

**Submission
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FOOD PRODUCTION AND SUPPLY IN NSW

Organisation: NSW Farmers Association

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Inquiry into food production and supply in New South Wales

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About NSW Farmers

NSW Farmers is Australia's largest state farming organisation, representing the interests of its farmer members in the state. We are Australia's only state-based farming organisation that represents farmers across all agricultural commodities. We also speak up on issues that matter to farmers, whether it's the environment, biosecurity, water, animal welfare, economics, trade, or rural and regional affairs.

Agriculture is an economic 'engine' industry in New South Wales. Farmers across the state produce more than \$17 billion worth of food and fibre every year, or around 25 per cent of total national production, and contribute significantly to the state's total exports. Agriculture is the heartbeat of regional communities, directly employing almost two per cent of the state's workers and supporting roles in processing, manufacturing, retail, and hospitality across regional and metropolitan areas. The sector hopes to grow this contribution even further by working toward the target of \$30 billion in economic output by 2030.

We have teams working across regional New South Wales and in Sydney to ensure key policies and messages travel from paddock to Parliament. Our regional branch network ensures local voices guide and shape our positions on issues affecting real people in real communities. Our Branch members bring policy ideas to Annual Conference, our Advisory Committees provide specialist, practical advice to decision makers on issues affecting the sector, and our 60-member Executive Council makes the final decision on the policies we advocate on.

As well as advocating for farmers on issues that shape agriculture and regional areas, we provide direct business support and advice to our members. Our workplace relations team has a history of providing tailored, affordable business advice that can save our members thousands of dollars. Meanwhile, we maintain partnerships and alliances with like-minded organisations, universities, government agencies and commercial businesses across Australia. We are also a proud founding member of the National Farmers' Federation.

Executive summary

The COVID-19 pandemic has brought into sharp relief the critical importance of food security and equitable access to safe, quality, and nutritious food. Consumers in New South Wales are in a privileged position to have access to locally produced food and fibre; however, we cannot take this access for granted. There are several factors threatening the longevity of local fresh food supply chains, and this Parliamentary inquiry provides an opportunity to highlight - and in many instances, reiterate – the key challenges we see in securing the sustainability of food and fibre production in the state.

A key policy area for NSW Farmers is promoting healthy and sustainable competition in fresh food supply chains. Over the last few decades, competition in many fresh food supply chains has gradually eroded – from the number of retailers in the supermarket sector to the number of processors farmers can contract to, diversity and choice has dwindled. As price-takers, farmers have assumed a higher degree of risk than other supply chain entities and, in many instances, have lost bargaining power. In industries such as poultry meat, dairy, and horticulture, this is creating an unsustainable situation. For some farmers, continuing to invest in their business is untenable.

It goes without saying that farmers need land to farm. A growing number of land use interests, such as renewable energy development and urban sprawl, will increasingly compete for space in regional NSW - with the potential for our best and most strategic farmland to be lost or fragmented. There is an immediate priority to set a strategic planning system in place to accommodate different land uses.

Environmental change, workforce challenges, unrealised local processing and manufacturing opportunities, and uncertainty around quality assurance and food labelling schemes and protocols also pose challenges to the future of food production. Research and development (R&D), adequate skill development, more connected infrastructure to foster value-adding, and surety around traceability and food labelling conventions will help build a more certain future for our food production industries.

1. Improving food security and equitable access to food

Achieving long-term food security requires sustainable food production and supply systems. Currently, many of our fresh food industries face conditions that are not conducive to long-term growth and investment. Primary producers in industries including dairy, poultry meat, and horticulture face an erosion of competition in their supply chains, which has weakened their bargaining power when dealing with intermediaries and retailers – ultimately endangering their future in the industry.

Intermediaries

Fresh food farmers are typically price-takers due to the short shelf-life of their products. The narrow window for transporting perishable goods means producers are geographically constrained to local processing options, limiting their agency to ‘shop-around’ for the best contract with an intermediary, such as a processor, agent, or broker. Exclusivity clauses similarly limit this freedom. The resulting transfer of market power for farmers in the perishable agricultural supply chains leaves these farmers particularly vulnerable and in need of specific protections.

The Mandatory Dairy Code of Conduct has helped alleviate power imbalances between dairy farmers and processors by banning retrospective price ‘step-downs’ once farmers have committed to a supply contract, and NSW Farmers is pushing for a similar mandatory code in the poultry meat industry where the grower-processor relationship has been negatively impacted by a dearth of competition in the processor space. With only two chicken meat processing companies in NSW, growers have limited choice in who to contract to and their decision is largely based on geographic convenience. In fresh food industries such as chicken meat, the processing market has reached a monopsony state whereby only one buyer exists. This lack of competition exposes growers to significant risk. Growers have been known to accept contracts containing unfair contract terms and/or no recourse in the event of a breach. Due to the nature of the poultry meat industry, growers are expected to make significant investments with little certainty. Growers invest in sheds and other large-scale infrastructure to house and nurture birds they do not own. Anecdotally, some of these growers have had their growing contracts terminated whilst still owing significant sums to lenders, leaving them with no alternative processing option, unusable assets, and sizeable debt.

Retailers

Australia's supermarket sector is one of the most concentrated in the world. The two retailers dominating the sector have the market power to influence the value of everyday food items, which has led to perverse outcomes for some primary industries. The retail price of milk is a well-documented example. For almost eight years, the major retailers were in a milk price war, which resulted in home brand milk retailing for an astoundingly low \$1 per litre. The market pressure felt by competitors forced them to similarly cut retail prices, contributing to an overall reduction in profit flowing down milk supply chains. The dairy industry has consistently demonstrated that milk needs to retail at \$1.50 per litre for milk production to be sustainable.

Low retail prices, which are also common for chicken and horticulture products, diminish overall supply chain profit and reduce the buffer area for processors and farmers. In a position to do so, processors have been known to transition risk to farmers. What's more, farmers are highly exposed to climatic variability and high input costs, and low profit margins can make future investments untenable once these challenges are factored in. Farmers in intensive industries such as dairy face high electricity costs, which for regional users are already 25 per cent higher than for urban users. Meanwhile, drought can severely limit water and feed availability, adding further imposts for farmers. Anecdotally, challenging environmental conditions combined with low retail milk prices have driven many farmers from the Australian dairy industry – which is considered one of the most efficient and high-performing in the world.

Australia's highly concentrated supermarket sector is prone to disruption, and this problem has been made clear over COVID-19. The image of empty supermarket shelves has alarmed consumers and sparked speculation over possible food shortages. However, the problem does not lie in food production. When almost three quarters of Australia's food supply is going to just two retailers, disruptions to these retailers' supply chains will be evident. With processing and distribution staff falling ill with the virus or deemed close contacts, the pool of supply chain workers has been diminished. Anecdotally, consumers who shopped at smaller markets over the latest COVID-19 outbreak had a greater range of choice than at the two major retailers.

NSW Farmers supports action being taken to address the undue power and influence of major retailers, and to regulate processor-farmer relationships in vulnerable industries. A Treasury-instructed inquiry conducted by the Australian Competition and Consumer Commission into perishable agricultural good (PAG) supply chains was a watershed moment for fresh food producers, and its findings confirmed that power imbalances are likely to arise in these supply chains. However, over a year has elapsed since the ACCC released its findings from the inquiry, and the Australian Government is yet to officially commit to implementing the recommendations.

Recommendations:

1. *NSW Government to support the federal implementation of key recommendations from the perishable agricultural goods (PAG) Inquiry:*
 - *Legislating an economy-wide prohibition on unfair trading practices.*
 - *Strengthening the Food and Grocery Code to deter contraventions, offer genuine independent dispute resolution and encourage competition throughout the PAG supply chains.*
 - *Legislate the proposed enhancement to unfair contract terms laws.*
2. *NSW Government to identify potential need and support effective development of industry codes in specific supply chains with significant market concentration, such as poultry meat. Support the regular and ongoing review of existing codes, such as Horticulture and Dairy to adequate protections for farmers in vulnerable supply chains.*
3. *NSW Government to supply seed funding for independent or cooperative supplier groups to assess and invest in the establishment of meat or fresh produce processing facilities to improve choice for NSW consumers and greater competition at the intermediary level.*

Environment, social and governance concerns

The consumer landscape will be increasingly influenced by environmental, social and governance (ESG) market trends. Private sector lending and overall investment in agricultural industries will be influenced by ESG, and this is already occurring in relation to animal welfare, food safety, and the environment. While this trend takes form, there is an overwhelming need to ensure policy changes are based on sound science and not solely on community expectations. Additionally, there is a concern that the risk associated with changing consumer preference will be passed down the supply chain, with farmers expected to absorb the costs.

Animal welfare standards

As retailers push for higher welfare standards and embrace certification programs, there is an inevitable cost to the consumer. While there is room for these trends in the market, the over-regulation of intensive production systems will result in lower production of proteins such as meat and eggs, with a higher cost to the consumer. Eggs produced in cage systems have the lowest price point at retail. The removal of this option risks marginalising lower socioeconomic communities, creating long-term concerns for equitable access to protein.

As well as socioeconomic impacts, the push toward stronger welfare credentials will have biosecurity implications for livestock. There are several biosecurity risks associated with free-range production systems, particularly in the egg industry where avian influenza (AI) is a known threat. Around half a million birds were killed in an AI outbreak in Victoria in 2020.¹ Recurrent biosecurity events will be economically costly and result in poor animal welfare outcomes, negatively impacting long-term food security.

Recommendation:

To use a science-based approach to understanding different production systems and ensure the continuation of all production systems in the egg and intensive livestock industries based on the socioeconomic, animal welfare, and biosecurity advantages and disadvantages of each system.

Quality assurance schemes

As consumers grow more discerning, there will be an increased need for producers to prove the safety of their food. Voluntary quality assurance schemes can promote rigour in food production if their remit and focus is appropriate, however there is a concern in some industries that this outcome is not being achieved. In horticulture, voluntarily quality assurance programs including Freshcare and HARPS are increasingly focused on marginal risks such as chemical shed manifests. These represent real and frustrating compliance costs to the business, which are not reciprocated with a premium at retail but rather with a penalty in their absence. The major retailers, who hold significant influence and market power, can transfer safety and quality liability to the producer based too often on incomplete or absent scientific evidence and an ever-diminishing tolerance of risk.

Community engagement

¹ Giselle Wakatama, “Devastating bird flu outbreak in Victoria sees NSW prepare for the worst” (ABC News) 4 Oct 2020, accessed 22 February 2022 via <https://libguides.murdoch.edu.au/footnote/text#:~:text=Footnotes%20are%20listed%20at%20the,of%20publication%2C%20in%20that%20order.>

Strong community engagement with agriculture is an important element of building long-term food security. A cultural affinity with farming is being lost as fewer Australians live in rural areas or are being raised there. The Victorian Farmers Federation’s ‘Open Gate Conversations’ models an awareness program whereby members of the public can ask farmers about farm practices and systems. Such engagement tools build community trust in farming and can lead to a more balanced understanding of the sector.

Recommendation:

The NSW Government invests in the development of a new program built on the previous NSW Farmers Consumer Connections project – which enhanced community trust in the industry – to establish a portal where the community can have their questions answered by farmers.

2. Land use pressures

The farmers of NSW play an unequivocal role in the state’s economic and environmental outcomes. New South Wales is a highly productive state agriculturally, producing \$17.6 billion in food and fibre in 2020-2021, or 19 per cent of overall national production. The state sector also performs well internationally, with agricultural products accounting for 14 per cent of overall exports.² NSW farmers manage around 81 per cent of the state’s land mass. However, trends such as urbanisation and the shift to renewable energy generation could lead to the loss or fragmentation of our best and most strategic agricultural land, impacting our farmers’ ability to continuously deliver quality and safe food and fibre domestically and abroad. Mining, coal seam gas and significant regional infrastructure projects such as Inland Rail will similarly pose a risk to the unfettered use of prime agricultural land for food and fibre production.

Agricultural land is undervalued and is at risk of being viewed as a ‘default zone’ for new developments.³ There is currently no definition of ‘important’ agricultural land, no targets for retaining it and no protections built into the planning system. The current mechanisms available to resolve land use conflict often disadvantage farmers and show a lack of understanding and

² NSW Department of Primary Industries, *Performance, Data and Insights 2021*, accessed 15 February 2022 via <https://www.dpi.nsw.gov.au/about-us/publications/pdi/2021/key-export-markets>

³ Daryl Quinlivan, *Improving the Prospects for Agriculture and Regional Australia in the NSW Planning System - a report by the NSW Agriculture Commissioner*, July 2021.

importance placed on the needs of agriculture. Additionally, the planning system and layers of red and green tape can stymie investment and create barriers to business expansion and diversification.

NSW agriculture has a goal of becoming a \$30 billion sector by 2030, contributing to a national target of \$100 billion. Potential for this growth exists, and it will be a mounting priority as the world's population looks to exceed nine billion people by 2050 and demand for food and fibre grows by 60 per cent. However, without changes to the current planning system in NSW, it is certain that important agricultural land will continue to diminish and become more fragmented over that period.

Recommendations:

- *For the development of a planning system that supports agriculture, sets targets for retainment of important agricultural land, and mandates the consideration of agricultural interests in decisions around land use.*
- *For the installation of a well-resourced Agriculture Commission to support the Agricultural Commissioner in representing agriculture on cross-departmental issues such as land use planning.*
- *For the Agriculture Commissioner role to be legislated to ensure the longevity of the position.*
- *Four Rural Land Use Officers for four years, based within NSW Farmers, to enhance communication and engagement with community and landholders to aid land use issue management.*

3. Managing the impacts of climate change

Farmers are at the coalface of environmental change and increased climatic variability, which will likely reduce the pool of viable agricultural land. Projected increases in temperatures, lower rainfall, and extreme weather events may all result in reduced agricultural productivity, while increases in the frequency and severity of extreme weather events could interrupt food delivery.⁴ The farmers of the state need government support to adjust to changing climatic conditions. Research and development

⁴ USDA (2015). Brown, M.E et al. Climate Change, Global Food Security, and the U.S. Food System.

will be a critical instrument in finding innovative ways to adjust to changing conditions and maintain food and fibre production to feed and clothe a growing population. Primary producers would also benefit from installing renewable energy generation and storage. Energy Sustainability Rebates have the potential to reduce reliance on fossil fuels, reduce carbon emissions, improve on-farm resilience, and reduce quarterly operating costs by a minimum of \$15,000-\$20,000.

Recommendations:

- *Government finance, including subsidies and low interest loans, for farmers and communities to install renewable energy generation and storage.*

4. Developing technologies to bring food production to cities

While opportunities exist for small scale urban food production, the nature of agriculture means that food and fibre supply will continue to require significant tracts of well managed land. There will be opportunities for 'vertical farming' that will benefit small- and large-scale producers, but the need to invest in innovation and productivity improvements for the farming sector remains stronger. Regardless, connectivity and digital literacy will be key for farmers in embracing technology for business decisions and productivity improvements, as well as for scalable food production using technology and robotics.

Recommendations:

- *Raise farmers' awareness of existing digital technologies that offer quality, accessible and affordable communications and data on-farm*
- *Commit to working with farmers to increase farmer knowledge, skills and confidence to adopt new digital technology solutions tailored to their needs through dedicated digital technology advisers.*

5. Consideration of workforce challenges and skills development

A secure and reliable workforce is key to business continuity and resilience in agriculture, and in turn to delivering food security to the state and nation. The impact of COVID-19 travel restrictions on the flow of workers both internationally and domestically has highlighted the workforce vulnerability the industry faces. Farming businesses across all sectors are faced with significant labour shortages, felt most acutely in horticulture due to the high volume of workers required on a short-term, seasonal basis. While labour is in short supply, farmers also struggle to find suitable and affordable accommodation solutions on, or proximate to, their farms to host their workers. There are pressures on regional housing being felt across the state with rents and house prices growing faster than in metropolitan area and low rental vacancy rates impacting on the availability and affordability of housing for low- and moderate-income households.

Recommendations:

- *A strong promotional campaign to attract Working Holiday Makers, who represent an important segment of Australia's tourism sector and provide invaluable labour for the agriculture sector, into regional NSW*
- *Establish a network of Help Harvest NSW Coordinators to promote harvest work as well as attract, coordinate, organise, and assist to resolve local pain points.*
- *A grants scheme that provides up to 50% of the total cost up to a maximum of \$50,000 per farm enterprise (ABN) for suitable on-farm or near-farm accommodation solutions for small and medium sized family farm businesses, including upgrades to facilities like showers, community kitchens, etc. would help farmers with a significant and ongoing need for workers to attract more domestic and international employees.*

Fostering sustainable access to food will require investing in the future generation of farmers. A strong and vibrant agriculture sector depends on a motivated, multi-skilled workforce. The sector offers myriad employment and progression opportunities – both on-farm and in advisory and complementary disciplines – as well as variety through seasonal work and specialist contracting. The \$15 million AgSkilled program (to 30 June 2023) is a positive commitment to the sector, but it must be

amended to include livestock sectors in addition to the cotton, grains, horticulture, viticulture, and rice-growing industries already included.

The future of the farming sector is impacted by the accessibility of agricultural property for younger people. The purchase price and maintenance costs of farmland are high, and while current loan schemes and assistance have been embraced by the sector, the challenges for younger people in accessing adequate capital remain high.

In terms of overcoming future work shortages in industries characterised by high-volume, seasonal labour, the government has a role in scoping technology and automation options. Technological advancements may reduce the reliance on a localised workforce and improve productivity in industries such as horticulture.

Recommendations:

- *A new dedicated strategy to promote careers in agriculture, coupled with a funded commitment to skill development, like the NSW Women in Trades initiative would bring together research and communication strategies to better promote opportunities and aid the prioritisation of Smart and Skilled funding priorities across the State.*

6. Development and growth of the food industry (raw or processed) as an export

There is significant potential to extract further value from locally produced food through processing and other value-add opportunities, which would improve the overall sustainability of agricultural industries. Enhanced value-adding would enable individual farm businesses to diversify their revenue and become more resilient to change, while greater processing and manufacturing would expand job opportunities in regional areas.

There's opportunity for the establishment of small-scale, product-specific manufacturing/processing plants located near growers to add value to fresh produce, incentivise recycling or repurposing, and

support market expansion. Building on the concept of micro-breweries, investment could be made in micro-processing facilities through grants. Potential business opportunities include repurposing recyclable plastics for netting (horticulture and/or aquaculture), dam covers or weed mats, and micro-processing for dairy farmers who could offer specialised products within local communities.

The potential for NSW primary producers to service new markets and build economic returns from export has never been greater. However, work is needed to increase producers' awareness of opportunities and to enable new market access through free trade agreements. The advent of online sales and the increased use of social media is making it more possible to sell direct to consumers, but market development is not typically an area of expertise for farmers and requires upskilling. Meanwhile, certification and regulatory requirements are potential barriers when exporting. Additionally, consumers are seeking more information as they participate in the paddock-to-plate experience.

Recommendations:

- *Establish a new micro-incubator grants for food producers to stimulate the establishment of small scale, product specific manufacturing/processing plants close to growers, adding value to fresh produce, incentivise recycling or repurposing, while aiding market expansion.*
- *Targeted investment in capability development and business skill enhancement including the development of individual farm brands, initiatives to promote vertical integration, and provenance technology as producers increasingly choose to value-add on farm and introduce new technologies to assist operations.*

7. Implications for quality control and labelling of processed/manufactured food.

The proliferation of empowered and discerning consumers is one of the five megatrends predicted by ABARES and CSIRO to influence agriculture over coming decades.⁵ As consumers seek to understand

⁵ Steve Hatfield-Dodds, Stefan Hajkovicz and Sandra Eady, *Stocktake of Megatrends shaping Australian agriculture (2021 update)*, accessed 22 February 2022 via <https://www.awe.gov.au/abares/products/insights/megatrends-2021>

where their food has come from and what it contains, proof of provenance and labelling will grow increasingly important. Country of Origin Labelling has evolved over recent years to include information on the proportion of a product produced or manufactured in Australia. However, there are concerns over whether enough has been done to promote awareness of the new labelling rules.

Plant-based products are expected to grow in popularity over coming decades, and labelling conventions must stay up to date with market trends. Currently, several plant-based foods and beverages are being promoted as alternatives to animal products such as milk, meat, and eggs. This is despite these products offering distinct nutritional qualities and being produced in a highly disparate way to animal products. NSW Farmers supports the growth of the so-called 'alternative protein' sector and recognises the important role it will play in meeting protein demand as global populations bulge and providing consumers with choice. However, labelling rules should account for the distinctive qualities of these products and limit the possibility of drawing on animal protein names to market plant-based products.