

## INQUIRY INTO FRESH FOOD PRICING

**Organisation:** NSW Farmers Association

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**NSW Farmers' Association**  
**Inquiry into fresh food pricing**  
**June 2018**



## **In brief...**

**Agriculture in New South Wales contributes \$15.4 billion to the state's economy;**

**The sector directly employs 77,700 people, or 2% of the total workforce;**

**Almost 1/3 of Australia's farm businesses are in New South Wales;**

**80% of land in New South Wales is devoted to agriculture;**



**The highest value crops and commodities in 2016-17 were wheat, beef cattle, horticulture and cotton.**



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# About NSW Farmers

## *A profitable and sustainable New South Wales farming sector*

The NSW Farmers' Association is Australia's largest State farming organisation representing the interests of its farmer members.

Farmers across New South Wales produce more than \$15 billion worth of food and fibre every year, representing around one quarter of Australia's total agricultural output. Our state's unique geography means a wide variety of crops and livestock can be cultivated and nurtured. NSW Farmers is Australia's only state-based farming organisation to represent the interests of farmers of all agricultural commodities – from avocados and tomatoes, apples, bananas and berries, through grains, pulses and lentils to oysters, cattle, dairy, goats, sheep, pigs and poultry.

Our focus is not just on issues affecting particular crops or animals – it extends to the environment, biosecurity, water, economics, trade and rural and regional affairs. We also have an eye on the future of agriculture; we are advocates for innovation in agriculture, striving to give our members access to the latest and greatest innovations in research, development and extension opportunities. Our industrial relations section provides highly specialised advice about labour and workplace matters.

Our 100-plus regional branch network ensures local voices guide and shape our positions on issues which affect real people in real communities. Members are the final arbiters of the policies of the Association – through our Annual Conference and elected forums such as Executive Council, members can lobby for the issues which matter to them and their community to become Association policy. Our issue- and commodity-specific Advisory Committees are elected by members to provide specialist, practical advice to decision makers on issues affecting the sector. We are proudly apolitical – we put our members' needs first.

In addition, NSW Farmers has partnerships and alliances with like-minded organisations, universities, government agencies and commercial businesses across Australia. We are a proud founding member of the National Farmers' Federation.

## Executive summary

Agriculture is a major force underpinning rural and regional New South Wales' economic diversity, contributing more than \$15 billion to the broader economy and supporting tens of thousands of jobs and businesses. However, continuing growth of the agricultural sector cannot be taken for granted. With proper investments in research and development, ongoing improvements to infrastructure and the supply chain, and continuing efforts to strengthen our biosecurity and access to new markets, New South Wales can be Australia's largest, most valuable, and diverse agricultural producing state.

In addition to the issues raised in this submission, NSW Farmers draws the Committee's attention to two other publications:

- NSW Farmers 2018-19 Budget submission (Appendix A); and
- FOCUS: An agricultural agenda for the 2019 State election (Appendix B)

These two documents outline NSW Farmers' forward vision for the sector. They highlight the opportunities, challenges and threats for the sector; charting a path toward a national agricultural industry worth \$100 billion by 2030. The publications identify the key investments and partnerships needed between industry and government to enable ongoing growth in the industry's value.

Finally, NSW Farmers is leading the push for further research into food security through our Advanced Urban Agrifoods CRC proposal, alongside our push for the development of a Fresh Food Precinct at Western Sydney Airport. As leaders in the agricultural sector, we call for governments at the Federal, State and local level to work with industry to realise the potential of agriculture and its value to society as a whole.

## Recommendations

NSW Farmers encourages the Committee to consider the following in its final report to Parliament:

- The importance of interconnected and efficient transport options for the movement of food and fibre products, both intra- and interstate and internationally;
- A Fresh Food Precinct properly funded to ensure agriculture is an integral part of the Western Sydney Airport development;
- Active support for an Advanced Urban Agrifoods CRC;
- An agricultural commissioner to assist farmers manage competition imbalance in trading arrangements;
- Maintain high visibility across the school curriculum of food and fibre – not just for the sector's benefit, but for the ongoing health of the population; and
- Managing urban expansion to ensure minimal impact on productive land.

# Introduction

The NSW Farmers' Association (NSW Farmers) welcomes the opportunity to contribute to the Legislative Council's Portfolio Committee No.1 inquiry into fresh food pricing in New South Wales. As the peak body representing fresh food growers in New South Wales, we believe this Inquiry can make an important contribution to the challenges facing food and fibre producers, and contribute to a broader national debate about issues in fresh food production across Australia.

NSW Farmers considers that there are five key areas on which this Committee should focus as part of its investigations into fresh food pricing:

1. The role of payment terms between growers, traders and retailers;
2. Inefficient supply chains;
3. The cost of quality and food safety regulation;
4. The benefit of food and fibre education; and
5. Planning and land use conflicts.

There are general truths about the industry regardless of the commodity produced – farmers are 'price takers', they are captive to market and climate forces beyond their direct control and long supply chains leave them vulnerable when something goes wrong 'beyond the farm gate'. Many of the issues relating to competition policy, pricing and regulation rest at a Commonwealth level; regulation of food safety, biosecurity and funding for supply-chain related infrastructure is largely the responsibility of state and territory governments.

Farmers recognise that the price paid by a consumer varies significantly from the price paid to them at a wholesale level. There are many and varied reasons for this – some additional costs are necessary to enable treatment of the raw product for human consumption (for example the pasteurisation of milk). Some value adding and packaging is required for a product; in addition, the retailer will have their own costs which they will need to recoup. However there remains a lack of transparency on the pricing of retail goods; a general competition imbalance between large retailers and (generally) small growers does not assist in this regard.

## ***Crossing the Great Dividing Range – our sandstone curtain***

Eighty per cent of New South Wales' agricultural produce comes from the west of the Great Dividing Range, yet the transport corridors linking western New South Wales to ports in Sydney, Newcastle and Wollongong act as a significant barrier to further growth.

Grain producers in New South Wales, for example, face average journeys of more than 300km to move their grain from paddock to port, with each one of these journeys required to travel through already heavily-congested transit corridors over the Great Dividing Range. Combined with network inefficiency, the cost of transporting produce from the paddock to the port can be as high as 30 per cent.



The Great Dividing Range, often referred to as ‘the sandstone curtain’, has always acted as a barrier between regional and metropolitan New South Wales. However, as existing transit corridors continue to come under pressure – exacerbating first and last mile transportation issues, –food and fibre is further isolated from the domestic and international markets it aims to serve,. This is particularly pronounced when serving lucrative, premium international markets that require just-in-time delivery.

The potential value of New South Wales’ agricultural production is severely hamstrung by the quality of the supply and value chains that service it. Now is the right time to consider investing in upgraded, modern carriageways and rail corridors that can improve the transportation of food and fibre from the paddock to the port or the plate. Essential to this is integrated transport hubs and intermodal facilities in the regions and in Sydney.

Without significant investment, either through further upgrades of the existing infrastructure or the development of new means of moving from one side of the range to the other, inefficient agricultural supply chains will continue to exist in New South Wales. Addressing this freight challenge will have a significant and lasting impact on farmers’ ability to cut their costs, open new markets and meet consumer demand faster.

### ***A Fresh Food Precinct at Western Sydney Airport***

The growth in volume and value of global food production will create significant opportunities for Sydney and farmers across New South Wales. Greater western Sydney is well placed to play a key role in the supply of high quality, value-added fresh food to both local and international consumers.

In late 2017, KPMG and NSW Farmers released the Green Paper – *Think big think fresh – A fresh food precinct at the heart of Western Sydney* (see Appendix C), to highlight the potential development of a world-leading Fresh Food Precinct (FFP) as part of a future Western Sydney Airport (WSA). Our research found that agriculture, food processing and manufacturing can be a multi-billion dollar opportunity at WSA, if the right supply chains are in place to allow our products to quickly and easily access lucrative and growing Asian and Middle Eastern markets, as well as the growing western Sydney region.

The FFP would be an area of land of up to 500 hectares in close proximity to the proposed WSA that is carefully designed to integrate high value food production with the best in food processing technology. The FFP would integrate with other regional farming, food processing assets and transport infrastructure. The FFP zone would comply with the necessary regulations of key export market destinations so that food processed in the FFP can be quickly cleared for export via air freight with digital certification.

The Green Paper identifies a significant opportunity for a new fresh food trading market to be established at WSA. As has been reported in the media, this could be an opportunity for Sydney Markets, currently located at Flemington, to start new operations within the Precinct, enabling the millions of residents currently living in, and expected to live in, Western Sydney the opportunity to buy our freshest produce close to their home.

At a high level, NSW Farmers' support for a FFP is predicated around:

- providing farmers access to new ports and markets;
- ensuring that investments in economic infrastructure in our cities are planned in a way to benefit food production and farming;
- highlighting opportunities within the farming sector to gain premium prices for their produce, and move away from a commodity provider of food and fibre;
- ensuring that critical infrastructure in our cities have sufficient connections to food and fibre production; and
- Demonstrating to those living in the city that farming is a relevant and vibrant sector in our economy.

The Western Sydney City Deal, signed between the Federal and New South Wales Governments, and local government across greater western Sydney, provides the funding to support the airport's development. Ensuring from the beginning that agriculture has a place in the greater Western Sydney region's future is essential to guaranteeing the City Deal's success. Intensive production of food such as lettuce can occur in specially-designed facilities directly under flight paths where other businesses may not wish to operate.

### *The importance of food provenance to consumers*

Food production is becoming more customer-focused. The days of a farmer producing a food or fibre product and then hoping there is a market or customer to buy it are fading. This will be replaced by much stronger connectivity between primary production and consumer needs, and will involve longer-term agreements with farmers and more vertical integration from food companies, which will invest across the food chain.

The world's emerging markets – China, Southeast Asia, the Middle East and Africa – provide sustainable consumption that underpins food production investment. Off-take agreements into these markets can provide confidence to invest in long term production assets. Investor interest remains strong, particularly in Australian meat, dairy, horticulture, seafood and higher value crops such as pulses.

Australia and New South Wales are well positioned to take advantage of this new provenance based approach to food production. 'Brand Australia' is already well regarded in most Asian markets, with a 2016 Chinese consumer survey ranking Australia second out 20 country for the quality and safety of its agricultural products (Data driven Marketing Asia 2016)

Investments in the food supply chain will be underpinned by new technologies in plant breeding, indoor farming, energy and water management, food safety and quality, digital and the internet of things (IoT).

New investments will link into distribution models including air freight of fresh food. Fresh seafood and some fruit and vegetables are already airfreighted to export markets (e.g. from Wellcamp Airport in Toowoomba to Hong Kong). There are now nine commercial airlines operating between

China and Australia conducting approximately 100 flights per week. This is set to increase with Chinese tourist numbers forecast to triple from one million to 3.3 million per annum by 2026 (Australia China Business Council).

Food assurance (quality, safety, environment, people and animal welfare) will be a competitive advantage for Australia compared to many countries. Emerging business models will provide an even better basis for delivering food assurance in real time.

New farm business models will reduce the risk of climate and market volatility, which is necessary to attract investment and to increase returns. Australia has the potential for highly efficient cross-border zones based on digital platforms (such as blockchain) that will enable fast and efficient trade of food and fibre. For this to be achieved, we must eradicate inconsistencies of food product standard

Issues such as provenance, food security and security of supply are considered as part of NSW Farmers' proposed Advanced Urban Agrifoods Cooperative Research Centre.

### ***An Advanced Urban Agrifood Cooperative Research Centre***

NSW Farmers has formed a consortium with the University of NSW, Food Innovation Australia Ltd (the Federal industry growth centre for food and agribusiness) and other partners to establish a Cooperative Research Centre (CRC) for Advanced Urban Agrifood. NSW Farmers is seeking a 10-year commitment from partners for this innovative project, to deliver game-changing investment in the future state of agriculture and the NSW Food Strategy. Further information is available in the prospectus document attached at Appendix D.

Consumers are increasingly demanding food that is personalised to meet their daily nutritional requirements, lifestyle choices and health conditions. These future consumers are part of the growing middle classes. It is projected that by 2030, 54-66 per cent of the world's middle class will be found in the Asia Pacific region.<sup>1</sup> Additionally by 2025, the global market for products in the fresh, health and personalised foods segments is projected to reach AU\$8 trillion per annum<sup>2</sup>.

The world is on the cusp of a exponential growth in demand for customised, high-value food goods. Australian agrifood is uniquely positioned to benefit. Australia is world renowned as an efficient producer of safe, trusted food commodities. The next growth phase in the sector will demand investment in advanced solutions for production and increased export of fresh and value-added goods. New South Wales is ideally positioned to leverage this emerging high value consumer segment. Our proximity to Asia and the increased access to new high, value markets through free trade agreements, will allow the sector to capitalise on its global reputation for high quality and safe food to meet the needs of these future consumers.

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<sup>1</sup> Future State 2030: The Global MegaTrends shaping governments, KPMG

<sup>2</sup> Derived from *Food and agribusiness: Size of the prize analysis for Australia*, FIAL 2017

The sector will need to make a step change in its capability, capacity and confidence to profitably market customised food.

It will need to start rebuilding New South Wales' value-adding capability and capacity by using emerging technology across the areas of advanced manufacturing, logistics, Industry 4.0, circular economy, and indoor cropping. The co-location of advanced growing and value-adding precincts, together with rapid transport hubs and shared infrastructure, will enable farmers to derive higher value from their fine outputs.

Exceptional regional development and job creation opportunities can be created through strategic investment by forward thinking businesses clustered around rapid transport hubs in regional centres and in association with the WSA.

The CRC will establish a technology road map and delivery program that embraces cross-sectoral opportunities, addresses the practical business needs of partners, and underpins investment confidence through direct links to market market to address growing demand.

# The role of payment terms between growers, traders and retailers

Delay in settling invoices is an issue across all sectors of the economy. Maintaining a healthy cash flow situation is vital to business continuity, supplier certainty and business confidence. Small and medium enterprises however, often bear a disproportionately high burden from long delays in the settling of invoices. This practice is unfair.

## *The relationship between retail and farm-gate prices*

The NSW Farmers believes that there is a strong relationship between farm-gate prices paid to farmers and the final retail price, if the commodity supply chain is competitive. In uncompetitive markets the relationship between farm-gate and retail prices breakdown. This is more to do with the ability of the processor or the retailer not to pass on the economic surplus of the transaction down the supply chain or to the consumer. Farmers, as price takers, tend have the weakest bargaining position in the supply chain.

Competitive retail markets are a necessary but insufficient measure to ensure a closer link between retail and farm-gate prices. The retail market for fresh food or groceries can be competitive, but if certain stakeholders within the supply chain have substantial market power, the economic surplus from the sale of fresh food and groceries will not find its way to the farmer. There does not have to be a contravention of market power regulatory provisions for the link between farm-gate and retail prices to break down. This has been demonstrated in the dairy supply chain, and by the recent ACCC report into the dairy industry. The subversion of price signals in the supply chain is a market failure that leads to poor economic and social outcomes.

The perishable nature of most fresh food leaves farmers in a weak bargaining position compared to a processor, and the processor at a disadvantage to retailers. A dairy farmer cannot, and will not, challenge the prices or terms offered by a processor, as any renegotiation or conflict will mean spoilage of their milk and dairy products. Furthermore, as all costs in dairy farms are either sunk or fixed in the short to medium term, any disruption to revenue cannot be mitigated by lowering operational costs. Regardless of whether you are selling your milk, or not, dairy cows need to be milked twice daily.

The perishability of fresh food, combined with small margins, necessitates significant scale and a production focus by food processors. As an example, these factors have contributed to the consolidation of the dairy processing sector. This further weakens the bargaining position of the farmer, with most geographic areas only having one dairy processor to choose from.

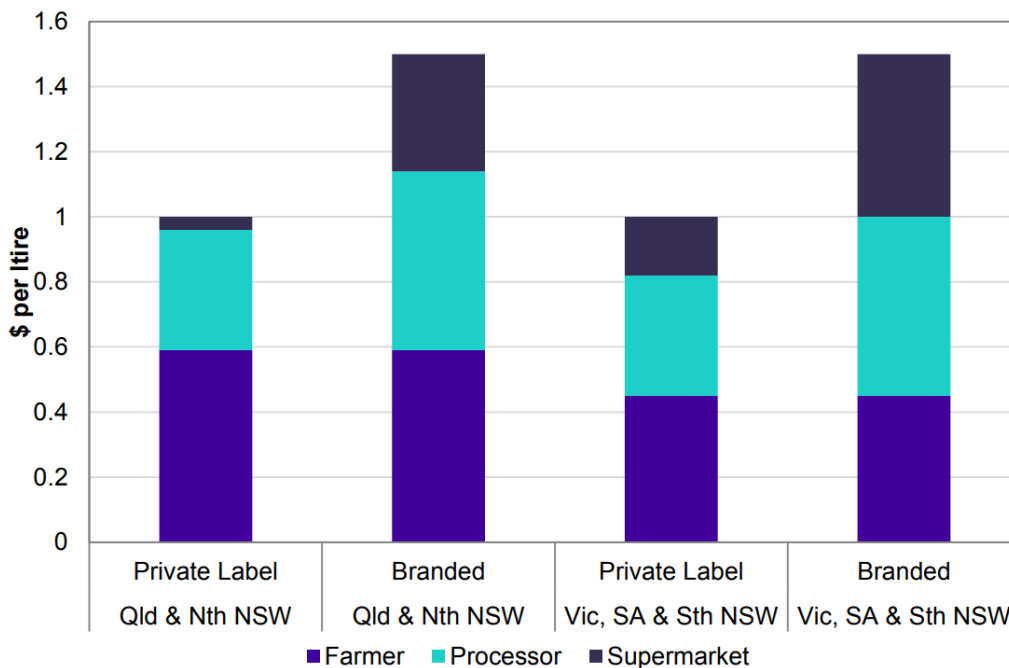
Conversely, the need for scale and a production focus puts the processor at a disadvantage when dealing with a more powerful market player, namely the retailers. Given the large sunk costs in food processing and the need to utilise capacity to ensure positive margins, processors are largely at the behest of large supermarkets.

These relationships mean that changes in retail prices will not be reflected in prices attained by the processors. In turn, the price attained by the processors will only have a small impact on farm-gate prices.

**Case Study: the price of milk**

Analysis by the Australian Competition and Consumer Commission (ACCC) (2017) of farm-gate, processor and retail prices for fresh milk highlights the weak bargaining position of farmers in relation to the processor and retailers. Regardless of price differentials in the retail price of private label and branded fresh milk, the revenue for the farmer remained unchanged. Furthermore, the lion’s share of any price increase in retail prices went to the retailer, highlighting its strong bargaining position within the supply chain.

**Distribution of revenue from the sale of fresh drinking milk**



Source: ACCC analysis from supermarket and processor data

Perversely, the ACCC used this data to conclude that ‘dollar a litre’ private label milk has no adverse impacts on dairy farmers, that the impacts were felt by the reductions in margins for the processor and retailer, and as such not a concern from a competition or market power perspective. This shows a lack of commercial understanding by the ACCC. Processors do not purchase milk from farmers for the specific purpose of supplying branded or private label milk. Any price pass-through to farmers will be determined by the average price obtained by the processor from the retailer. This means if the average retail price of milk falls, the average farm-gate price will also fall. This is why dollar a litre milk is viewed with such negativity by dairy farmers.

## **Blockchain**

New technology, including blockchain, offers opportunities to speed up the transfer of payments, providing real-time transfers of funds between grower and trader/retailer at the time of delivery. Similarly, recent reforms to inter-bank transfer arrangements can entail instant funds transfers between parties regardless of the financial institution involved.

Blockchain offers greater transaction certainty, as the transaction, including transfer of title and exchange of funds, occurs instantly. At present, the risk of non-payment for goods delivered on 28-day (or even more) terms leaves the grower at risk of non-payment; in plant-based commodities, growing an annual crop is risky enough – ensuring the trader pays is just more risk. Over the last decade grain trader insolvency, for instance, has resulted in multi-million dollar losses to the industry and seen growers left at a financial disadvantage from a trader's failure to pay for goods delivered in good faith. Blockchain can, particularly for smaller traders, provide greater confidence in transactions, and potentially improve competition and prices at the farm gate.

## **Codes of conduct**

Through industry codes of conduct, the Commonwealth Government (through the ACCC) can investigate unfair payment terms and can, where a breach of competition policy occurs, consider remedies at law. There are many industry codes of conduct which exist across the agriculture sector – recently, the ACCC recommended the adoption of a mandatory code of conduct for the dairy industry<sup>3</sup>. The horticulture industry now has a mandatory code of conduct, with a voluntary code having first been put in place in 2007. At present, a review is taking place into the Food and Grocery Code of Conduct, a voluntary code which regulates trade between supermarkets and their suppliers.

NSW Farmers notes the recent commentary on the food and grocery code by Graeme Samuel AC, the independent chair of the review into that code. Mr Samuel suggested that this code should be applied on a mandatory basis<sup>4</sup>. While codes of conduct assist in the regulation of trading arrangements, there remains an enormous power imbalance between small and medium tier suppliers and multi-billion dollar supermarkets, and their supply chains – all the 'good faith' negotiation provisions in the world cannot prevent the abuse of market power between a farmer with a time-sensitive crop or product seeking a buyer of those goods at a fair price.

## **Horticulture**

The now-mandatory Horticulture Code of Conduct provides a good case study in point. The Code requires a grower to enter into an agreement (known as a Horticulture Produce Agreement (HPA)) with the person purchasing or trading their produce (defined as either an agent or merchant, respectively). The Code itself outlines generally-agreed terms, and requires the parties to the HPA to negotiate arrangements such as payment terms, the price paid, the method of delivery and the

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<sup>3</sup> Source needed

<sup>4</sup> Ex-ACCC boss Graeme Samuel recommends major changes to grocery code of conduct, Australian Financial Review, 23 May 2018 <http://www.afr.com/business/manufacturing/exacc-boss-graeme-samuel-recommends-major-changes-to-grocery-code-of-conduct-20180523-h10fms>

manner in which produce can be rejected. Ambiguities in the Code have created tension between grower groups and industry bodies, each seeking to ensure fair terms for their respective members.

Importantly, the Code does not specify the precise timeframe in which the person/party buying the produce is required to pay for it – rather, the Code simply requires that the parties agree on the payment terms in writing in the HPA. While the Code assumes that the parties will negotiate such arrangements ‘in good faith’, the reality is that a much larger trader will generally specify payment terms which advantage the trader over a much smaller grower.

The ambiguity in the definition of key terms in the Code is a key warning to other industries seeking to enact codes of conduct – either voluntary or mandatory. Codes of conduct seek to address trading imbalances – however, to fairly address these imbalances, fair definition of essential terms must form the foundation of the code, rather than be left to negotiation between parties of varying size and power.

### ***Role for New South Wales Government***

The ability for the New South Wales Government to mandate trading terms is limited. However, growers have expressed concern and frustration about the enforcement of codes particularly, as noted above, when significant power imbalances exist between them. Notwithstanding the operation of dispute resolution mechanisms under the codes growers, in particular, have expressed hesitation in raising concerns about commercial agreement for fear of retribution. While the ACCC has established an anonymous hotline to allow growers to refer potential unfair terms for investigation, growers fear the loss of contracts and sales pathways for their product if they raise concern about the terms of trade.

Given the unequal bargaining power within food supply chains, and concerns about competition and abuse of market power, the establishment of a state-based commissioner or advocate for the farming sector to address issues requires further consideration. The focus of such a body could include:

- code compliance on unfair payment terms;
- advocacy on behalf of the farming sector on competition and abuse of power matters; and
- analysis and monitoring of farm-gate and retail prices on a basket of goods to assess the competitiveness within supply chains.



## Inefficient supply chains

Moving produce from paddock to plate in an efficient and timely manner is essential to product quality, freshness and food safety. New South Wales has some of the longest agricultural supply chains in the country, with GrainGrowers Limited finding that transport costs can account for up to 40 per cent of farmers' post-gate costs.

Inefficient supply chains will exacerbate issues with the accessibility and affordability of fresh food in some communities within the Sydney catchment. The Institute of Sustainable Futures has forecast that the Sydney catchment's ability to meet the region's food needs will decrease from 20 per cent currently to 6 per cent of food demand by 2031. This will add to the cost of fresh food within the Sydney region through additional food miles. One solution is to improve the efficiency and reliability of the food supply chain.

Agricultural supply chains have changed. Historically, locally-grown produce was picked, packed and distributed at local distribution centres throughout regional areas. Increasingly however, produce is picked locally and sent to more centralised packing and/or distribution centres, often located long distances from the place it was grown. These 'value added' products are then shipped back to the regional areas where they were grown and sold to consumers at a price significantly above the farm-gate price paid to the farmer.

NSW Farmers undertook an analysis of the price of six fresh produce items across the state. The results are listed below, and show the wide variability of the price paid for the same items. The exact locations have been de-identified, but can be made available upon request. Growers advise that they can be paid 40 to 50 per cent of the retail price for their produce (this will vary by commodity and should be taken as a rough guide, only).

(all prices \$/kg, taken w/b 28/5/2018)	Pink lady apples	Granny smith apples	Mandarins	Bananas	Zucchini	Golden sweet potato
Central tablelands supermarket 1	\$3.50	\$3.90	\$3.50	\$2.50	\$5.90	\$4.00
Central tablelands supermarket 2	\$3.49	\$3.49	\$2.99	\$2.49	\$6.90	\$2.48
Southern NSW fruit shop	\$1.99	\$0.99	\$2.69	\$2.49	\$5.49	\$1.69
Southern NSW supermarket	\$2.50	\$2.50	\$3.40	\$3.00	\$6.90	\$1.50
Eastern suburbs of Sydney fruit shop	\$5.69	\$5.69	\$4.49	\$3.99	\$8.99	\$4.49
South Sydney supermarket	\$2.50	\$2.90	\$3.90	\$3.00	\$4.90	\$4.00
Southern highlands fruit shop	\$4.99	\$3.99	\$2.99	\$3.99	\$6.99	\$4.99
Southern highlands supermarket	\$2.50	\$2.90	\$3.90	\$3.00	\$4.90	\$4.00
North coast supermarket 1	\$4.50	\$3.50	\$3.90	\$2.80	\$5.90	\$2.00

(all prices \$/kg, taken wb 28/5/2018)	Pink lady apples	Granny smith apples	Mandarins	Bananas	Zucchini	Golden sweet potato
<b>North coast supermarket 2</b>	\$3.00	\$5.00	\$3.50	\$2.30	\$4.90	\$1.50
<b>Central west supermarket 1</b>	\$4.50	\$3.50	\$3.50	\$2.80	\$6.90	\$4.00
<b>Central west supermarket 2</b>	\$4.50	\$6.00	\$3.40	\$3.50	\$4.90	\$1.50
<b>Orana supermarket</b>	\$4.98	\$3.49	\$4.98	\$2.98	\$7.48	\$3.98
<b>Riverina supermarket 1</b>	\$3.00	\$3.50	\$6.90	\$3.90	\$3.90	\$2.50
<b>Riverina supermarket 2</b>	\$2.49	\$3.49	\$3.99	\$2.29	\$2.49*	\$3.49

NSW Farmers has identified, as part of our FOCUS agenda, the need to increase regional capacity to value add food products. By value-adding in regional areas, new jobs are created and the ability to shift from growing food as a commodity toward niche production is enhanced. To support this shift governments must invest in the infrastructure which enables regional communities to thrive – be it road and rail infrastructure through to investments in social infrastructure, tackling rural crime and ensuring the liveability and attractiveness of our regional centres.

There are efficiencies to be gained from co-located packing and distribution facilities, however they must be connected to efficient and reliable produce transport. As mentioned in the previous section, NSW Farmers has championed a Fresh Food Precinct at Western Sydney Airport which includes dedicated freight pathways between the airport, distribution and value-adding centres, and improved connectivity between Sydney and agricultural areas nearby and beyond the Sydney basin.

### ***Outer Sydney Orbital***

NSW Farmers’ members recognise that poor freight and transport access to the critical warehousing, local fresh produce markets, and sea and air ports has a negative impact on the quality, desirability and therefore return to the farmer. Well planned and efficient freight corridors reduce supply chain costs and open up new markets for our food and fibre.

It is a significant issue for both agricultural producers and Sydney consumers that the Outer Sydney Orbital will result in further loss of some of the most arable farm land in Australia. This is in addition to the loss of some of our state’s most productive land being lost to the expanding Sydney residential footprint.

From the earliest days of Sydney settlement primary industries in the Sydney basin have been required to move further west to make way for residential development and housing. Our earliest dairies were located in Sydney’s east, our orchards were to be found around what is now the Ryde Council area, and our reputation for highest quality merino sheep was born in Parramatta.

The identification of the Outer Sydney Orbital Corridor and associated land reservation will in a variety of ways affect some of the most productive and specialist cropping operations in New South Wales, including greenhouse production, tree crops, market gardeners, poultry growers and dairy farmers.

The Sydney Food Futures Project (2015-6) was undertaken due to increasing concern that the Sydney population, then at 4.2 million and expected to grow by 1.6 million by 2035-6, would have a significant negative impact on the food security of the Sydney Basin. The threats identified included increasing reliance on distant production, challenges for distribution and transport systems, and increasing competition for land for housing in peri-urban areas.

This same project estimated that the benefit of Sydney's value of agricultural production to the economy was upwards of \$4.5 billion. However, with continued rates of urban encroachment Sydney would lose over 90 per cent of its current fresh vegetable production and total food production could shrink by 60 per cent.

NSW Farmers considers that in planning for the Outer Sydney Orbital Corridor identification the following must be prioritised:

- maintaining food security by prioritising management of land use conflict and the impact of land values surpassing production values
- impact of the loss of contribution of agriculture in the Sydney Basin
- a whole of government approach to ensure continuation of peri-urban agriculture for Sydney

The extended dry period is resulting in drought being experienced in areas of the state where soil moisture is usually more reliable. The development of the Outer Sydney Orbital Corridor will mean that productive farm land will be lost and farmers relocated to areas where the soil and rainfall may not be conducive, requiring added production costs, and potentially resulting in higher prices for domestic and international consumers.

### ***Crossing the Blue Mountains***

The inadequacy of transport corridors linking western New South Wales to Sydney, which provides access to domestic and international markets/opportunities, is stifling the Central West region's economic development potential. The two main corridors, the Great Western Highway and Bells Line of Road, do not provide the reliability and timeliness to enable economic activity in the region, isolating it from Sydney's markets and economic infrastructure - ports, processing facilities, distribution centres and so forth.

NSW Farmers continues to support awareness raising of the challenges that result from inadequate transport infrastructure across the Great Dividing Range. To reduce the barriers to accessing air and sea ports for international trade, our 2018 pre-budget submission prioritised funding to explore the cost and benefit of a further viable transport corridor linking western New South Wales to the economic infrastructure of Sydney.

The Central West region is one of the most productive agricultural regions in Australia, and regional centres, including Bathurst, Orange and Dubbo, have the potential for significant tourism and services led economic development. However, the substandard and unreliable transport corridors linking western New South Wales to the markets and economic infrastructure in Sydney has stymied the economic potential of the region.

NSW Farmers believes that a viable, effective and reliable road corridor across the Great Dividing Range would open significant opportunities for the development of western New South Wales, focussing on:

- increased agricultural production and access to lucrative premium produce markets;
- increased food manufacturing /processing activities near agricultural production; and
- the significant boosting of the visitor economy in places such as Bathurst, Orange and Dubbo.

NSW Farmers notes the inclusion of the *Bells Line of Road – Castlereagh Connection* in the Outer Sydney Orbital consultation document. While this is welcome, there are still significant connection limitations from the Central West to the proposed Outer Sydney Orbital.

Additional to the identification of the Outer Sydney Orbital Corridor it will be critical that Transport for New South Wales develop a comprehensive strategy to expand the points of access to the orbital road from the west of the State. In so doing the State Government will be best prepared to manage and effectively leverage the existing and proposed infrastructure to cater for the additional road and rail traffic capacity that will be needed.

### **Importance of rail and road infrastructure connectivity**

Improving rail efficiency, particularly competition between passenger and freight train pathing, is essential if agricultural supply chains are to improve. Raw agricultural produce destined for value-adding facilities in Sydney must traverse already crowded routes into the Sydney basin. Unless rail infrastructure is connected to efficient intermodal facilities, the cost benefits of using rail over road begin to decline.

Efficient intermodals, both in regional areas and in Sydney, are essential if we are to achieve a transport mode-shift, with consequent benefits for freight costs and potentially road safety. Importantly, the new Western Sydney Airport must be adequately connected with road and rail infrastructure, particularly for freight purposes, if agriculture is to benefit from this additional export facility.

NSW Farmers also welcomes plans to duplicate the Port Botany rail line. Notwithstanding looming capacity constraints for containers at Port Botany, improving connectivity between the port and intermodal hubs located upstream will drive down costs to transporters, and reduce the number of trucks heading toward the congested port zone. The linking of the duplication to the New South Wales Government's agreement with permission to build the inland rail project has secured multiple opportunities to achieve freight and supply chain efficiencies for New South Wales.

### **Connecting to the Hunter and Illawarra**

NSW Farmers is concerned about the lack of forward planning connected to the Outer Sydney orbital Corridor Identification about connections to both the Central Coast and to the Illawarra. An orbital road needs more than a local beginning and end if it is to be effective in mitigating congestion, increasing accessibility, and bypassing heavily used commuter roads.

NSW Farmers would value a clearer explanation of the potential to connect the Outer Sydney Orbital to the Central Coast, and Newcastle. If this were included in the planning it would improve understanding of the potential for access to three sea ports – Newcastle, Port Botany and Wollongong, and the subsequent benefit for the transport of primary produce for distribution and export.

# The cost of quality and food safety regulation

Producing food and fibre to the increasingly exacting standards of consumers is a daily challenge for our farmers. It does not come without cost to them and their business. This is a cost which, all too often, is not recognised by the consumer when they purchase a blemish-free product at their local supermarket.

Produce marketing plays an enormous, and beneficial, role in the ability of our farmers to sell to domestic and international consumers. However, increasingly exacting standards also come with additional implementation costs. There is also an expectation that a farmer will simply absorb increasing costs to achieve higher quality, while the consumer continues to pay the same, or even lower, prices for the same goods in their supermarket or local supplier.

Consumers need to recognise that there is a price to pay for quality produce, both in the quality of the end product and for the processes and procedures involved in nurturing the product, be it animal or plant. Consumer expectations around animal welfare and chemical use, for example, require investments by farmers in alternative approaches to dealing with welfare practices and the use of chemicals.

## *Markets for off-spec produce*

Supermarkets and major retailers, on behalf of their customers, demand ever increasing quality of the produce they stock. While industry has developed quality assurance standards and guidelines for fresh produce, consumers are generally presented with the 'pick of the crop' when they head down the aisle of their local supermarket.

Increasing the quality of food produced comes with added on-farm costs. Producing wheat with higher protein requires a farmer to consider investing in fertilizer, farmers in frost-prone areas will invest in equipment which will mitigate the risk of frost damage to fruit and vegetables. Blemish-free fruit requires attention to detail around pests, including that fruit does not fall to the ground before it is packed for distribution and to added care, and cost, during the harvest period. Supermarkets and major traders will generally only take so-called 'Number 1s', referring to the highest quality fruit – what a farmer does with any fruit of a lesser quality is essentially left to the farmer to resolve.

In Orange, farmers have founded a co-operative business, Appledale Juice, to provide an alternative market for fruit which is not deemed suitable for sale in supermarkets – even apple skins are turned into stockfeed. Further, the Avondale Foods business turns blemished apples into other products suitable for use in food service – such as diced and pureed apple products.

### ***Use of technology***

A component of the price paid to producers is based on compliance with fixed specifications, both food safety regulations and purchasers specifications. The purchaser sets a certain product specification that is designed to ensure that the product adheres to regulatory and consumer expectations. Compliance with these specifications is determined through the purchaser testing the product. Consequently there is concern amongst producers that there is little transparency or accountability for these grading regimes.

For the sale of livestock direct to the processor, called 'over-the-hooks' transactions, and the sale of raw milk by farmers to dairy processors there are a series of tests and measurements conducted to determine the quality of the product supplied. The producer is paid accordingly. Poor results in these measurements have a significant impact on the final price received. Currently there is limited transparency around these tests and there is poor capacity for farmers to be able to dispute the results.

To enhance transparency in this area NSW Farmers has been advocating for a greater use of objective measurements and technology. This technology offers the potential for the quality of the product to be consistently determined and for any concerns to be openly investigated. It is vital that this technology is supported and that it is the preferred means of demonstrating regulatory compliance.

### ***Regulation of agriculture***

In 2017 the Productivity Commission released an investigation into the Regulation of Agriculture. It noted that in general, regulation adds costs and compliance burden on the economy. It noted that striking the right balance between necessary and burdensome regulation is essential to the efficient operation of the sector. The Commission also considered the necessity of regulation in agriculture, noting that the sector broadly supported necessary regulation.

There are many types of regulation which affect agriculture. This includes regulations governing the movement of on-farm machinery on roads, through to the safe handling of animals, food safety practices in packing sheds, industrial practices, management of the environment and the use of chemicals, and animal medicines.

Regulation, at a high-level, adds compliance costs in time, money and effort. When done properly, it can also assist a farmer to achieve a high price for their goods. For example, regulations governing the definition of 'organic' assist growers of organic produce to receive a price premium for their product. The strict regulation of what does and does not constitute organic offers an incentive for farmers to determine whether this is a farming system they are prepared to adopt and invest in.

As a matter of principle, regulation should only be implemented where there is a clear need. While accepting the need for regulation, NSW Farmers believes that some regulations are designed to hinder the operation of farm businesses, rather than assist them to grow and prosper.

## The benefit of food and fibre education

Agriculture is a significant contributor to the New South Wales economy. This has been recognised by the Government's commitment to grow the sector by 30 per cent by 2020. However, the future of a vibrant, sustainable and productive primary industry sector depends on a knowledgeable and supportive community.

Agribusiness is critically important to the Australian economy but is rarely identified in curriculum areas of STEM, economics, English, geography, civics or other social sciences. Digital technology and advances across most fields of science are transforming production practices and making agriculture more sustainable and efficient. Advances in manufacturing, logistics, and ecommerce are shortening supply chains and enabling Australia to tap into premium export growth markets for food and fibre.

The trajectory of agriculture as a respected and valued profession is dependent on attitudes to agriculture and agribusiness that are based on science and facts. These facts are the natural province of the classroom. There is an important place for agriculture with respect to the disciplines of history, culture, science, political and international affairs and professional development.

Broad community understanding of the primary industries sector is low. The most recent school student survey by the Australian Council of Educational Research into awareness of primary production showed that 43 per cent did not link science to primary production; and 55 per cent did not link innovation to primary production<sup>5</sup>. However, there is no doubt that teachers in primary and secondary schools consider it important to engage students with food and fibre production.

The Government's *Rural and Remote Education: A blueprint for action* outlines a significant commitment to both support students across the state to better access a range of curriculum, and importantly, support for teachers to build capacity and capability through networks and professional development.

Without a continuing high profile in the general school curriculum for food and fibre, the knowledge to purchase and prepare high quality nutritional foods for individuals and families across their lifecycle will be lost. There is growing concern about the levels of childhood obesity attributed to high sugar content food and drink consumed too regularly in the diet. Poor dietary habits formed at a young age are difficult to change and with the projected increase in life expectancy, more people will potentially live longer; health care costs are forecast to see an accompanying increase. Australian children have significant access to high quality fresh fruit and vegetables, meat and poultry based protein. It will be critical that all Australians, regardless of location or household income continue to be able to access affordable fresh food through local retailers.

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<sup>5</sup> Food, Fibre and the Future: Report on surveys of students' and teachers' knowledge and understanding of Primary Industries, Undertaken by ACER (Australian Council for Educational Research) by PIEFA (Primary Industries Education Foundation) October 2011



## Planning and land use conflicts

Access to land for agricultural use is one of the primary issues facing agriculture in New South Wales. Pressure from urban expansion, environmental restrictions and conflict between agriculture and the extractive industries has led to serious declines in the amount of land in productive use across the state.

Strategic planning in New South Wales must consider the scarcity of good soil and reliable water on the Australian continent. Many Australians are not aware of this rarity, and this is evidenced by a planning system that has allowed low density housing, extractive industries and poorly planned environmental restrictions to permanently alienate some of our most productive land.

During a consultation period for a proposed new planning system for NSW in 2012<sup>[1]</sup>, the Department of Primary Industries through the Primary Industries Ministerial Advisory Council (PIMAC) devised eight key needs for the state's agriculture and aquaculture planning systems. NSW Farmers fully supports and endorses these needs, which are set out below. NSW Farmers' policy on land use planning is reflected in the following principles:

1. Sufficient flexibility to accommodate a variety of activities allowing for modifications;
2. Provisions to enable growth in industries and recognition that not all land is equal;
3. Sufficient provisions so that existing use can continue. Appropriate mechanisms to avoid pressure for land use change arising from unreasonable nuisance complaints;
4. If community needs change and a decision is made to re-zone land, it should be done through a full cost benefit process and provide sufficient lead time to transition;
5. Recognition of the positive effects such as provision of ecosystem services and scenic amenity enabling rural based tourism, and provision that protect these amenities;
6. Sufficient provisions so that agriculture and aquaculture are not impacted by the externalities of other industries;
7. Consistency in application of planning rules across the State and a streamlined DA process;
8. Recognition that the competition for access to resources from other land uses varies across the state; 'tailoring' of approaches to better balance these competing demands<sup>[2]</sup>.

NSW Farmers is advocating for a stronger theme in protecting and promoting land use rather than restricting food and fibre production in regional planning policy at all levels, local, regional and state.

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<sup>[1]</sup> See [http://planspolicies.planning.nsw.gov.au/index.pl?action=view\\_job&job\\_id=5927](http://planspolicies.planning.nsw.gov.au/index.pl?action=view_job&job_id=5927)

<sup>[2]</sup> Rebekah Gomez-Fort, Policy Manager, Office of Agricultural Sustainability and Food Security, NSW Department of Primary Industries, PowerPoint presentation, *New Planning System Presentation to and discussion with the agriculture and aquaculture industries*, Meeting host: PIMAC, 25 June 2012.

## ***The role of local government***

There is increasing activity at local government level aimed at restricting agricultural activity in peri-urban areas, particularly along the North Coast. These practices are advanced for a range of reasons, from environmental concerns to visual amenity complaints, but result in the cessation of farming in areas where farming has long co-existed with residential development.

In 2017, actions by local governments areas from Coffs Harbour to Tweed Heads sought to heavily regulate the expanding blueberry industry. Citing alleged poor practices and referencing, in some cases, out of date state government documentation, councillors sought to establish prohibitive buffer zones between primary production and expanding housing estates. Common sense prevailed in all cases – the industry has implemented a code of practice aimed at improving its practices in peri-urban areas, and the state government has upheld Local Environment Plans.

Farmers must be able to have confidence in the planning system, a system which appropriately balances development with long-standing farming practices. Knee-jerk reactions, changes for political expediency and not in my backyard, or ‘NIMBY’, attitudes toward agriculture will inhibit the positive social licence which exists for farmers and farming practices. Regional communities remain heavily dependent upon agriculture – when agriculture does well, regional communities do well – local government should consider this whenever called upon to regulate land use practices in peri-urban areas.

## ***Sustainably managing our landscape***

The sustainable management of our landscape is critical to the agriculture sector’s ability to produce food and fibre. NSW Farmers welcomes recent reforms to native vegetation laws in New South Wales which seek to strike a better balance between agriculture and environmental stewardship. Work progresses to fully implement a scheme which further improves this balance and NSW Farmers will work with the Government to see this system delivered.

Active landscape management is essential to sustainable farming practices. If too many and onerous restrictions and regulations are placed on land holders seeking to manage biodiversity on private land, the ability of farmers to produce our food and fibre will be limited. Any system which is not designed in collaboration with our land managers and stewards – our farmers – will fail. The flow-on consequences could be reduced efficiency and productivity, leading to higher prices and less reliable production.

In 2005, in the largest study of its kind, the Australian Bureau of Agricultural and Resource Economics (ABARES) made an attempt to measure opportunity costs associated with native vegetation management, and found that:

*Regulations that prevent the clearing of vegetation on private agricultural land can impose large opportunity costs; that is, the cost of forgoing a profitable activity.*

As part of the study, ABARES conducted face-to-face surveys with 386 broadacre farmers across a 400,000km<sup>2</sup> region of central and western New South Wales in an attempt to quantify the extent to

which native vegetation is having an impact on farm productivity and returns. The study highlighted that:

*Native vegetation regulations can impose opportunity costs on the farm sector that take the form of lost annual income, which has consequential effects on land values because farmers are unable to clear and crop as they would wish*

and found that:

*The opportunity cost of preventing this development in order to conserve native vegetation for environmental services was estimated to be as much as \$1.1 billion across the study region in net present value terms<sup>8</sup>.*

The median cost of foregone crop development across the survey region was approximately \$156,000 per farm<sup>9</sup>.

Perhaps the most telling finding of the ABARES study is that a *broad based regulatory approach to managing native vegetation may fail to differentiate between sites where conserving native vegetation generates net benefit versus net costs<sup>10</sup>*. As stated above, NSW Farmers believes the objectives of the Act are fundamentally at odds with seeking or considering balanced outcomes. A study completed by the Productivity Commission – *estimates of potential impacts of broadscale clearing restrictions in Moree Plains and Murweh Shires* (using applicable NSW findings only) estimated that

*Prohibitions on broadscale clearing could reduce the present value of expected net returns (2003 dollars) to land, capital and management (over a 40-year period) in Moree Plains Shire (NSW) by \$27-\$84 million, depending on the productivity of newly-cleared land.<sup>11</sup>*

## Conclusion

Making the agriculture sector strong is essential to driving greater price competition for consumers and growers alike. There is no silver bullet when it comes to tackling prices for fresh food – it is part of a continuum. When agriculture does well, the broader community does well. Lifting the value of production will better enable farmers to ride out the tougher times and give consumers increasing confidence about the quality of the products they purchase.

To grow the industry and the gross value of agricultural production (GVAP), primary producers and rural and regional communities need to see greater investments in building for future capacity. Bricks and mortar infrastructure – including better resourced and connected schools and hospitals – are important; as are safe, well-maintained roads, bridges and rail connections. But in and of themselves they cannot drive higher production values for farmers. This infrastructure provides the means for greater certainty of investment, but it needs to be supported with enhanced investment in research, development and extension (RD&E) services – how can we, for example, better prepare our industry to manage climate variability to smooth out the production value risk of droughts, floods and fires? How can we lead the nation in our biosecurity management to further enhance our clean and green international trading position?

Farmers also need supply chain certainty – they need a level and fair trading environment, equitable and reliable access to ports, competitive prices for transportation of goods and reliable and affordable supplies of inputs such as fuel and electricity. Domestic and regionally-distributed value-adding opportunities are key to securing enhanced market access to trade our highly sought after goods. They also have the capacity to grow the pre- and post-farm gate value of produce, as well as reinvigorating rural communities.

One solution is strategic investment in value-adding technology and supply chain infrastructure that will enable our producers to benefit from opportunities presented by rising demand for source-verified, premium Australia food products. Increasingly domestic and international consumers want food that is personalised to meet their daily nutritional requirements, lifestyle choices and health conditions. These future consumers are part of the growing middle classes, particularly those in the Asia Pacific region where, by 2030, 54-66 per cent of the world's middle class will be found.

New South Wales is in an ideal position to take advantage of this emerging segment of consumers. Our proximity to Asia, the region where demand for such products is growing fastest, and free trade agreements, will allow the sector to leverage its global reputation for high quality and safe food to meet the needs of these future consumers.

Creating farm business confidence is an essential ingredient that will lift the value of production now and into the future. The inland rail project is transformational, but only if farmers can get access to the line to aid the movement of their crops from the farm to the customer. The Western Sydney Airport, and the potential for a Fresh Food Precinct, could also transform our ability to trade high-value perishable goods with the emerging middle classes of South and East Asia.

The investments in regional New South Wales made by the current Government, particularly through the Restart NSW fund, have stimulated new opportunities. Fixing Country Roads, Rail and Bridges have dealt with a backlog of neglected infrastructure – but more is still needed. There can be no reversal of the rate and pace of investment going forward. Additional investment is clearly needed as we move toward the decade post-2020, and beyond, if we are to really consolidate the value of this investment for regional New South Wales.

The Federal Government's offer to purchase New South Wales' share of Snowy Hydro may present an opportunity to provide further funds for regional development across New South Wales. Any sale proceeds, however, cannot be seen as a 'set and forget' fund for the bush – it must be funding available over and above any already committed funds. It can be game-changing if it is invested wisely.

Agriculture is one of Australia's fastest growing industries. Over the six years to June 2016, the sector grew by 18 per cent and, in 2016-17 was forecast to be worth more than \$63 billion, an almost 30 per cent increase since 2010. These are impressive numbers.



Eighty per cent of New South Wales' landmass is devoted to agriculture; supporting almost one in three of Australia's farming businesses. Despite this, we continue to come second in gross value of production – Queensland, for example, has 84 per cent of its landmass devoted to agriculture, and supports almost 8,000 fewer businesses; Victoria is the smallest mainland state but accounts for one quarter of the nation's agriculture production and exports. New South Wales needs to lift its agricultural productivity to ensure the sector is Australia's next \$100 billion industry.





# Growing the best

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