



Western Australian Industry Response to Working Holiday Makers in Australia

2 September 2016

Prepared by: Mr Grady Powell
Organisation: The Western Australian Farmers Federation (Inc)
President: Mr Tony York
Address: 125 James Street
Guildford WA 6055
Postal Address: PO Box 68
Guildford WA 6935
Phone: (08) 9486 2100
Contact Name: Grady Powell
Title: Executive Officer
Email: gradypowell@wafarmers.org.au

The Australian Federal Government proposed a tax on working holiday visa employees during the 2015 budgetary process. The proposed tax dubbed the 'Backpacker Tax' will have far reaching implications on agriculture and primary production Australia wide. The current policy being considered by government is to tax working holiday visa holiday employees 32.5 cents. It is envisaged that these measures will raise approximately \$540 million over 4 years. WAFarmers wants to make it known to government that this tax, if implemented, will lead to a drop in production across many industries, missed opportunity in terms of future investment and a decline in export dollars returned to government. Furthermore, the tourism sector will be severely impacted, with evidence of this already being identified within the community.

WAFarmers is working closely with other primary production associations as well as work placement providers, these include:

- **Australian Hotels Association**
- **Gascoyne Publican**
- **The Job Shop**
- **WA Fishing Industry Council**
- **WA Pomegrowers**
- **Wines WA**
- **2 Workin Oz**
- **Vegetables WA**
- **Farm Machinery and Industry Association**

This paper presents a Western Australian whole of industry approach, with all stakeholders conveying views and impacts they will experience should the proposed changes be implemented.

We thank you for the invitation to partake in this workshop.



The backpacker workforce is integral to industries that include agriculture, horticulture, fishing, tourism and hospitality. International employees are utilised by way of 417 and 462 Working Holiday Visas. These visas are more often than not utilised to fill job vacancies that cannot be filled by local content. The decline in backpacker labour is costing the Australian economy more than \$320.

The Western Australian wine industry has a world renowned reputation for hosting some of the best wine producers. As such, the WA farm gate value of the wine industry is \$65 million, this value increases to \$684 million at the point of sale. The viticulture industry has year round, short term, high volume tasks such as vine management, grape harvest and processing, many of these tasks are unable to be mechanised. This short term and mostly seasonal work does not suit permanent residents, rather it is better catered to the flexible, itinerant lifestyle of a visitor on a working holiday visa.

Most WA grape growers and winemakers utilise workers under 417 visa provisions, either through direct employment or indirectly through contracted services from labour hire companies. Feedback from such businesses suggests that for some it would mean closing their businesses as their short term labour requirements could not be met by employing locals.

The Pome industry (apple and pears) see the existing international backpacker labour resource as a major asset to the sector. Many growers utilise the 417 visa workforce for fruit picking, and other seasonal work. The concept of utilising holiday workers is not restricted to the apple and pear industry, with orchardists in the South West of the state, right through to the growers in the north tapping into this available labour.

Considering the strong reliance on the itinerant workforce, many orchardists fear changes to the tax rate has the potential to scare many backpackers away from Australia, selecting other competitive nations such as New Zealand and Canada.

The proposed backpacker tax has the potential to shrink the pool of available and willing overseas workers, and the option of filling the void with the domestic market ignites reservations and concerns for producers. Industry requirements are regional, with approximately 80% of production being located in the South West of Western Australia. Growers are not confident that domestic sources will satisfy the demand, skills or service the locations required to ensure the industry sustains current production rates.

The Western Australian Fishing Industry Council represents commercial fishers, pearling and aquaculture sectors as well as their associated processors and exporters. The commercial fishing industry contributes an estimated \$400 million per annum to the state's economy, and as investment into the sector increases, this revenue is expected to experience significant growth.

Quite a number of fishing businesses utilise backpacker labour, but most in the wild harvest fisheries will be on a '*catch share agreement*', and as a result will be operating under their own ABN. However, increasing the tax rate for those who are not on such agreements will have an adverse impact on the attractiveness of living and working in Australia.

The Job Shop who finds staff to fill casual, mid-term and permanent roles in Perth, Kununurra, Darwin and Katherine have said inquiries received through their office has already experienced a decline as a result of the backpacker tax. The Job Shop finds employees for growers who utilise the labour for planting, growing, harvesting and packing produce. Despite the advent of the Seasonal Workers Program, growers depend on working holiday visa holders and will continue to do so. The Department of Employment has identified the labour shortages in Australia through working holiday makers and the Seasonal Workers Program is in the vicinity of \$700 million.

The decline in working holiday visa applications can be identified within data obtain from the Department of Immigration. In 2015/16 there were 214,643 working holiday visas issued in Australia, they were made up of 195,673 417 visas and 18,970 462 visas, these figures show an overall decline of 8%. The impact of the backpacker tax is apparent with a 12% decrease in second year visas issued to working holiday makers.

In 2015/16 33,363 working holiday makers embarked on a regional employment placement. This has experienced a decline of 21% over 3 years, with numbers sitting at 42,274 in June 2014. The impact the decline of backpackers has on agriculture is further highlighted not only by the difficulty of attracting local content, but the declining numbers of employees in agriculture which has slipped from 345,000 in 2000 to 298,400 in August 2015. With an industry that is being encouraged to service both domestic and international demand, labour shortages are leading to dramatic loss of production which is hindering the sector's potential profitability which is hoped to be worth some \$100 billion within the next 15 years.

Additionally, Job Shop undertakes recruitment for the hospitality sector with many regional bars, restaurants, hotels and roadhouses accessing backpacker labour. Most employment placements can only afford to pay award minimums and the main attraction for staff to work in these roles is they can work hard and save money. With the proposed tax of 32.5 cents, working holiday visa holders would be saving less money, which is a disincentive for people working in the state's regional centres.

2 Workin Oz is a unique employment agency that works to improve skills and opportunities for backpackers looking to work in the cropping and livestock agricultural sector. Employment placements are usually short term, and take place over the peak workload periods. 2 Work in Oz has worked with in excess of 600 travellers on 417 visas, processing 130 people per year through their industry specific courses. If the backpacker tax is progressed, 2 Work in Oz will be impacted immediately, as well as the agri-businesses in which it supports.

Industry bodies from the Gascoyne have sighted in the Developing Northern Australia White Paper that the border for Northern Australia has been identified as the Tropic of Capricorn, rather than the 26th parallel. The tourism and hospitality sectors will no longer be able to facilitate working placements of 88 days to allow visa holders to have a second year visa in Australia. For towns like Carnarvon, Shark Bay, Monkey Mia, Gascoyne Junction and Minilya backpackers are critical for the town's sustainable future.

If the current proposals before the government are implemented, the towns, their businesses and local economies will be severely impacted. Backpackers who work and live in these regional locations contribute to the social fibre of the towns, but also contribute to the economy as they spend their money earned from the town back into the town.

WAFarmers encourages the Federal Government to review the 88 day requirement to qualify for a second year 417 or 462 visa. In many agricultural industries the work can have low volume periods. As a result the employees do not see a full day pay and/or hours completed to fulfil the requirements of the 88 day framework. In some instances, it may take a backpacker employee 100 days to meet the 88 day criteria. WAFarmers believes in fair pay for a fair day's work, and the existing framework may not be assisting that in occurring 100 per cent of the time. WAFarmers suggest exploring an avenue of having prescribed hours that need to be completed to achieve second year visa application status rather than prescribed days. This process will be easy to monitor with payslips accurately recording hours work so there will be no administrative burden on employers, employees or government departments.

Many backpackers who come to Australia have experience and expertise that are important to the sectors in which they work while in Australia. Feedback from industry has shown that many backpackers come to Australia on working holiday visas to enhance their existing skills and knowledge in a specific trade. The Fishing Industry sees people travel to Australia who have experience in aquaculture, while the wine sector has people skilled in viticulture and oenology come to Australia to learn new skills in the tradecraft, but also share their knowledge. This plays a vital role in continuing the evolution and innovation within our primary production industries.

Further, it has been identified that WHV employees working in the hospitality sector add to the experience of those they interact with as the diversity of cultures and backgrounds enriches the experience of those they interact with. This becomes a unique drawcard for the industry, and is something that should not be taken for granted.

All of these industry assets could be stifled should the Federal Government implement the current backpacker tax. The National Farmers Federation undertook a survey of 1434 backpackers in 2015 when the proposed changes were announced. The backpackers were very aware of the taxation policies that government were addressing and the results were as follows:

- 69% knew about how Australian taxes worked before they travelled to Australia.
- 86% thought they were eligible for the tax free threshold.
- 52% had decided not to stay working in Australia after 1 July 2016.
- 84% had since heard of backpackers changing their plans about coming to Australia.

We have heard examples of backpackers walking off plantations in the Gascoyne when they completed 75 days of the required 88. This of course leaves an employer short staffed which leads to loss of production, which has repercussions further down the supply chain. We have also seen social media pages with thousands of members discussing this very issue. Australia is losing out to nations such as New Zealand and Canada who are already cheaper to enter under WHV conditions, but with the fluctuations in the Australia Dollar, we are

beginning to lose out to competitors in terms of the exchange rate. This tax will cripple the WHV sector and the industries that rely on the employment pool.

The Western Australian industry approach represented in this paper all agrees there is the requirement for backpackers to pay tax. We believe the current status quo should remain as this system is working and has done for some time. The side effects of 'tinkering' with this tax system are severe, with any profits made being significantly dwarfed by losses made within the impacted primary production and tourism sectors.

If the government does progress changes, we believe a much softer approach than the current 32.5% needs to be considered. We think the proposal put forward by the National Farmer Federation is a fair compromise. A tax rate of 19% achieved by the deactivation of the tax free threshold is acceptable to the backpacker and the employer. Implementing this tax rate will still see approximately \$315.7 million returned to government over a 4 year period.

Another point that must be noted is the 9.5% compulsory superannuation contribution made by the employer. Many backpackers do not claim superannuation upon their departure from Australia; as such it does remain with government. For any superannuation that is claimed upon departure, it is taxed at a rate between 38 and 41 per cent; this still sees significant revenue awarded to government. This combined with the proposed 32.5% employment tax rate is seen to be a double-dip by government, and is not accepted by industry.

Superannuation was created to assist Australians as they transition to retirement. As backpackers are not going to retire in Australia it defeats the purpose of why superannuation was created. Employers having to complete the necessary paperwork as well as paying into superannuation funds that will never be accessed for its intended purpose seems pointless.

In 1992 when the Keating Government introduced superannuation guarantees it was based on wages and salaries of the time. These figures have not been indexed and are still based on the thresholds set in 1992 which is approximately \$420. This threshold in 1992 would have seen superannuation paid over that set amount which would be close to a week of wages, however in modern day terms this is money is accrued in a day or two. With this in mind, the superannuation is payable a lot earlier with a larger contribution being legally required. The government needs to address the indexation issue, or more simply, remove the necessity to pay backpacker superannuation.

WAFarmers believes superannuation payable to backpackers should cease. This money is better being quarantined by government and reinvested into the sector. This revenue could assist in training as well as attracting labour out to the regional, rural and remote areas of Australia.

Other avenues of increasing access to labour must be explored. This includes increasing the threshold placed on country specific caps. China managed to meet its maximum quota of 5000 in a very short timeframe; this demonstrates their eagerness to come to Australia. Additionally, the age limit could be increased from 30 to 40 which will deepen and diversify the pool for employers to choose labour from. Preliminary figures shows that this could bring

approximately \$300 million to the Australian Government per annum, which will further assist in reaching the cost-neutral target of 540 million.

Much focus throughout the backpacker labour workforce discussion has focussed on traditional farming enterprise. The Farm Machinery Industry Association is Western Australia's only membership group who represent manufacturers, importers, distributors and retailers. As the machinery and affiliated enterprise are spread far and wide throughout Western Australia, staffing issues are ever present, as such backpackers play an essential role in keeping businesses running.

As mentioned in other sectors, backpackers may bring a wealth of knowledge to Australian in regards to agricultural machinery. A lot of the machinery used in Australia is imported from United States, Europe and Canada 12 to 18 months prior to arriving on our shores; this sees many backpackers coming to Australia with extensive mechanical and operation knowledge prior to embarking on working holidays.

Another initiative that could be explored is the opportunity for work carried out in this space contributing to the prescribed working placement required to qualify for a second year visa. WAFarmers would like to see backpackers being able to work in a mechanical environment preparing machinery ready for seeding or harvest and then being able to undertake the work required on farm. This not only diversifies the people and skills to Australia but also sees more opportunity for backpackers to work in one regional location, which of course bring a raft of positive benefits to the local economies.

WAFarmers sees opportunity for this program to be broadened to include sectors that are associated with traditional primary production enterprise. By widening the scope, it will allow for an increased volume of backpackers to travel to Australia and undertake working placements, this will assist the Federal Government in meeting prescribed budgetary targets set in 2014/15.

Both the Western Australian Government and Commonwealth Government have worked hard to open and activate trade markets overseas via Free Trade Agreements and other avenues with the aim of feeding a growing Asian middle class, but also a growing world population. We have the Gascoyne which is seen as a food bowl, Ord River Irrigation Stage 2 coming online, beef prices are at record high and new aquaculture coming online to name a few. However, we will not be able to service these expanding markets if we do not have the labour to service demand. We need good government policy to ensure our industries are supported, and the backpacker tax will not bring one positive outcome to the sector.

Comments from Western Australian Primary Producers

- “We cannot get locals to do the seasonal part time work. We have 177 people on our books right now looking for casual, grape harvest related work – not one is Australian. It is not just that it is physically demanding. The early starts and the lack of certainty are only appealing to people with a flexible lifestyle such as backpackers on working holidays. It is win/win. They have plenty of time to enjoy their journey but also have the opportunity to earn enough to cover living expenses. And generally, every dollar earned (and more) is spent in the local community, with GST paid. We do employ 20 locally based Australian citizens in supervisory and more highly skilled administrative positions. Implementation of the suggested changes would likely make our business unprofitable and these 20 locally based people would lose their jobs. *(Owner of contract labour hire business in south west WA).*
- “Seasonal workers are crucial to our Western Australian wine industry. It is near impossible to attract Australian workers for some of the jobs required. A change to the tax regime will prove to be a disincentive for overseas travellers to re-locate to regional areas to gain their second year visa. This year our vintage crew is 8 people, 7 of them are working holiday visa holders. This is not because we rejected Australian workers’ applications. We received over 200 resumes asking for vintage work. None of the 200 were Australian residents. *(MD of large winery based in south west WA)*
- “As a small producer, we use back-packers regularly in our vineyard for pruning, lifting wires, and for picking grapes at the end of season. Sometimes it is difficult to get backpacker workers as the avocado, strawberry and potato industries also have a strong demand. My concern is that a significant tax rise will make it so much harder to source workers. Also, we live in a small, rather isolated community, and we need to encourage people to come and spend time and money in our region. Such a large tax increase will only discourage this.” *(Owner of a small winery based in the south west of the state)*
- “This situation and our continued financial existence is very much dependent on the continuation of obtaining a labour force from the backpacking fraternity. While the Federal Government may be seeking tax funds from the Travelling Working Holiday Makers, they might also consider the loss of tax income from the small enterprises who will become unviable if this consideration is to proceed. I stress, without access to this work-force we will almost certainly have to shut the gate.” *(Owner of a small winery based in the south west of the state)*

Comments from backpackers in Australia

- Personally, I think it's rather unfair and hypocritical. If I am correct, the government want to make sure than as backpackers we always have enough money to be able to return home and live comfortably in this country. Most backpackers have to work at some point to be able to sustain their living here, which is fair enough. BUT this tax would mean that we are going to have to work a lot more and for a long period of time in order to have enough in our accounts when we are running low. 3 months (1/4) of our 1 year visa is already taken up by doing farm work for our 2nd year visa. It's hard to get a job for only 3 months let alone anything less. This is already half of our visa year gone. With the increased tax it will probably be another month or two on top of this, if it isn't already for the majority of backpackers. We came to Australia to experience the culture and see the beautiful lands and let's be honest, to have a good time, enjoy ourselves and to go home making others want to visit the country. We intend to spend all this money so that we have amazing memories and adventures. We want to be able to use most of our visa to do this. If our time here is completely taken over with different types of work, we aren't going to get to see the country and pass on our amazing memories, encouraging people to come!!! Australia is an amazing country and I think that's reflected in how many people are backpackers here. It would be such a shame to begin pushing them away and ruining people's dreams of travelling such an amazing country.
- I'm currently working as a greenkeeper in Manly, I plan on doing my farm work so i can come back to manly to work next year, however with this new tax law, Manly would have to pay me another \$3 an hour for me to make the same pay packet as i do currently. This isn't possible therefore leaving myself and manly out of work and a skilled position going unfulfilled.
- I really enjoyed doing my farm work for my second year visa and I am now currently on my second year working back on the farm to save money. If I was going to lose nearly 35% on my wage I don't think I would be here now
- As financially independent travellers who are away from home for the first time, it can be a challenge supporting ourselves - but that is all part of the experience. However, with being charged such a big portion of our wages as tax and not being able to claim them back, it's going to become increasingly difficult to pay living expenses and have spare money to travel your beautiful country - the whole reason we are here! I know a few travellers already who are in labouring who are now planning to go home and work rather than do it out here because of the tax change. Also people who are being deterred from doing farm work and second year visa work.
- Backpackers supply a vast amount of economic income for Australia. Across the tourist industry, leisure industry and local businesses. They also supply work for employers who struggle to find a residential work force. As well as paying tax on income from employment, we also contribute greatly through the tax on products we buy. By penalizing the backpacker community even more with the increase in tax, there is sure to be a decline in the economic growth for Australia. For a third of my earnings to be taken would put me off returning for my second year completely.