

Deloitte Touche Tohmatsu
Working Holiday Visa Review
225 George St, Sydney NSW 2000
Via online submission portal

2 September 2016

Dear Deloitte,

Re: Working Holiday Maker Visa Review

Executive Summary

Cotton Australia:

- Supports Working Holiday Makers paying some tax but the proposed rate of 32.5% is too high
- Supports a fair and reasonable tax rate that will see Australia remain a competitive Working Holiday maker destination.

Introduction

Cotton Australia is the peak representative body for Australia's cotton growing industry. The cotton industry is an integral part of the Australian economy, worth over \$1.25 billion in export earnings in the 2014–15 season, and employing on average 10,000 people. It is one of Australia's largest rural export earners and helps underpin the viability of over 100 rural communities in NSW and Queensland. The industry's vision is: *Australian cotton, carefully grown, naturally world's best.*

Cotton Australia was pleased to hear of the government's review of the Working Holiday maker visa and we welcome the opportunity to make a submission. While we agree it is fair for Working Holiday makers to pay *some* tax, the proposed rate of 32.5% for every dollar is too high and would result in Australia losing its competitiveness as a Working Holiday maker destination. We support a fair and reasonable tax rate that would allow Australia to remain competitive with other Working Holiday maker destinations.

The Australian cotton industry's access to a labour force is critical to sustaining the industry's competitive advantage globally. Innovative, resilient and adaptive people, businesses and communities are crucial to the future success of the industry.¹ It is critical to support processes that allow the industry to attract and retain a suitable workforce and remain productive and efficient.

The cotton industry's labour force takes into account on-farm labour, as well as the broader service industry and the length of the cotton supply chain in Australia, which represents an extensive network of input and advisory providers that support cotton growers. Auxiliary – yet critical – components of the industry that would also be impacted by the proposed 'backpacker tax' include ginners and their staff, agronomists, researchers, consultants and agribusiness professionals. The dynamics of the industry's labour varies across season, location and business size.

¹ Cotton Sector Research, Development & Extension Strategy

The problem has recently been driven by rapid expansion of the industry following years of drought, and the mining and resources boom in some regions.

In the cotton industry and across the agriculture sector, overseas workers are employed by growers to fill labour gaps, particularly during peak times when local labour is difficult to access. It is often the case that these workers are supplementing a pool of full-time permanent staff during critical periods in the average cotton growers' season – planting, irrigating and harvesting.

Working Holiday makers ('backpackers') are significant contributors to rural and regional communities and are an essential source of labour in the cotton industry. It is estimated that for every 100 Working Holiday makers (WHM) that arrive, five net full-time equivalent jobs are created in Australia. Moreover, the supply of WHM labour is of particular importance to employers in regional areas, especially agricultural enterprises who employ them to supply farm labour.²

They comprise a significant proportion of the **casual** workforce (*not the permanent workforce*) of the Australian cotton industry (almost two-thirds of the casual workforce, as shown in recent industry surveys) and the proposed 32.5 percent tax rate would be disastrous to our industry's access to a flexible labour supply. Work on cotton properties is seasonal and often short-term, which does not suit most Australians. It is well established that the agricultural sector suffers from a labour shortage and Working Holiday makers are useful in filling voids in local labour markets.

Cotton Australia has undertaken work to gather case studies in August 2016 from 3 Australian cotton growers. The issues raised in these case studies support the points and concerns raised throughout this submission. See Appendix 1 for case studies.

1. The importance of 417 and 462 visa holders to the Cotton Industry.

417 and 462 visa holders are an important source of labour to Australian agricultural industries, including cotton. This section highlights the importance of 417 and 462 visa holders, and how they meet the short-term and long-term labour needs of the agricultural and tourism sectors.

- **How important are 417 and 462 visa holders to your organisation, its members, and the sector overall? This includes 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.**

The labour needs of Australia's agricultural industries fluctuate and are reliant on access to short-term workers at peak periods in the season, and cotton is no exception. The cotton industry employs up to 10,000 people, but up to two thirds of the casual workforce is Working Holiday makers. Working Holiday makers tend to do the casual, short term seasonal work that doesn't suit most Australians.

While tens of thousands of Australians work on farms around the country every day, many Australians are unable to do this kind of work and choose other options more suited to their needs. For example, work that is closer to home and more permanent. 417 and 462 visa holders are able to fill this shortage in local labour markets. Without access to this crucial labour source, Australia's

² Yan Tan, and Laurence H. Lester 'Labour Market and economic impacts of international working holiday temporary migrants to Australia', POPULATION, SPACE AND PLACE, Popul. Space Place 18, 359–383 (2012), Published online 29 May 2011 in Wiley Online Library, (wileyonlinelibrary.com) DOI: 10.1002/psp.674

cotton industry faces the potential of staff shortages, which would impact productivity and reduce the industry's international competitiveness.

The roles of backpackers in the industry varies between cotton operations and local labour availability. The average cotton grower's calendar of operations spreads across the entire year with requirements typically intensifying during ground preparation, planting, irrigating and harvesting. Ground preparation, planting and harvesting usually require the backpackers to operate heavy machinery, including tractors and mechanical harvesters, while irrigating requires the operation and monitoring of 'siphons' to irrigate crops in strict accordance with a property's irrigating schedule.

Current visa restrictions do not allow 417 or 462 visa holders to work for the one employer for more than 6 months in cotton growing regions so their ability to satisfy long-term labour requirements is not possible. In a cross-cotton industry survey, it was found that:

- 65% of casual staff employed at January 2013 were 417 visa holders,
- Only 3% of permanent staff were 457 visa holders,
- 82% of 417 visa holders are at entry level, entry level meaning they are operational level staff and do not necessarily have job specific skills.

Case Studies

The case studies provided highlight the short-term with short-notice nature of the work backpackers are employed for. Case Study C states that 'at times we can run our operation with 10 people, other times we require 50 – it can all change in a single weather event' – and Case Study B highlighted that often they required these workers on only 2 or 3 days' notice, to assist their permanent staff in high labour periods to reduce the likelihood of staff burnout. Case Study C also noted that backpackers were essential in meeting these short-term, short-notice positions due to their lack of commitments, and essentially being available in remote locations on demand.

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

417 and 462 visa holders fill the short-term, short-notice employment opportunities that the local labour markets in cotton communities cannot.

There is a reliable stream of backpackers seeking regional work as either their preferred employment option, or to satisfy their 88 days of regional work requirement to extend their Working Holiday visa an additional 12 months. In a survey of 1434 Working Holiday makers,³

- 49% reported having worked in the agriculture industry to meet the 88 days of regional work requirements,
- 15% had worked in agriculture to save money,
- 12% had done so for the experience, and
- 23% had not worked in the agriculture industry.

³ Agri Labour Australia, 'WHV Proposed Tax Change Survey Results', www.agrilabour.com.au

We see the regional work requirement for second year Working Holiday maker visas as a key motivator for getting backpackers on farms. Unfortunately, due to current visa restrictions the majority of 417 and 462 visa holders are restricted from working for the one employer for more than 6 months.

82% of 417 visa holders employed on cotton properties are employed in entry-level positions. These positions generally require little to no specific skills (though employees with experience are definitely preferred), and work at the operational level under supervision.

Case Studies

It is noted in the cotton grower case studies, that backpackers are often required for short periods and on very short notice. Given their few commitments whilst travelling Australia, they are often available to follow casual employment opportunities like these, whereas Australian workers are unable to travel to the often remote locations, to work for sometimes only a number of days on short notice (notice sometimes as short as 2-3 days). Australian workers are often seeking, or already employed in secure full time employment.

- **Looking to the future, are there economic or other factors that will alter the importance of these visa holders to your sector (for example, economic conditions in the source countries or changes to the domestic supply or demand of labour)?**

The Australian agriculture sector is currently experiencing a labour and skills shortage, driven by an aging workforce, low attraction rates and strong competition from other sectors. This is being felt in the cotton industry, which is facing the challenge of attracting and retaining staff – particularly staff who are willing and available to work at short notice during peak periods. This problem has recently been exacerbated by the rapid expansion of the industry following years of drought, and competition from the resources sector in some regions.

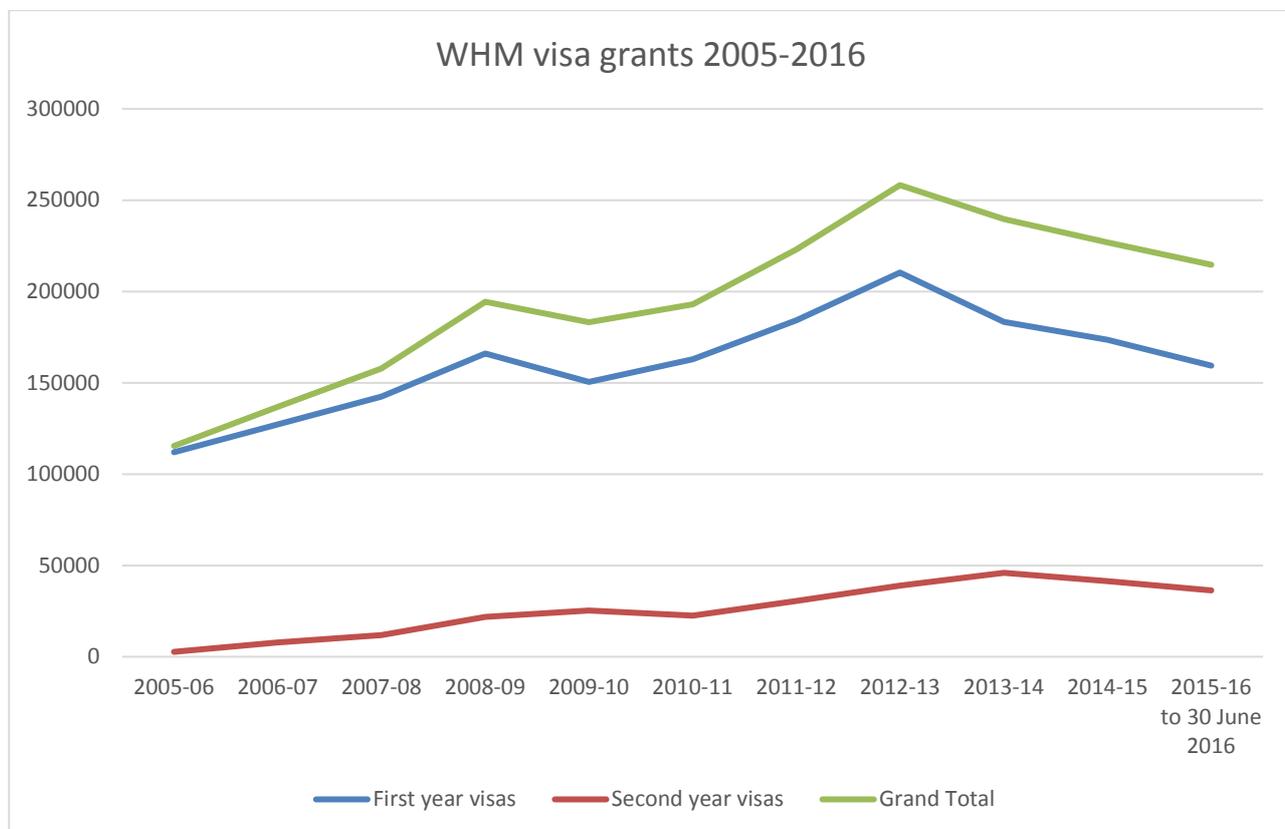
For the cotton industry, a commitment to the strength of our local workforce and communities remains a priority, which is reflected in the strategies and investments of the industry's organisations Cotton Australia, the Cotton Research and Development Corporation (CRDC) and previously, the Cotton Catchment Communities Cooperative Research Centre (CRC). The importance of people is long recognised and increasing in the industry. As a result, the cotton industry and the CRDC has developed the 'Cotton Industry on-farm workforce strategy', which captures the high level outcomes, strategies and tactics for addressing priority industry on-farm workforce needs. While the development of local workforces as the backbone to the industry is a priority for the industry, 417 and 462 visa holders are an important supplementary workforce.

Australian agriculture has been identified as one of the five pillars of the Australian economy and agribusiness established as one of the 'fantastic 5' top potential growth sectors for Australia by the Deloitte. The cotton industry has the potential to continue its expansion further into the relatively new southern NSW and northern Victoria region, and into northern Queensland. A recent study by

the CRDC identified an area of 310,000km² that has been identified for current or future investigation for cotton suitability⁴ - both as an irrigated and dryland crop.

Despite advances in technology, growth in the sector will be dependent on an increase in labour.

Working Holiday maker visa numbers have been decreasing each year over the past 2 years. The Working Holiday maker visa programme report for 2014-15 showed a 5.4% reduction in the number of first year Working Holiday visa grants and a 10% reduction in the number of second year Working Holiday maker visa grants. This downward trend is of concern to the cotton industry as any decrease in labour availability in the future could jeopardise short-term labour needs and future expansion.



Source: DIBP, *Working Holiday maker visas granted pivot table 2015-16 to 30 June 2016 - comparison with previous years*

2. The impact of tax on Working Holiday makers

Taxation on 417 and 462 visa holders affects decision-making, including their decision to visit Australia and the number of hours they work. In order to properly and fully assess the impact of the

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http://www.crdc.com.au/sites/default/files/pdf/Potential%20for%20Growth%20in%20the%20Australian%20Cotton%20Industry%20-%20Volumes%201%20and%202_0.pdf

proposed tax arrangements, it is necessary to better understand the major drivers behind decisions made by 417 and 462 visa holders, and how their behaviour is likely to be influenced by changes to the taxation regime. It is also important to determine Australia's competitive position in attracting Working Holiday makers, and consider how wages, taxes, entitlements and conditions compare to other countries offering similar programs.

- **What do you see as the major motivators for WHMs choosing to work in Australia? These may include financial and non-financial factors.**

The Agri Labour Australia survey⁵ of 1434 Working Holiday makers found that;

- 73% of participants had decided on travelling to Australia rather than other possible destinations because of the financial benefits of working in Australia.⁶

It is our belief that the major motivator for Working Holiday makers choosing Australia over competing destinations, such as New Zealand and Canada, is our significantly higher minimum hourly wage. The table below highlights the impact of the proposed 32.5 percent tax rate on Australia's attractiveness and competitiveness as a destination for Working Holiday makers.

Country	Australia (32.5%)*	Australia (19%)#	Canada	New Zealand
Min. hourly wage	\$17.70 ⁷	\$17.70 ⁸	\$11.07 ⁹	\$15.25 ¹⁰
Tax rate	32.5% ¹¹	19% ¹²	15% ¹³	10.5% ¹⁴
Net hourly wage	\$11.95	\$14.34	\$9.41	\$13.65

Table 1. Comparable Earning Potential

* Rate of taxation proposed. # An alternative tax rate

Cotton Australia supports backpackers paying tax, but 32.5% in every dollar is too high.

⁵ Agri Labour Australia, 'WHV Proposed Tax Change Survey Results', www.agrilabour.com.au

⁶ Q 5, percentage of a combination of responses; 'earning potential', 'saving for future travels' and 'saving to take money back home'.

⁷ Fair Work Commission, National Minimum Wage Order 2016, 1 July 2016

⁸ As above

⁹ Canada Labour Program, Average minimum hourly rate across all Canadian Jurisdictions, <http://srv116.services.gc.ca/dimt-wid/sm-mw/rpt1.aspx?lang=eng>

¹⁰ NZ Ministry of Business, Innovation and Employment, The minimum wage <http://employment.govt.nz/er/pay/minimumwage/>

¹¹ Assumes 2015 Budget measure implemented

¹² Assumes 2015 Budget measure varied to tax working holiday maker income at 19%

¹³ Canada Revenue Agency, Federal tax rate, earnings under \$44,702, <http://www.cra-arc.gc.ca/tx/ndvdl/fq/txrts-eng.html>

¹⁴ For earnings up to \$14,000, increases to 17.5% for earnings between \$14,000 and \$48,000 <http://www.ird.govt.nz/how-to/taxrates-codes/itaxsalaryandwage-incometaxrates.html>

- **How much knowledge and understanding do 417 and 462 visa holders have of the current and proposed tax arrangements? How would the 'backpacker tax' affect WHMs' 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?**

Thanks to online news, blogs, forums and social media, stories of the proposed change in taxation have travelled quickly among the Working Holiday maker community internationally.

Agri Labour Australia's survey of 1434 Working Holiday makers found:

- 69% of backpackers were aware of how income tax worked in Australia before coming to Australia,
- 57% reported that the announcement of a 32.5% tax had changed their plans to work in Australia beyond the implementation date, and
- 84% reported hearing of prospective WHMs changing their decision to come to Australia as a result of the proposed tax change.

A second survey of 5000 Working Holiday makers in January 2016¹⁵ showed similar results:

- 89% of respondents said if they knew about the backpacker tax before coming to Australia they would have considered going elsewhere,
- 90% of respondents said they would not do fruit picking / harvest / 2nd year visa work if taxed 32.5%,
- 89% of respondents said paying 32.5% would deter them from working in Australia altogether; and
- 95% of respondents thought the tax would deter future Working Holiday makers from visiting Australia.

Working Holiday makers are very aware of tax rates and have made it clear that the proposed change will alter their decision to stay, and the decision of others to come to Australia to work in the first place.

The change.org petition 'Stop The Backpacker Tax'¹⁶ has reached close to 50,000 signatures and the 'comments section' includes comments from past, current and potential future Working Holiday makers on their views. The comments demonstrate strong opposition to such a tax and reinforces the view that Working Holiday makers will simply go elsewhere.

Case Studies

Case Study C demonstrates backpackers employed in the cotton industry already voicing concerns and opinions of the proposed changes. Comments include that the proposed tax has deterred friends of theirs from choosing Australia as a Working Holiday maker destination. Case Study B

¹⁵ Working Holiday Jobs *Working Holiday Visa Tax Survey*

<https://www.workingholidayjobs.com.au/working-holiday-visa-tax-survey/>

¹⁶ <https://www.change.org/p/australian-government-stop-the-backpacker-tax>

also reported a similar incident, with a backpacker currently in their employment commenting that the proposed tax rate would make other countries more attractive and noting that Australia was already an expensive destination to come to due to the cost of travel and the Working Holiday Visa.

- **What is the nature of international competition for Working Holiday makers, and how does the Australian WHM visa program compare to schemes offered in other countries? This could include comparative wages, entitlements and conditions as well as costs and barriers to entry.**

Competition for labour is heightened in today's global economy. Working Holiday makers are an important source of economic revenue, particularly in rural and regional communities, contributing more than \$3.5 billion to the Australian economy each year. On average, backpackers earn around \$15,000 while in Australia and spend around 80% of that in Australia, bringing life to rural and regional communities.

Table 2: Comparison of visa conditions and requirements

AUSTRALIA Working Holiday maker (417) visa	AUSTRALIA Working Holiday maker (462) visa	AUSTRALIA Temporary Work (Skilled) visa (457)	AUSTRALIA Special Programme visa (416)
12 month visa, must be aged 18-30, max 6 months with one employer	12 month visa, must be aged 18-30, max 6 months with one employer; must have done at least 2 years university study and have functional English	Work up to 4 years for an approved business, business can sponsor someone for this visa if they cannot find an Australian citizen or permanent resident to do the skilled work	Invited to participate in the programme, at least 21 years of age, intend to enter Australia temporarily for seasonal work and return to your home country after your employment ceases
2 nd year visa if at least 88 days work done in regional agriculture, forestry and fishing, mining or construction	No current option for a 2 nd year visa. From late 2016, 2 nd year visa will be open to those who work in Northern Australia in aged and disability care, agriculture forestry and fishing, mining, construction, tourism or hospitality for at least 88 days. Covers	Additional requirements: must work in a skilled occupation that has been approved by the Australian Government meet character requirements ¹⁷ You must have adequate health	work in Australia as specified in the visa (14 weeks to six months) stay in Australia usually for up to seven months in any 12 month period (depending on the length of your work placement) meet health and

¹⁷ You must be prepared to provide a police certificate from each country you have lived in for 12 months or more during the past 10 years after you turned 16 years of age.

	work in NT and areas of WA and Qld above the Tropic of Capricorn (north of Rockhampton).	insurance unless you are covered by Medicare. English language proficiency Health requirements	character requirements have health insurance for the entire period you are in Australia.
Can study for up to 4 months	Can study for up to 4 months		
Applies to visitors from Belgium, Canada, Cyprus, Denmark, Estonia, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Korea, Malta, Netherlands, Norway, Sweden, Taiwan, United Kingdom	Applies to visitors from Argentina, Bangladesh, Chile, China, Greece, Indonesia, Israel, Malaysia, PNG, Poland, Portugal, Slovak Republic, Slovenia, Spain, Thailand, Turkey, USA, Uruguay, Vietnam	No country restrictions	The participating countries include Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu and Vanuatu.
Tax: 19% + tax free threshold (residents); 32.5% (non-residents)	Tax: 19% + tax free threshold (residents); 32.5% (non-residents)	Tax: 19% + tax free threshold (residents)	Tax: flat rate of 15%.

Table 3: Comparison of superannuation programs for Working Holiday makers

Country	Australia	Canada	New Zealand
Scheme	Superannuation Guarantee	Registered Pension Plan	Kiwisaver
Features	9.5% of ordinary time earnings	Optional	3% of gross wages
	Compulsory	Optional	Optional
	Employer funded, employees can make voluntary contributions	Employer and employee contributions can be made	If opt-in, contributions required by both employer and employee

Table 1: Comparable Earning Potential

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Tax rate	32.5% ²²	19% ²³	15% ²⁴	10.5% ²⁵
Net hourly wage	\$11.95	\$14.34	\$9.41	\$13.65

It is worth noting that the ability to access to information varies between countries. New Zealand and Canada provide simple user-friendly guides explaining the Working Holiday visa process and its requirements online, while the Australian system is far more complex.

3. The resulting impact of the tax on your sector

Changes to the tax paid by 417 and 462 visa holders could affect outcomes for sectors that rely on Working Holiday makers as a source of labour. This section relates to the likely impacts on the tourism and agriculture sectors from changes to labour availability and any regulatory imposts following the proposed tax measures. This includes understanding current business practices in sourcing labour and how these are influenced by broader economic conditions. The section also relates to how different types of businesses would respond to a decrease in WHM labour supply, including any flow-on effects to their sector.

- **How would businesses respond to a decrease in the WHM labour supply? For example, responses could include replacing WHMs with other workers, changing business practices, or adjusting levels of business activity.**

Working Holiday makers tend to do the casual, short-term seasonal work that doesn't suit many Australians. While tens of thousands of Australians work on farms around the country every day, many Australians can't commit to this type of work and choose other options better suited to their circumstances. Working Holiday makers fill the gaps in local labour markets and a decrease in Working Holiday maker availability would be detrimental to the cotton industry and agriculture industry more broadly. They cannot simply be replaced by other workers, as the other workers are not there to replace them.

¹⁸ Fair Work Commission, National Minimum Wage Order 2016, 1 July 2016

¹⁹ As above

²⁰ Canada Labour Program, Average minimum hourly rate across all Canadian Jurisdictions, <http://srv116.services.gc.ca/dimt-wid/sm-mw/rpt1.aspx?lang=eng>

²¹ NZ Ministry of Business, Innovation and Employment, The minimum wage <http://employment.govt.nz/er/pay/minimumwage/>

²² Assumes 2015 Budget measure implemented

²³ Assumes 2015 Budget measure varied to tax working holiday maker income at 19%

²⁴ Canada Revenue Agency, Federal tax rate, earnings under \$44,702, <http://www.cra-arc.gc.ca/tx/ndvdl/fq/txrts-eng.html>

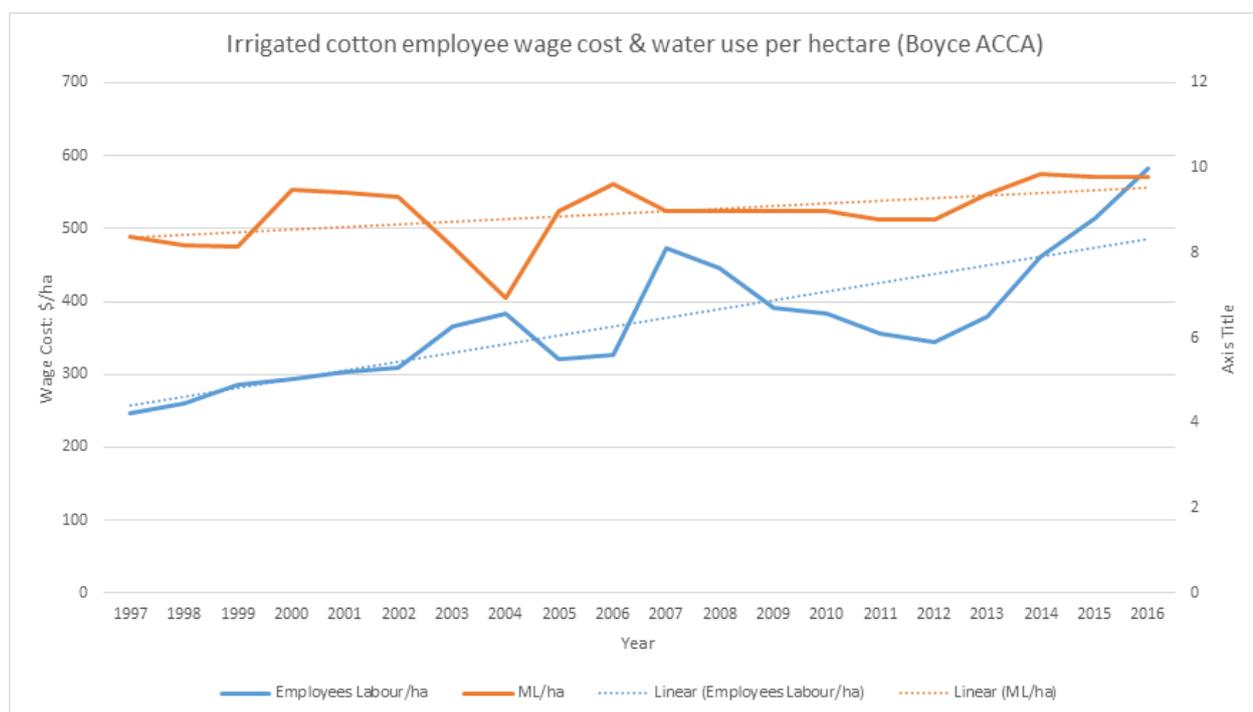
²⁵ For earnings up to \$14,000, increases to 17.5% for earnings between \$14,000 and \$48,000 <http://www.ird.govt.nz/how-to/taxrates-codes/itaxsalaryandwage-incometaxrates.html>

Labour is the second largest cost on Australian cotton farms.²⁶ Since 1997, the employee wages (\$/ha) component on an irrigated cotton farm has grown by 5% per annum (compared with inflation at 2.2% p.a.). Rising labour costs continue, despite rapid technological advancements on Australian cotton farms. Cotton growers often have very short windows of opportunity to carry out essential activities to maintain the highest quality and value of their crop. For example, growers harvest their crop once most cotton bolls have opened and are fully matured. It is critical that cotton is harvested in suitable dry weather conditions to maintain the quality of their crop as any 'down-grade' in quality attracts significant price penalties for growers, impacting their overall profitability.

It is hard to predict exactly how an individual cotton business would react to a down-turn in availability WHM labour, but is clear that at the very least it would create significant short to medium term problems with the likely result being decreased yield, production and profit.

The initial response is likely to be for management to stretch the capability of its existing workforce further.

However, cotton is a crop that responds positively to timely management, and severely penalises its grower through yield loss, when operations are not timely.



Source: Boyce and Co, Australian Cotton Comparative Analysis (1997-2016)²⁷

²⁶ Boyce and Co, Australian Cotton Comparative Analysis (1997-2016) <http://www.boyceca.com/boyce-newsfeed/category/australian-cotton-comparative-analysis>

²⁷ Boyce and Co, Australian Cotton Comparative Analysis (1997-2016) <http://www.boyceca.com/boyce-newsfeed/category/australian-cotton-comparative-analysis>

Case Studies

Case study A reported that given the remote location of Property A (Mungindi) and the inconsistent nature of the work, it is difficult to access reliable casual labour locally.

“Most locals seeking employment are not seeking variable work that only lasts for a few months of the year. That’s why we are so reliant on backpackers.”

If the supply of backpackers diminished, Property A (Mungindi) says that they would struggle to find additional local workers willing to work only the peak periods of the cotton season.

“From a cost and labour availability point-of-view, it would not be possible for us to hire additional full-time permanent staff – particularly if we were to have a smaller season.”

“In busy periods we get backpackers in to fill labour shortfalls. This allows the permanent staff to have greater job security as there is always work for them regardless of whether it busy or even in a quiet year. As the work load increases periodically, so do the casual staff numbers.”

Property B stated that ‘If we can’t secure them [backpackers], then it will mean more workload for the permanent staff and ourselves (as owners), increasing the risk of staff burnout. It will also increase the threat at important time-critical production times such as harvesting in which we only have a short window of opportunity to harvest in ideal conditions to maintain the highest possible quality and therefore value of our crop.’

Some properties in the case studies were aware of alternatives for sourcing international labour, such as through the SPW though found that its lack of flexibility, cost and relatively long period between application and staff on farm meant that it was not capable of replacing the role of WHMs.

- **How are employers matched with available workers, including the role of labour hire companies, and how would this be affected by a decrease in the WHM labour supply?**

Cotton growers source backpackers both independently (through word of mouth, social media and job advertisements) and through labour hire companies. Labour hire companies can provide a more streamlined approach to accessing backpackers, and act as a channel for job opportunities, reducing the impacts of the job hiring process for employers who are often seeking additional workers during critical parts of the season.

Any decrease in WHM supply will increase competition for WHM’s within Australia, and will make it more difficult for labour hire companies to allocate workers to vacant positions as the backpacker source of labour simply will be reduced.

- **How, if at all, would the impacts vary across the sector? For example, are the impacts likely to be larger for certain sub-sectors or regions?**

It is recognised that the biggest impact will be felt in the horticulture sector. Despite cotton growers generally having a smaller number of positions to fill on their farm, simply one position that is not filled in a timely manner could have flow on effects to production or require the diversion of more skilled labour from elsewhere.

A decline in backpacker numbers is likely to result in more difficulty filling positions in the regional and remote regions of Australia, areas in which the majority of Australian cotton is produced.

- **What effect, if any, would the tax have on prices in the sector?**

Cotton prices are determined by the world market. Australian cotton is sold as part of the world market. It is unlikely the tax would have any effect on the global value of cotton. Rather, the tax will impact the profitability of Australian cotton growers should they face higher costs of production or reduce yields due to inability to carry-out critical crop management. During summer, delays in crop irrigation can result in yield losses of 2.7% for every day irrigation is delayed.²⁸

- **What would be the additional compliance costs, obligations and regulatory imposts on businesses?**

Australian businesses face a distinct disadvantage in competing in international markets when it comes to labour input costs. Australia's relatively high minimum wage (the highest in the OECD) results in some of the highest labour costs in the world. Flexible regulation and streamlined and efficient processes in place to manage workplace relations are critical in the Australian context to create an environment where Australian agriculture can improve its global competitiveness.

Seasonal Worker Program or 457 visa

In response to a decreased pool of WHM's, some growers may be forced to use alternative international workforce options to fill the gaps in their local casual labour market. For the majority of cotton growers, the alternative options do not suit the nature of labour required, that is; short-term positions on short-notice. The labour market testing regime required by both the SWP and 457 visas makes no acknowledgment of this circumstance.

Potential SWP participants and employers face a number of barriers to entry into the SWP. In summary, these include:

- High upfront costs for businesses to participate in the program – approximately \$2,000 per worker without the ability to pre-determine suitability for the work required.
- High administrative costs for farm businesses participating in the program who must provide significant levels of paperwork to the Department of Employment as a small business owner / operator.
- Under resourcing of the Department of Employment. The Department is not supported in their assessment of broad public interest and individual farm level labour needs.
- Lack of support for pastoral care of seasonal workers and their initial participation in the program due to high upfront costs such as flight costs to Australia
- Lack of support to drive uptake of the seasonal worker program.
- The length of time it takes from application to commencing an employee on farm.

²⁸ Waterpak, Cotton Growth Responses to Water Stress, 'Crop Water Use and Plant Growth' [page 246]

Case Studies

Case Study B highlights the limits of the SWP and why it could not replace the role of Working Holiday makers; 'it [SWP] is not flexible and does not suit the needs of our property. It would not be practical to employ several seasonal workers, as we only employ one backpacker at a time, for a short time frame, at short notice'. 'Sometimes we hire with only 2/3 days' notice', which would be impossible if labour market testing was required. Property B also noted that they 'require a certain skill set in their backpackers, the SWP employs from countries where technology in plant and machinery is not used as it is in Australia.'

4. Measures or policies that may mitigate these impacts

This section relates to understanding how the impacts of the proposed tax changes could be mitigated by other government policies and initiatives to better support the agriculture and tourism sectors in meeting their labour requirements. For example, this could include policies that expand alternative (e.g. local) sources of labour. The section is also about understanding other current and future challenges faced by the sector, and how they interact with the proposed tax changes.

- **Are there other government policies or initiatives that would exacerbate (or mitigate) the effects of the tax, and what measures could be used to mitigate the impacts? What opportunities could be available to expand the supply of seasonal and temporary foreign workers for the agricultural sector (for example: expanding the 417, 462 and/or the 416 (Seasonal Worker) visa programmes)**

Cotton Australia supports the recommendations of the NFF and recommends the Government scrap the current proposal for a 'backpacker tax' at 32.5 percent and replace it with a 19 percent tax rate with no tax free threshold, as was proposed in the initial review of the tax in March 2015.

Revenue lost as a result of this decrease in tax rate can be offset by:

- Increasing the cap on Working Holiday maker visa grants for countries who have reached their capacity (Argentina, Chile, China, Indonesia, Malaysia, Poland, Portugal, Spain and Thailand); and
- Increasing the eligible age for 417/462 visas from 30 to 35/40.
- Simplifying the 88 days of 'regional work' requirement for 417 visa holders seeking to extend their visa by an additional 12 months. Currently the requirement is interpreted to mean a minimum 88 full days of work, and does not allow 'half-days' to be combined to equate to 1 full day.
- The removal of the requirement of labour market testing under the Seasonal Worker Program and reviewing the regulations surrounding the program to increase program uptake.
- Extending the amendments to the Working Holiday maker visa program recently implemented in northern Australia. The WHM visa program has recently been amended to allow 417 and 462 visa holders to work an additional 6 months with one employer in northern Australia, if they work in a high demand area (agriculture included). 462 visa holders are also able to add an additional 12 months onto their visas if they work in agriculture or tourism in northern Australia. The implementation of these measures in

Australia would increase the supply of seasonal and temporary labour to industries classed as 'high demand'.

In the longer term

The agriculture sector needs resources to design and implement a sound agricultural workforce strategy for the future. The strategy should consider the following reform options:

1. A dedicated agricultural work visa.
2. Improving agricultural workforce data collection and distribution.
3. Reforming the Working Holiday maker visa program so that:
 - a. all farm work counts toward the 88 day requirement, including work experience and unpaid training of up to four weeks;
 - b. employees can work with one employer or group of employers for 12 or 24 months;
 - c. sponsored employees have a pathway to permanency; and
 - d. current visa fees and multiple visa application issues do not act as a deterrent to Working Holiday makers coming to, or staying in, Australia.
4. Resourcing and recalibrating the Seasonal Worker Program to:
 - a. improve support for participating employers and workers;
 - b. establish a centrally managed fund for participant contributions;
 - c. shift to an industry-owned model.
5. Addressing poor outcomes involving labour contractors, either through:
 - a. a voluntary approved contractors scheme;
 - b. a voluntary code of practice for labour contractors; or
 - c. employment protection legislation that prohibits charging of fees to overseas workers, passing on of unreasonable hiring costs and withholding of passports.
6. Smarter use of communications strategies, so that overseas workers have all the information they need before they set foot in Australia (pay rates, help lines, migrant worker fact sheets, secure visa details).
7. Reviewing superannuation rules, including the income threshold above which superannuation is payable and whether it should apply to temporary residents.
8. A new promotional strategy to attract more overseas visitors to Australia, beginning with a joint industry / government communication strategy to help reverse the trend in declining numbers of Working Holiday makers / workforce for farmers. What opportunities are there to attract more unemployed Australians, including young Australians, to work in agriculture and tourism?

Working Holiday Makers tend to complete the casual, short-term seasonal work that doesn't suit a locally employed worker ongoing employment opportunities. Australia has many programs designed to help people into seasonal and temporary work, including;

- JobActive
- Youth PaTH program

In addition there are a range of wage subsidies available to employers and even employees aimed at encouraging unemployed Australians into the workforce. While these subsidies are not specific to the agriculture and tourism sectors, they are aimed at improving local workforce participation

and provide significant incentives for employers to employ unemployed Australians, and for employees to move into employment. The focus of these subsidies and programs is predominantly on moving unemployed Australians into full time positions. These initiatives do not support the casual labour needs of the agriculture sector currently met by Working Holiday makers. For a full list of subsidies see Appendix 2.

These programs are intended to address unemployment, particularly in regional locations. On their own, they are not adequate to supply Australia's agricultural workforce.

The issues around unemployment are complex and while the cotton industry does all it can to participate in such programs to engage Australian workers, it cannot act alone to solve the temporary, seasonal employment requirements of the industry currently met by Working Holiday makers.

The cotton industry has developed the '*Cotton Industry on-farm workforce strategy*', which captures the high level outcomes, strategies and tactics for addressing priority industry on-farm workforce needs. The development of local workforces is a priority for the industry and in response, the industry is constantly looking for options to attract and retain local staff. For example, Cotton Australia is currently developing a new initiative, the 'Cotton Gap' program, a program aimed at attracting school leavers into the industry.

- **How could future factors (for example, anticipated economic conditions and policy changes) affect the impacts of the tax?**

It is likely that the expansion of Northern Australia will increase demand for Working Holiday makers as many of the issues faced by our growers (remoteness and the associated difficulty attracting labour at short notice for short-term employment) are likely to be exacerbated in the north.

While potential infrastructure expansion, such as the inland rail, will have efficiency benefits for the cotton supply chain, it will not in itself lead to the expansion of our industry as the valleys serviced by the proposed rail are already close to having fully developed cotton production. However, improved supply chain logistics may drive development of other industries, for example horticulture.

The Murray-Darling Basin Plan has left growers with no choice but to pursue their ongoing quest for greater and greater irrigation water use efficiency. While the Plan has reduced the cotton industry's overall production potential, the industry still hopes to grow by focusing on increasing efficiency and returns per megalitre, and expanding into new regions.

The agriculture industry will feel the effect of the proposed backpacker tax immediately and, in some cases, is already feeling the negative impacts. Due to the nature of the agriculture industry and the short windows of opportunity available to growers to complete specific operational tasks, any lapse in labour availability caused by the proposed 'backpacker tax' would have serious effects on productivity and profitability, potentially causing irreparable damage and loss of value of crops.

While policy changes – yet to be identified by the Government – may be implemented in the long-term to combat the effect of the proposed tax, it must be realised that the damage will have already been done. Employers need a reliable, guaranteed workforce; the prospect of no labour is already influencing business decisions in the agriculture industry.

5. Unintended consequences of the tax and other issues

In addition to the potential impact on the supply of Working Holiday visa holders, the proposed tax may also have other, unintended consequences for the tourism and agriculture sectors. These could include possible regulation and enforcement burdens on business, as well as inconsistent tax treatments across different classes of workers. This section will also explore other issues affecting Working Holiday makers in Australia, including concerns relating to exploitation and illegal labour hire practices.

- **How would the proposed tax for 417 and 462 visa holders differ from taxes paid by other classes of temporary work visa holders, and what impact would this have on business practice?**

The proposed 32.5% tax rate is significantly higher than other visa classes, which are more likely to be on resident tax rates.

	Working Holiday maker (417) visa	Working Holiday maker (462) visa	Temporary Work (Skilled) visa (457)	Special Programme visa (416)
Tax Rate	19% + tax free threshold (residents); 32.5% (non-residents)	19% + tax free threshold (residents); 32.5% (non-residents)	19% + tax free threshold (residents)	Flat rate of 15%.

Table 4: Comparison of tax rates between visa classes

The differing tax rates should not affect business practice though may cause confusion and frustration among employees.

- **What measures do businesses employ for the protection of vulnerable workers?**

Best management practices underpin the promotion of Australian cotton. Australia's cotton industry prides itself on the use of best management practices through the industry's myBMP program, and is a member of the global sustainability program, the Better Cotton Initiative (BCI). BCI has members throughout the production and supply chain globally that are committed to the production and supply of cotton produced under a set of BCI standards covering social and environmental issues, including labour.

myBMP provides Australian cotton growers with self-assessment mechanisms, practical tools and auditing processes to ensure that Australian cotton is produced according to best practice. The complexity negotiating the legislative and regulatory conditions that apply to the cotton industry is well recognised. The need to provide an up to date tool to assist growers in negotiating this complexity and regulatory obligations of growers was a key driver in establishing the cotton industry's myBMP program.



The myBMP program covers 11 modules including biosecurity, biotechnology, energy and input efficiency, fibre quality, human resources and workplace health and safety, integrated pest management, natural assets, pesticide management, petrochemical storage and handling and soil health and water management. Across the modules there are hundreds of elements requiring growers' attention. However, the myBMP program provides a single point of contact for growers, ensuring that they can be confident they are meeting their regulatory requirements.

In the past 12 months, Cotton Australia in partnership with WorkCover has run 23 WHS workshops for cotton growers across NSW and Queensland to assist growers with information on legal practices and best practice.

In addition, all levy paying members of Cotton Australia have access to two complimentary technical industrial relations advice session with an industrial relations expert provided by Cotton Australia.

While we provide growers with everything they need to ensure they are operating within with the law, compliance is ultimately the responsibility of the grower and relevant government agencies.

Conclusion

Cotton Australia would welcome an opportunity to provide further information on its position. For more information, contact Claudia Vicary, Graduate Policy Officer, [REDACTED] or [REDACTED]

Yours sincerely,

**Claudia Vicary
Graduate Policy Officer
Cotton Australia**

Appendix 1

CASE STUDY

PROPERTY A (Mungindi)

Region	Mungindi, Southern Queensland
Average number of backpackers employed annually	10 or more a year
Permanent staff employed	30
Farming enterprises	Cotton, beef, grain
Area planted to cotton (average)	5000+ hectares
Tasks completed by backpackers	Irrigating, harvesting, farm maintenance, general farm hand duties and operating machinery

Property A (Mungindi) employs backpackers at critical times during the cotton season, including irrigating after planting and during the busy harvest period. The average Australian cotton season lasts six months from planting to harvesting. The number of staff required on Property A (Mungindi) varies each year based on seasonal conditions including water availability, climate outlook and the price of cotton on the world market.

Property A (Mungindi) also considers access to labour before deciding how much cotton they plant each season. All cotton growers rely on seasonal workers to harvest their cotton, particularly in seasons where larger areas are planted to cotton.

Cotton growers harvest their cotton crop once most bolls have opened and fully matured. It is extremely important that cotton is harvested in suitable, dry weather conditions to maintain the highest quality and highest value of their crop. Property A (Mungindi) relies on backpackers at this crucial time in the season.

“Backpackers suit the variable nature of the work that is available during busy periods on our property as their priority is to work hard for a short period of time and move on. They also have a really good work ethic during their employment on our farm.”

Given the remote location of Property A (Mungindi) and inconsistent nature of the work, it is difficult to access reliable casual labour locally. “Most locals seeking employment are not seeking variable work that only lasts for a few months of the year. That’s why we are so reliant on backpackers.” If the supply of backpackers diminished, Property A (Mungindi) says that they would struggle to find additional local workers willing to work only the peak periods of the cotton season.

“From a cost and labour availability point-of-view, it would not be possible for us to hire additional full-time permanent staff – particularly if we were to have a smaller season.”

“In busy periods we get backpackers in to fill labour shortfalls. This allows the permanent staff to have greater job security as there is always work for them regardless of whether it busy or even in a quiet year. As the work load increases periodically, so do the casual staff numbers.” Property A (Mungindi) is aware of another alternative labour source – the Seasonal Worker

Program (SWP) – but does not believe the program suits their enterprise.

“I do not use the SWP and I am not inclined to use it because it is less flexible than hiring backpackers and typically more costly. Hiring backpackers allows me to access employees when I need them in the season and also on short notice.”

CASE STUDY

PROPERTY B (Mungindi)

Region	Mungindi, Southern Queensland
Average number of backpackers employed annually	2-5
Permanent staff employed	2 in addition to owners
Farming enterprises	Cotton, grain, chickpeas
Area planted to cotton (average)	800+ hectares
Tasks completed by backpackers	Planting, irrigating, harvesting, farm maintenance, general farm hand duties and operating machinery

Property B, Mungindi, employs backpackers at critical times during the cotton season, including for irrigating and during the busy harvest period. Like most farms, the number of staff required on Property B varies each year based on seasonal conditions including water availability, climate outlook and the price of cotton on the world market. Property B employs backpackers to take pressure off the permanent staff during busy periods.

“We use backpackers during peak periods to supplement our permanent staff. We often need to engage backpackers at short notice. Backpacker staff afford us flexibility, with capable, casual, staff available at short notice. Right now, with welcome rainfall received in our river catchment area last week, we are about to change our crop production from dryland wheat to (the more profitable) irrigated cotton. This means we have a tight schedule to plough, fertilise, & plant cotton within the opportune planting window, so we will look to employ another backpacker next week to help us accomplish this. “

“Backpackers also assist by supporting the more permanent staff who need to maintain a work/life balance and cannot work large amounts of extra hours when it’s busy; particularly with labour-intensive jobs such as flood irrigation and harvest time to reduce the risk of staff ‘burnout’ that comes from the long hours required during peak times.”

In the experience of Property B, “capable Australians are unable to come here [Mungindi] because it is not practical for them to travel all this way [6 hours west of Brisbane] and work at such short notice and/or for short timeframes. For example, we sometimes acquire a backpacker with only 2/3 days’ notice. This type of arrangement just doesn’t suit many Australians with the same skills/qualifications we seek in a backpacker, as they would already be in, or looking for, full-time employment”.

Property B owner expects that the introduction of the proposed backpacker tax will have detrimental impacts on the availability of backpackers for many rural and regional businesses, including their own.

“If the supply of backpackers was reduced, I expect the competition for capable backpackers in agriculture will increase, meaning we would have to offer increased rates to secure them resulting in an increased cost of production – against a backdrop of already high production costs in Australia. If we can’t secure them, then it will mean more workload for the permanent staff and ourselves (as owners), increasing the risk of staff burnout or simply the work will not get done. This

will have an enormous impact on our productivity and profitability. This threat will increase at important time-critical production times such as harvesting, where we only have a short window of opportunity to harvest in ideal conditions to maintain the highest possible quality and therefore value of our crop.”

Property B owner is aware of the Seasonal Work Program, though does not feel it could replace Working Holiday makers on their property.

“The Seasonal Worker Program is not flexible or practical to suit the needs of our property. It would not be feasible to employ several seasonal workers, as we usually only employ one backpacker at a time, for a short time frame, at short notice. Sometimes we hire with only 2/3 days’ notice and this just wouldn’t be possible with the Seasonal Worker Program. We also require a certain skill set in backpackers, the SWP employs from countries where technology in plant and machinery is not used as it is in Australia.’ A current backpacker employee on Property B has already expressed that the proposed tax rate will make other countries more attractive, and notes that Australia is already an expensive destination to come to due to high travel and visa expenses.

Property B says “if the proposed backpacker tax is introduced it will certainly deter future backpackers from coming to Australia and increase the strain on our permanent workforce. Agriculture already faces challenges finding and maintaining a strong workforce. A reduced supply of backpackers will threaten Australia’s cotton industry, other agricultural industries and regional communities”.

CASE STUDY

PROPERTY C (Western NSW)

Region	Western NSW
Average number of backpackers employed annually	10+
Permanent staff employed	Varies
Farming enterprises	Cotton, grain, beef
Area planted to cotton (average)	5,000+ hectares
Tasks completed by backpackers	Planting, irrigating, harvesting, farm maintenance, general farm hand duties and operating machinery

The number of staff required on Property C (Western NSW) varies each year based on seasonal conditions including water availability, climate outlook and the price of cotton on the world market.

“At times we can run our operation with 10 people, other times we require 50 – it can all change in a single weather event.”

Property C employs backpackers to fill the gaps in their local labour market at peak times in the cotton season.

“Given the remote location of our property it is difficult to find the staff we need on short notice. Backpackers don’t have to move families and schools and, due to their lack of commitments, are essentially available on demand for short-term and casual work to supplement our permanent workforce at a time that best suits them and us.”

If the supply of backpackers was significantly reduced, Property C faces uncertainty on how they would combat the resulting labour shortage.

Property C’s current backpacker employees have already mentioned that friends of theirs had changed their travel plans and were no longer considering Australia as a Working Holiday destination in fear of the proposed tax rate. This will have a huge impact on Property C’s access to a flexible labour supply.

“Backpackers here never go home with money; they always spend it in our local community or to continue their travel around Australia – often in other rural areas. They are vital members of our regional community regardless of how long they stay, supporting local businesses and regularly contributing to local social and sporting events – the community wouldn’t be the same without them.”

Appendix 2: Basic Summary of Employment Subsidies and Programs in NSW and Queensland

Program	States	\$	Aimed At	Eligibility	Conditions
Back to Work Program	QLD only (Toowoomba Council zone excluded)	<ul style="list-style-type: none"> \$15,000 (unemployed 52+ weeks) \$10,000 (unemployed 4+ weeks) 	<ul style="list-style-type: none"> Long-term unemployed (52weeks+) Short-term unemployed (4 weeks +) 	<ul style="list-style-type: none"> Must be QLD resident Must be on full-time or part-time contract. Casual employment is not allowed 	https://backtowork.initiatives.qld.gov.au/
Job Actions Plan	NSW only Available if <50 FTE employees	<ul style="list-style-type: none"> \$2000 after 1st year (payroll tax rebate) \$4 after 2nd year (payroll tax rebate) Part time employment subsidised pro-rata. 	<ul style="list-style-type: none"> Aimed at creating new jobs in workplace. 	<ul style="list-style-type: none"> Must be a new job – businesses FTE equivalent employee number must be maintained. A vacancy period of 30days is acceptable (same employee not necessary for entire 2 years) See website for more details Claim must be made within 90 days of new position beginning. 	http://www.osr.nsw.gov.au/taxes/payroll/jap
Long Term Unemployment	Federal	<ul style="list-style-type: none"> \$6,500 	<ul style="list-style-type: none"> Long term unemployed 	<ul style="list-style-type: none"> Employee must have been serviced in employment services continuously for 12 months, or 6 months if indigenous 	https://www.employment.gov.au/long-term-unemployed-and-indigenous-wage-subsidy
National Work Experience Program	Federal	<ul style="list-style-type: none"> 4 weeks unpaid work experience – option to employ afterwards, subsidies may be available for employment 	<ul style="list-style-type: none"> Jobseekers 	<ul style="list-style-type: none"> Placements of up to 25/hrs week, max 4 weeks. 	https://www.employment.gov.au/national-work-experience-programme
Parents Wage Subsidy	Federal	<ul style="list-style-type: none"> \$6,500 	<ul style="list-style-type: none"> People in receipt of a Parenting Payment; or a Principal Carer Payment receiving Newstart Allowance, Youth Allowance or Special Benefit. 	<ul style="list-style-type: none"> Employee must have been serviced in employment services for 6months+ 	https://www.employment.gov.au/parents-wage-subsidy

Restart Program	Federal	<ul style="list-style-type: none"> • \$10,000 for minimum 30hrs/week • Pro-rata for 15-29hrs/week 	<ul style="list-style-type: none"> • Employees Aged 50+ 	<ul style="list-style-type: none"> • Employee must have been on income support for 6 months • Employee must be registered with a jobactive, disability employment service or community service programme provider. 	https://www.employment.gov.au/restart-help-employ-mature-workers-0b
Transition to Work Program	Federal	<ul style="list-style-type: none"> • \$6500 	<ul style="list-style-type: none"> • Aged 15-21 • Pre-employment support to improve work readiness and link to employment • Designed for early-school leavers and those who have had difficulty entering workforce after school. 	<ul style="list-style-type: none"> • Subsidy available for employees who have completed the program • 12 month minimum employment • Contact local transition to work provider (link below) for possible employees. 	https://www.employment.gov.au/transition-work
Work Start Incentive	QLD only	<ul style="list-style-type: none"> • \$2,000 	<ul style="list-style-type: none"> • Employee must have previously participated in a Community Work Skills, Work Skills Traineeships, Get Set for Work, Ready for Work or Youth Skills project, in a traineeship or apprenticeship 	<ul style="list-style-type: none"> • Minimum 3 months employment. • Expected that employers will provide continuing employment. • Numbers are capped – see website for details. 	https://training.qld.gov.au/site/community-orgs/Documents/funded/sqw/work-start-funding-guidelines.pdf
Youth Wage Subsidy	Federal	<ul style="list-style-type: none"> • \$6,500 	<ul style="list-style-type: none"> • People Aged <30 • Must have commenced with a jobactive or transition to work provider 	<ul style="list-style-type: none"> • Employee must have been serviced in employment services for 6months+ 	https://www.employment.gov.au/youth-wage-subsidy

Payments for Employees

Job Commitment Bonus (Program will not take new applications after Dec 31 2016) For Employees	Federal	<ul style="list-style-type: none"> • Payment to employee – encourages long term unemployed to find and hold job • \$2,500 if job is held for 12 months • \$4,000 if job held for further 12 months 	<ul style="list-style-type: none"> • Aged 18-30 • Been on Newstart allowance or Youth Allowance for 12months+ 	<ul style="list-style-type: none"> • Must work continuously and not receive any welfare payments 	http://www.employment.gov.au/job-commitment-bonus-young-australians-0
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