



**Voice of Horticulture**

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## Working Holiday Maker Visa Review Submission

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### Introduction

Thank you for the opportunity to provide a submission to the Working holiday maker visa review.

Horticulture on average employs around 75,000 people each year; 40,000 of which are backpackers. Taking away the labour force also puts the jobs of locals at risk as there will be no point planting or pruning if we cannot harvest it.

The timing and a quick result of the review is crucial if we are to harvest the 2017 crop. The Voice of Horticulture (VoH) advice is that those backpackers already here on 417 and 462 visas are saying they will head home or stop working effectively if the 32.5% tax comes in. Those backpackers who may have come here in 2017 have seen the increased tax on backpacker websites and from discussions with their fellow countrymen here, many have made the decision to travel elsewhere such as New Zealand with a more sensible tax structure.

### Background

The Voice of Horticulture (VoH) is a member-based organisation representing horticultural growers and businesses across fruit, nuts, vegetables, mushrooms, turf, nursery plants and cut flowers. Horticulture is Australia's second-largest and fastest growing industry in agriculture, with some 30,000 businesses nationally, and a farm gate value at \$10 billion. Horticulture is also the biggest spender in regional Australia in the 1 to 5m \$ capital investment range, and is therefore the backbone of many regional centres in Australia.

A large percentage of horticulture is heavily reliant on a readily available supply of flexible manual labour- due to the "fresh" and "perishable" nature of our product it is imperative that we have access to this labour in critical times. Fresh produce will not hang on the tree, the vine or sit on the ground it has to be picked and packed and delivered to market (consumers) in optimum condition. The perception that "backpackers" are taking local jobs is far from the truth- given that almost all of the employers/growers live in rural and regional Australia their aim is always to ensure their local community is vibrant, strong and growing and the way for that to happen is to have minimal unemployment. The simple fact is; without this foreign labour and in particular the backpacker workforce many Australian growers would not be able to either plant or harvest their crops. Which would be detrimental to not only the growers and their industry, regional and rural Australia but indeed the Australian economy as a whole.

## Discussion

While we would provide in-principle support for any policy which could provide consistent, reliable labour to our industry. We do not believe that any such mechanism currently exists, and we urge the Australian Government not to hamstring the working holiday maker visa program as a way of forcing growers to look for workers in an insufficient and inefficient domestic labour force.

Backpacker numbers are already on the decline, and after Brexit many of our largest country of supply, the UK, are being urged to stay home to assist in UK jobs as access to European labour will cease or slow.

We believe that the “backpacker tax” is a short-sighted policy decision that would have exactly this effect. Much work has been done over many years trying to “showcase” Australia as a must see destination. The implementation of such a tax rate on these workers would hugely affect Australia’s reputation and desirability as a travel destination, and ultimately have a damaging impact on the Australian horticultural industry, hugely reducing its productivity and potentially crippling many growing operations. Any suggested growth in exports without labour to harvest the crop will also be put into question.

The Coalition Government has previously declared agriculture to be one of the ‘five pillars’ of the Australian economy. It promised to support a vibrant, innovative and competitive agriculture sector. It also promised to engage with the sector better, to better understand how to reinvigorate agriculture and build farm and agribusiness profitability.

Working holiday makers (or backpackers) are a vital element of the Australian agricultural workforce. Each year, about 40,000 backpackers come to regional areas to work on farms. The agriculture sector relies on these workers to harvest its crops and to fill the labour shortages that are common in rural areas. Without these workers, the sector will not have the workers they need for harvest. Many comment that if we pay more, local workers will take up the jobs- many have tested this theory and still have no success in attracting “local” workers, and given that horticultural producers are price takers many farms would be rendered unprofitable quite quickly. Is that what we really want?

Research shows that backpackers come to work on farms almost entirely because they can then stay and work in Australia for two years instead of one. Research also shows that backpackers only address labour shortages in relation to regional agricultural work. In all other areas of the economy they compete with local workers for jobs.

Creating jobs in agriculture does not mean taking away our workers. It means investing in skills, and working with industry to boost profitability and promote jobs in the sector as a pathway to success.

As an example in Batlow NSW, a town of 1,500 people, some 600 people are required at different times of the year to harvest cherries, apples etc. that cannot be supplied locally. These are not full time jobs or permanent part time jobs but specific to the season which varies from year to year. Similarly, Orange needs 800 people for a short period, to harvest the cherry crop. Where else would this labour come from?

More graphically, the average Australian apple orchard is 20 ha and employs the owner, and partner and generally one hand. To harvest they need 40 staff on and off for 3 months, to prune they need 10 staff for 3 months. Take away the seasonal staff and the fruit will rot on the trees and the orchard will never be pruned in time.

Local labour is sometimes available but after a day or a couple of days they either lose interest, find it too hard or don’t like working in the sun etc. Many attempts have been made to use local labour, even prison labour in the Goulburn Valley with poor results. Both with a much lower productivity and

a lot less care. Much of horticulture is a perishable crop and a small bruise while harvesting, dropped fruit, bounced fruit, skin marks - all result in second grade fruit with little to no value.

Diverting backpackers away from farms makes no economic sense. Rural Australia will be left without the 40,000 farm hands it relies on every year, and our agricultural output will be reduced. This will have huge economic consequences for Australia. The agriculture sector will be significantly less vibrant, less innovative, and less competitive. The Agricultural Competitiveness White Paper promises a strategic approach to investment and jobs growth in the agriculture sector. The White Paper is the forum for government decisions on the future of the agriculture sector. Decisions made in isolation that strike at the heart of agricultural competitiveness undermine the White Paper process.

It should be noted that it is not just the agriculture/horticulture sectors that will be substantially affected should this flat tax of 32.5% on every dollar earned become law, effectively ending this labour source as backpackers choose alternative workplace/holiday locations such as New Zealand and Canada. Our tourism industry will face reduced visitors. Every backpacker that is in Australia is constantly on social media posting the pictures of where they are and what they see. If they go elsewhere we lose what is effectively the largest free advertising campaign showcasing our country.

As farm productivity decreases, so will the number of jobs for those other 35,000 local people currently employed in horticulture. Most horticulture is carried out in rural and regional Australia, the flow on effect of the loss of jobs in these regions would be catastrophic. More and more people will head to our cities, meaning education and sporting facilities would decline. Backpackers alone spend in excess of 3.5 billion dollars in our economy each year, much of it spent in local businesses on accommodation, food, local pubs and clubs. The GST component alone is in excess of \$300 million per annum.

The government has implemented the Seasonal Worker Program (SWP) to assist with our labour shortage, and whilst we welcome this program it is not a whole solution. We have to have flexible labour and we want people who are spending their wages in our local economy. The reason the Pacific Islanders are here under the SWP is to send money home to their families. Under government regulation employers are directed to deduct 15% Tax from those under the SWP, so why would we discriminate against young workers doing exact the same jobs? The following clause is copied direct from the government paper work for registration as a certified employer of the SWP

*“Under Australian law, we are required to deduct 15% income tax from your earnings each week. You will not get this money back and you cannot lodge a tax return.”*

Having a consistent tax rate also reduces human error. Many growers are out working all day and then doing their bookwork and payroll at the end of a long day- having multiple differing tax rates would add further burden to an already stretched resource.

The Seasonal Worker Program has seen low, although consistent, levels of growth in the years it has been operational. Specifically, the Seasonal Worker Program granted 2,801 visas in the financial year to 31 May 2015 – this is less than 7 per cent of the amount of second working holiday (subclass 417) visas granted in 2014-15.

Employers currently pay 9.5% of income as superannuation for all backpackers. Compulsory superannuation was introduced to ensure that Australian workers had something come their retirement age, which we cannot access until we are 65+. We believe further scoping should be done on how this could be taken as tax revenue or incorporated into an increased hourly rate of certain visa class holders and then be taxed at a competitive flat rate rather than charging an uncompetitive tax rate.

The only significant factor that could alter the demand for seasonal workers is automation such as mechanical harvesting in the nut industry. But this is not a possibility in other crops for example citrus cannot be shaken from a tree- it has to be picked under the right conditions and handled carefully to ensure it can endure the cold treatment and the long shipping journey to lucrative export markets.

The international coverage of this proposed backpacker tax is already causing damage. We need a prompt positive decision. Existing backpackers have advised they will be stopping work and not returning to Australia if the tax goes to 32.5%. More importantly, those who are currently contemplating a working holiday are already looking for an alternative country. We need to take the heat and the controversy out of this issue.

It should be noted that backpackers already pay tax at the same rate as residents. That is, at the rate of 19c for each dollar earned over \$18,500. They are not entitled to any healthcare, pension, schooling or other tax payer funded benefits residents get.

Whilst some say this is insufficient tax despite our dependence on this labour to harvest. Any increases in tax would be weighed off against alternative locations such as New Zealand where the resident tax applied to backpackers at 11.5% paid on the first \$14,500. This appears to be where potential backpackers (looking for a Southern Hemisphere working holiday) are looking with news of the 32.5% flat tax. Australia is high on the travel destination, but net income is important in the decision. Also of importance in their decision on location is Australia's high cost of living.

This shortage will further open the door to unscrupulous labour hire companies underpaying workers and return to the cash economy. With desperate farmers needing to harvest- this sector will grow. Much of the industry is serviced by labour hire companies and it is getting harder to recruit backpackers directly. As in any industry a shortage of supply leads to increased prices driving more farmers from the industry.

In regions where there are a few large growers/packers, they will probably get first options on the labour leaving very little labour for the smaller and medium size farmers. For example, just a 10% decrease in the number of backpackers in the Spreyton area of Northern Tasmania will mean no labour will be available to harvest apples. 90% of backpackers will go to the Costa's blueberry plant which last year was already short of labour. See <http://www.abc.net.au/news/2015-01-05/costa-jobs-fruit-picking-blueberries/6000586>

In a normal market the increased price of paying more for labour would be passed on, but in a world of 2-3 supermarkets competing aggressively for 70% of fresh fruit and vegetables the end result is more farmers go to the wall. For too long growers have been price takers and in fact most are paid less for their produce now than what they were 10 years ago despite the cost of production increasing annually with huge increases in the cost of electricity, water and yearly wage increases.

Australia has been running tourism advertising campaigns in many overseas countries including the likes of China- advertising what a beautiful place it is etc. When backpackers travel around Australia they are constantly on social media tagging the places they are visiting. Many of their parents come to visit whilst they are over here and many contacts see the pictures and come for holidays. This is the best free advertising we can get, yet we are prepared to risk it all. The current bad policy needs to be scrapped. A message needs to go out loud and clear that Australia welcomes these workers and that the current proposed policy is gone. Do the economic modelling of the gains and the losses and then come to the table with industry and let's work through what is a fair and reasonable and competitive tax so that we get a win on all fronts for the Australian economy. These backpackers are brand ambassadors for Australia – let's not lose them!

Another unintended consequence is the very strong message this sends to horticulture about exports. If there is not enough labour to harvest the domestic crop don't waste time with exports!

## Recommendations

### Recommendation 1

In order to rebuild that positive image of Australia and a return the confidence to our international markets we believe the government needs to scrap the current tax policy, this will assist in ensuring major commodities can see out their harvest periods. But it needs to happen now.

### Recommendation 2

As stated earlier in our submission we believe that all workers in Australia should pay a level of tax that is fair, consistent and competitive.

If the government would like to re-enter discussions around introducing a tax rate for backpackers we urge them to re-engage with industry:

- 🌱 Any proposal must be internationally competitive.
- 🌱 Modelling or analysis of the impact of a tax at any proposed points has to be conducted.
- 🌱 Government must consult industry on a plan to implement any proposed backpacker tax to ensure appropriate lead in times so we don't see the level of fear within the backpacker community which currently exists around the tax.

If forced into no option, then a flat tax of 15% matching the Seasonal Workers Program would seem appropriate and be internationally competitive.

### Recommendation 3

1. The current 9.5% of income that is paid for superannuation needs to be redirected to work for Australians, either as tax revenue or placed into a fund to develop better labour schemes for horticulture. If used as tax the combination of a 15% flat tax it would provide a 24.5% flat tax and address much of the budgeted tax revenue from the backpackers tax.
2. For example, it could be paid as a bonus if they complete two years in horticulture.

### Recommendation 4

Consideration should also be given for a specific visa for agriculture with a second 18 months if conditions are met. Instead of the 88 days for the second year visa, we could look at 120 days for an 18 month visa extension.

### Recommendation 5

Consideration should also be given to flexible piece rates to be able to employ the numbers of "grey nomads" that frequent growing areas. The current award is that the average worker on piece rate must earn 15% more than they would if they were on an hourly rate, our older worker or "grey nomads" may not work at the same intensity as the 20 year olds but would still like to be employed, the current award means employers cannot afford to employ them.

### Recommendation 6

Look at ways to increase and secure more labour for horticulture. Increase the age to 18-35 or 40, increase the countries that can enter the program for example include the Philippines and Vietnam. Horticulture sits on the cusp of an amazing opportunity with the Free Trade Agreements (FTA) with Asian countries, increased demand for our sweet, safe and healthy produce- our demand for labour is only going to increase not decrease if we are going to meet this demand, this in turn has huge benefits for Australia as a whole.

### Recommendation 7

Immediately commence an international targeted advertising campaign to potential backpackers saying we want you and the “backpacker tax” policy is scrapped. This does not mean no tax, it means the current flawed and unjustified policy is scrapped and then we can discuss a more realistic approach. We have a very short window to entice workers here for the 2017 harvest- we need to start now.

Should you wish to hear from backpackers and growers directly regarding this matter, then please visit @VoiceofHort on Twitter or [www.facebook.com/VoiceofHort](http://www.facebook.com/VoiceofHort).

