



Working Holiday Maker Visa Review Submission

To Federal Department of Agriculture and Water Resources



Report prepared:

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Introduction

Mildura Development Corporation (MDC) is the peak economic development organisation for the Mildura region and with Mildura Rural City Council's support, promotes regional growth, business development, investment and advocates on matters that impact the region.

The extended Mildura, Wentworth and Robinvale region produces nearly 20% of the \$10 billion Australian horticulture farmgate with a high percentage of products being export oriented. The future of the region is very promising with continued growth expected from established producers and additional investment from within Australia and internationally. The expected new almond developments alone are anticipated to increase by an additional 50% over the next three years, with the industry potential worth over \$ 1 billion in ten years.

The new International Trade Agreements that the Federal Government has negotiated with China, Japan and South Korea, are already having an impact on this region with additional exports from a number of industries.

The region is providing one of the main platforms to guarantee success for the Federal Government's vision *"to build a more profitable, more resilient and more sustainable agriculture sector to help drive a stronger Australian economy"*.

The Government also indicated in the Agriculture Whitepaper that "it is committed to strengthening the sector and ensuring it remains as competitive as possible, because stronger farmers mean a stronger Australian economy" and has invested \$4 Billion into the sector to promote this as an outcome.

Whilst we applaud this commitment, this region is facing a significant threat due to the Federal Budget 2015 - 2016 proposed changes to tax for temporary working holiday makers. This ruling is in direct conflict with the positive policy approaches and support that is being extended to the food sector to provide the sustainable and prosperous future for all Australians.

The \$540 million proposed additional income that will be generated through the new legislation where working holiday makers (WHM) are taxed at 32.5% from their first dollar of income is 0.04% of the overall forward budget projections of the Federal Government. While this may seem insignificant, it will have substantial impacts for producers, packers, accommodation houses, labour hire businesses and the tourism industry located in rural and regional areas. In addition to this, the flow on effect to retail and other service sectors could result in increased unemployment as these businesses slow. The implications of this legislation will have far reaching consequences for areas such as Mildura and Wentworth, not only now, but into the future.

This submission to the review will provide information that will assist in your deliberation. In February 2016, MDC facilitated a meeting of organisations effected by the changes to the legislation. The information and comments from the participants during this meeting and other details sourced through the Corporation inform this document and are provide below.

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1. Short-term and long-term agriculture and tourism labour needs

1.1 Importance of 417 and 462 visa holders to the organisation, its members, and the sector overall

MDC's role is to actively develop, grow and promote the Mildura region and advocate on behalf of the community as the peak economic development organisation. Backpackers are critical to the short term labour force in the horticulture industries in this region and if the taxation is introduced at 32.5% from the first dollar, the sustained livelihood of the producers will be compromised and the growth in the horticulture, packers and process industries will be stifled.

It has been estimated that every year 6,200 backpackers are employed and remain in the region for a total of 490,500 overnight stays (Tourism Australia Research March 2016). When multiplying by \$37 per day, the estimated expenditure by backpackers in the region, this equates to a minimum of \$18 M fed into the community¹. With multiplier effect, the figure increases to \$32 M using economic development modelling².

The WHM are employed across many sectors in the region including:

- Farm producers – table grapes, citrus, vegetables, nurseries, almond properties, asparagus and grain.
- Processors – fresh fruit and vegetable packing companies, large scale wineries, beverage, olive oil, dried fruit and other seasonal food manufacturing plants.

As highlighted earlier, the extended Mildura, Wentworth and Robinvale region produces nearly 20% of the \$10 billion Australian horticulture farmgate. The region produces 75% of Australia's table grapes, 24% citrus, 98% dried vine fruit, 65% almonds and 20% of the wine crush.

To illustrate the concentration and importance of this labour force, 65% of the total WHM's overnights stays across the Murray Region Tourism area (Mildura to Albury-Wodonga) are in the Mildura Wentworth region (Tourism Research Australia).

MDC's purpose to market the region and encourage horticulture investment is also stifled when government policy such as this suggested, counteract or in effect negates the strategies of organisations such as ours in driving growth, attracting new investment and new people and encouraging business development.

¹ This has been calculated by sourced in report 'Working Holiday Makers to the Murray region' for Murray Regional Tourism, based on data from International Visitor Survey for the year ended March 2016. Published August 2016.

² Economic modelling from information obtained through Australian Bureau of Statistics by Remplan www.remplan.com.au.

1.2 The proportion of the labour force made up by 417 and 462 visa holders, the roles they play, and how they meet short-term and long-term labour needs.

A significant proportion of short term labour in the regional horticulture industry is filled by the WHM. Our understanding from industry this could be over 80%.

To be competitive, producers need to have flexible labour resources. WHM are able to fill this area of the market as they are available at a days' notice. One attendee said at the February meeting,

“most producers can get by within their normal operation however, for short term access to labour, backpackers are very important and without access to this resource; it could be devastating for producers”.

To illustrate the flexibility and movement between different workplaces, a representative from a Mildura labour hire company said that some WHM had been employed at over six different workplaces filling short term needs.

Backpackers are also employed in food packing companies and other manufacturing companies during the harvest season on production lines when additional labour is required on a casual basis. This assists the industries with their short-term needs.

1.3 How 417 and 462 visa holders compare to other sources of labour, including in terms of their availability, skills and productivity

Seasonal work is hard and the weather conditions can be extreme, both in heat and cold and most local people are not prepared to work for the low rates paid or for the piece meal rates for the type of work on offer.

WHM can be accessed on a day to day basis, so the producers do not incur cost when unseasonal weather conditions occur and WHM generally have a high skill level and can interpret instructions quickly.

Productivity would vary between the individual, however many return for a second year, bringing with them the skills they gained during the first harvest with increased efficiency.

Whilst some businesses are utilising the Pacific Islander Workforce Scheme, it is more targeted at the larger organisations given the upfront costs of flights, the stringent requirements, accommodation and pastoral care needed with this scheme. The employer only has access to a specific number of workers, therefore if the producer experiences a bumper crop or receives an order that requires a quick turnaround, there is no flexibility to access additional staff through the Scheme and the producer is then reliant on the alternative backpacker market.

1.4 Future factors altering importance these visa holders to your sector

The horticulture industry is growing, particularly in the almond, table grapes, citrus and dried fruit industries. Global supply chains and conditions, changing consumer demands and impact of the Free Trade Agreements has increased the demand for Australian fruit and as a result, additional interest from international companies wishing to invest has occurred. California in particular has experienced extreme climatic conditions and investment in the Mildura region allows international companies to diversify their risk and extends the supply of product across a longer time frame for global markets.

Ross Skinner, CEO, Australian Almond Board

indicated the industry is growing rapidly, and continues to grow. There are approximately 15,000 hectares, with 3.5 million trees needing propagation and planting over the next three years, much of which requires seasonal labour. The farm gate value of almonds is \$1 Billion with \$747 million of this generated from export sales in 2015. 70% of the almond industry is located in the extended Mildura region including Robinvale. Without access to the WHM's workforce, this growth industry could be hindered.

John Argiro, Table Grape Producers

John Argiro, a table grape produce, employs 120 seasonal workers all of which are back packers. He has been very pleased with the new FTA's and believes this has resulted in 30 – 40% additional export for his business. Given the growth of exports, he would like to expand his packing shed however, he is not confident to progress given uncertainty of ongoing labour.

2. Australia's competitive position in attracting seasonal and temporary foreign labour

2.1 Major motivators for WHM choosing to work in Australia

The major motivator for WHM to travel to Australia is for holiday purposes. Secondary to this is finance to continue to enjoy their holiday in Australia. WHM travel to the regional areas to complete the requirements needed to meet regulations to stay a second year.

Often they love the Australian lifestyle and would like to stay on a permanent basis. Being employed in a regional setting provides additional advantages towards this becoming a reality.

Many of the WHM are well educated and have ability to transition into the Australian community more easily given the common cultural backgrounds. As a country, we should be encouraging skilled individuals that are interested in living in Australia, especially regional areas where skilled occupations are often in demand.

Our region has developed off the backs of the migrants that have decided to make Mildura their home over the last fifty years. Our grape industries, in particular, would not be as successful today without the skills and knowledge of the people from Italy, Greece and Turkey who migrated to Australia.

To provide two recent examples of individuals that have started the journey as WHM and are contributing to our Australian society.

An email was received from Adrian Price, Boyup Brook, Western Australia, a passionate migrant advocating for changes to the introduction of the 32.5% tax. He was a Mildura backpacker, picking grapes about 30 years ago. He went on to become a natural resource management officer in four WA shires and was awarded the WA Local Hero-Australian of the Year Award 2004.

Giovanni Barbera, was announced "2016 International Student of the Year" (VET/TAFE sector) at the Council of International Students Australia (CISA) Excellence Awards in Darwin. Initially Giovanni was drawn to Mildura as a WHM from Italy, decided to change to an education visa, is now employed part time at a local restaurant and is completing his diploma studies. His dream is to own his own hospitality business in Australia.

2.2 The knowledge and understanding 417 and 462 visa holders have of the current and proposed tax arrangements

The WHM are very conversant on the current and proposed tax arrangements and make informed decisions on which region they choose. Social media provides information instantaneously and referrals are very important.

2.3 How the 'backpacker tax' affect WHM decision to visit Australia and the number of hours they choose to work? Is there evidence that these visa holders are already altering their travel or expenditure in response to the proposed tax change?

There is already a negative perception of labour hire businesses in Australia that are adopting unscrupulous practices. The increase in tax will further disenfranchise overseas holiday makers from choosing Australia as their first preference. A number of individuals at the meeting in February 2016 indicated that the market is already aware of the situation and through social media backpackers are being directed to either New Zealand or Canada for a similar overseas experience.

Scott Cameron, MADEC Harvest Labour Services Manager

Scott Cameron, indicated the organisation refers over 12,000 people to farming vacancies across six horticulture regions including Adelaide Hills, Riverland, Sunraysia, Mid Murray (Robinvale and Swan Hill), Goulburn Valley (Shepparton and Cobram) and Riverina (Griffith, Leeton and Hillston). He highlighted they experienced a significant decline during the period when the tax was announced in February 2016 and further indicated that all regions were struggling to fill vacancies. The worst affected area is Sunraysia with the average job fulfilment around 70% during the dried fruit harvest, the Riverland estimate 80% of all citrus picking vacancies were filled, while other regions range between 80-95% (MADEC will be providing a separate submission to the review committee).

Research recently undertaken by Youth Hostel Association (YHA) by Dr Jeff Jarvis, Monash University³ has validated the concerns by individuals in this region about the 32.5% tax through a quantitative research study of 335 international WHM in Australia between May and June 2016, staying in hostels in three locations (Melbourne, Cairns and Port Douglas). The results include:

- 60% of the sample would not have come to Australia if the tax was 32.5 percent.
- 57% of Working Holiday Makers said that they would spend less time travelling in Australia if the tax changes were to take effect.
- 70% said they would look for cash-in-hand jobs to avoid it.
- 62% of those surveyed saying that they would have considered going to New Zealand instead.
- 53% identified Canada as an alternative destination.
- WHM would also be less likely to advise friends to come to Australia (22% recommendation rate versus 75% prior).

One company representative expressed the concern that once backpackers have decided to go elsewhere, it will be more difficult to attract them in the future as the referral system would be compromised.

³ Dr Jeff Jarvis, Monash University's National Centre for Australian Studies (Director, Graduate Tourism Program, Monash University). The research is part of an ongoing research study looking at the behaviour of working holiday makers in Australia entitled 'Long term tourists or short term migrants'.

2.4 The nature of international competition for working holiday makers, and how the Australian WHM visa program compare to schemes offered in other countries.

See under previous heading. New Zealand and Canada offer a similar experience and Australia needs to ensure we are competitive with these countries to continue to access WHM.

We are part of a global workplace; the working holiday visa was introduced as a way to build relationships between our allies and the changes that are proposed are contrary to this. There was an uproar from Australian citizens when the United Kingdom wanted to change the visa rules for Australian workers in December 2015. The Australian Government formally protested the changes⁴. We as a country were displeased at their line of thinking.

We need to consider what the response will be from a global perception, the consequence to Australian backpackers travelling overseas in the future and our reputational risk.

2.5 Government policies or initiatives that would exacerbate (or mitigate) the effects of the tax, and what measures could be used to mitigate the impacts.

It is acceptable that WHV should pay something towards costs whilst in Australia, however it needs to be competitive with other overseas countries to ensure we remain an attractive destination.

Although a figure was not determined at the February meeting of industry, there was general acceptance that 32.5% tax from the first dollar was too high and needed to be reduced.

The rate of 13% straight tax that was introduced in the horticulture sector over eighteen years ago has been the base of calculations in this region for seasonal work (ATO tax table for individuals employed in the horticultural or shearing industry). From the discussions at the meeting, this was seen as a realistic tax rate and allowed for some contribution by seasonal workers to the Australian economy.

At the same time, many of the attendees indicated that a reduction from 32.5% to a figure between 13 and 19% would more than likely have been received in a positive light.

3. Regulatory imposts on employers

With the WHM being taxed at 32.5% tax from the first dollar, an increase in the cash economy would occur given farmers would be desperate to attract labour to their farms. This could increase unscrupulous activities; workers would not have access to cover in case of injury. With a cash economy, the risk of prosecution is heightened and producers would face up to a \$86,500 fine if prosecuted.

The Federal Government would need to increase the size of regulatory bodies to counter the cash economy and ensure compliance. The cost of which could offset the gains from the higher tax rate.

4. Exploitation of and protections for vulnerable workers

Many backpackers are paid by piece rate method and have the opportunity to earn approximately \$120 net a day based on experience. Realistically with tax and other expenses, they are only earning \$60 - \$80 in hand, and with the new tax regime this will mean \$40 - \$60 in hand. With workers viewing this as insufficient return for their activity, this has the potential to force farmers to the cash economy to obtain the workers needed. This may increase the negative practices of labour hire companies, insecure work, sham contracting and the abuse of

⁴Sourced at <http://www.news.com.au/travel/travel-updates/australiauk-bond-under-threat-from-britains-discriminatory-visa-and-migration-policies-dfat-report/news-story/d93f1ed2ca71ba961eb71c4bf5b2cf5c>

visas to avoid workplace laws and undermine minimum employment standards that has occurred and governments and producers are trying to combat.

Another consequence could be that WHM would opt out of working in agriculture pursuits in regional areas and would transfer to education visas that is now commonplace and would worsen. This increased use of training would add additional burden on our education sector.

5. Capacity to match employers with available workers

5.1 Business response to a decrease in the WHM labour supply.

The industries in the region incorporate technology within their organisations to reduce the reliance on labour where possible, however there are still many tasks where manual labour is required. The table grape industry is an example of this, in harvesting the grape cluster from the vine, it entails a process of cutting, viewing and trimming to a predetermined specification before placing in the tray.

A decrease in the WHM labour supply will leave producers in this region struggling to access labour to assist with time critical crops. This is particularly of concern with perishable products that need to reach export markets in quality condition to be competitive with other countries.

In a regional setting such as Mildura, that is over 550 km from Melbourne and 450 km from Adelaide, we do not have access to large labour force that exist in metropolitan cities. We are reliant on what is available locally or who we can attract to the region. It is possible to contract workers directly from the city, however the travelling costs, accommodation and provision of specific work for a period of time would add significant additional cost.

A decrease in WHM labour supply would leave the region struggling to find workers to tend crops. The producers, packers and processors, more than likely, would need to increase the wages being offered to attract labour. This could cause a distortion of the market where larger corporate benefit at the detriment of the smaller producers. The larger entities have economies of scale to promote and access the labour in comparison to smaller producers, where margins are thin. The result could be an exodus of growers from the high labour intensive industries, reduction of regional output, increased unemployment across this region and increased government social payments.

5.2 How employers are matched with available workers, including the role of labour hire companies.

Employers are matched with available workers in a number of ways including labour hire companies, hostel operators, job advertising, gum tree and social media. As in the previous responses, in a regional setting, we don't have access to an alternative workforce and would need to increase the wage to attract workers.

A decrease in the WHM labour supply would increase demand for labour, the cash economy would escalate.

5.3 Impacts across the regions.

Our region in particular would be adversely effected given the high level of WHM in the region supporting our industries. We have labour intensive crops such as table grapes, citrus, vegetables, asparagus and relating packing and manufacturing industries. As illustrated earlier, \$300 M tourism industry output alone would be impacted by \$18 M. The multiplier effect on hospitality, food outlets, restaurants and retail would be significant in a city that is struggling with stagnant population growth, high unemployment and low socio demographic indicators.

There are many producers in this region that have suffered hardship over many years through climatic conditions and global pressures. This, coupled with the increasing cost of production and price of water due to the demand from new horticulture investors, has already had an impact on the region's horticulture producers. To add another imposition at this stage could act as a tipping point for farmers to move out of the industry.

The Victorian Murray-Mallee irrigation region has undergone significant change over the last ten years with larger corporate producers increasing and smaller producers reducing in property numbers. In 2015, 2047 properties existed. Property numbers have declined by 17% (405 properties) between 1997 and 2015 overall. With irrigable areas of less than 40 ha declining by 483 and over 40 ha increasing by 78. At the same time 17% of irrigable land is vacant that was previously irrigated. Some areas such as Merbein now resemble Swiss cheese with 39% of land vacant⁵.

Some would say that the change toward large scale corporate production to create efficiencies is inevitable for a competitive future to ensure the global food supply for the future. Changes such as the tax changes will potentially hasten this process. At the same time, an exodus of smaller producers in a short time period would create economic concerns.

5.4 Effect on prices across sectors

Australia horticulture already faces high competition from other overseas countries where products are price sensitive. Most of the producers in this region are price takers and do not have the ability to influence the consumer sales price. With potential for labour costs to increase and income remaining level, producers will be negatively impacted on their bottom line.

Perry Hill, Mildura Fruit Company (MFC)

Mildura Fruit Company (MFC) employs approximately 150 backpackers annually to meet their labour requirements. In 2015 this labour came from 14 countries and on average backpackers earn \$21,000 per person. This region produces one third of Australia's Citrus and MFC account for 70 – 75% of the citrus exported to China. Perry Hill, General Manager of MFC is concerned not only for ongoing access to labour to pack oranges and avocados, but also for the producers where they source the fruit. He is concerned that MFC and also the producers that supply, may need to increase their wage bill and therefore push costs up. Harvesting, packing and distributing fresh produce when it is at its peak condition is critical to obtain the best price for perishable products. Australia already has strong competition from South Africa and South America given the low cost of production and if the tax is introduced, it will have a detrimental effect on MFC.

6. Changes to the use of volunteer or unpaid labour

This could work in certain regional areas where only some labour demands are required. In the Mildura area where we employ over 6,500 WHM's, this practice would be seen as discriminatory and create potential for unscrupulous behaviour.

7. Policies to attract unemployed Australians, including young Australian, into work in agriculture and tourism

- Incentives provided to the unemployed Australians if they work certain hours in agriculture during harvest periods in regional areas. Community infrastructure to ensure access to transport and accommodation support is also needed to encourage ongoing employment into agriculture.

⁵ 2015 Irrigated Horticulture Crop Report, Mallee Catchment Management Authority, www.malleecma.vic.gov.au, 24 June 2016

- Incentives paid to the producers if they engage unemployed Australians. The process would need to be simple and not create additional burden. This could be in the form of funded work-placement or internship schemes.
- Provide incentive for regional students completing Year 12 and are transitioning to universities that need to work for 18 months to qualify for Independence Allowance through Centrelink. In regional areas this is often the only way students can afford university education and boarding expenses at metropolitan centres, at the same time this will provide the temporary workforce needed by local means.

8. Opportunities to expand supply of seasonal and temporary workers for the agricultural sector

The major pool of WHM visa recipients that are attracted to regional areas are people that need to work for 88 days to extend their visa for an additional twelve months. If the Government still wanted to tax WHM in capital cities, a specific agriculture visa could be introduced. This would allow for a separate regime implemented regionally that could be taxed at a lower rate and 32.5% implemented in the metropolitan centres.

This could be based on similar segregations in the past through either the State or the Federal Governments. This could be:

- Utilise the State Government boundaries for regional areas. Both Victoria and South Australia have determined distinct regional boundaries where certain funding is available. Other states may have parallel models. These are likely based on post codes.
- The Federal Government has distinguished distinct areas through a number of methods. One is the Australian Statistical Geography Standard (ASGS) Remoteness Structure
<http://www.abs.gov.au/websitedbs/d3310114.nsf/home/remoteness+structure>

The 417 visa at present, is only for a one-year period, the workforce could be expanded by extending this visa programme to a second year after completion of 88 days in a regional area.