Seasonal Worker Program, Joint Standing Committee on Migration (2016)



LETTER OF SUPPORT FOR POTATOES SOUTH AUSTRALIA

**SUBMISSION TO THE DEPARTMENT OF AGRICULTURE and
WATER RESOURCES**

Working holiday maker visa review

02 September 2016

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HortEx is a grower organization that represents the horticultural growers on the Northern Adelaide Plains. HortEx is a member of Potatoes South Australia. The Northern Adelaide Plains (NAP) is the largest horticultural region cover over 5,500ha in size situated on Adelaide's doorstep. The NAP has over 3000 horticultural growers with over 1300 of these growers being greenhouse businesses. The region earns more than \$360 million and this income feeds into the South Australian economy.

The NAP horticultural sector relies on a labour force that is made up of a high percentage of visa workers and the current proposal to tax this workforce will greatly impact on the financial viability of the horticultural sector to inject valuable earnings into the state and national economies.

South Australia is already suffering from the imminent closure of the automotive sector and large sums of money from the federal government has already been invested to counter this closure. Horticulture has been identified by both state and federal governments as being a major employer of people displaced from the automotive sectors and a generator of dollars for the national and export sectors. The recently signed free trade agreements (FTA's) with overseas countries has the potential to provide new and valuable markets for the region's horticultural produce. Australia's horticultural produce is seen by overseas markets as being of the highest quality but it is also some of the most expensive due to high labour costs. This proposed backpacker tax will only serve to drive up these costs thus rendering the FTA's for horticulture as being further out of reach by potential export customers.

The horticultural sector currently needs to have a flexible seasonal labour force supply and this proposed tax will place very strong restrictions on seasonal worker supply and movements to South Australia. Many of South Australia's horticultural regions are located far from major population centres and this tax will severely dissuade travelling workers from visiting and working in these regions. Money spent by these workers helps supplement the regions income streams and flow on services to the local populations will be restricted. This will potentially mean that more federal money will need to be spent in these regions by governments to support the permanent population bases.

HortEx has estimated that the NAP horticultural sector by employing one horticulture worker is able to support five other workers in the service sectors such as transport. This flow on effect is critical at times of harvest and postharvest crop management when the crop values are at their highest. For our horticultural regions to be competitive against the cheaply produced and often subsidized overseas horticultural products, we need to maximize the premium quality of our produce by making sure that the produce makes it to market in the best possible conditions so that customers have the best food purchase options. To make this a reality we need a good supply of labour at critical times in the crop cycles.

With Australia being so far away from the rest of the world, we need to be able to entice backpackers to come and visit. Backpackers are individuals that are focused on seeing Australia and its regions and immersing themselves in our culture and communities. The

NAP horticulture sector has found that their work ethic is extremely high and they blend into the region's communities very well. To be proposing a very high tax rate will only push these backpackers away and Australia will lose both a reliable work force and a tourism potential as many backpackers rely on the ability to work as a way of paying for their travel plans.

This proposed backpacker tax is a stupid idea and risks damaging many parts of our economy both regionally and nationally for a very short term gain. HortEx and Potatoes South Australia stand united in opposing this tax and strongly argue that it should be abolished as it will damage the economic fabric of the national horticulture sector and regional Australia.



Bryan Robertson
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HortEx Alliance Inc