



National Farmers' Federation

Submission to the Productivity Commission on the review of Vulnerable Supply Chains

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NFF Member Organisations





The National Farmers' Federation (NFF) is the voice of Australian farmers.

The NFF was established in 1979 as the national peak body representing farmers and more broadly, agriculture across Australia. The NFF's membership comprises all of Australia's major agricultural commodities across the breadth and the length of the supply chain.

Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations form the NFF.

The NFF represents Australian agriculture on national and foreign policy issues including workplace relations, trade and natural resource management. Our members complement this work through the delivery of direct 'grass roots' member services as well as state-based policy and commodity-specific interests.

Statistics on Australian Agriculture

Australian agriculture makes an important contribution to Australia's social, economic and environmental fabric.

Social >

There are approximately 85,000 farm businesses in Australia, 99 per cent of which are wholly Australian owned and operated.

Economic >

In 2018-19, the agricultural sector, at farm-gate, contributed 1.9 per cent to Australia's total Gross Domestic Product (GDP). The gross value of Australian farm production in 2018-19 is estimated to have reached \$62.2 billion.

Workplace >

The agriculture, forestry and fishing sector employs approximately 318,600 people, including full time (239,100) and part time employees (79,500).

Seasonal conditions affect the sector's capacity to employ. Permanent employment is the main form of employment in the sector, but more than 26 per cent of the employed workforce is casual.

Environmental >

Australian farmers are environmental stewards, owning, managing and caring for 51 per cent of Australia's land mass. Farmers are at the frontline of delivering environmental outcomes on behalf of the Australian community, with 7.4 million hectares of agricultural land set aside by Australian farmers purely for conservation/protection purposes.

In 1989, the National Farmers' Federation together with the Australian Conservation Foundation was pivotal in ensuring that the emerging Landcare movement became a national programme with bipartisan support.

Content

NFF Member Organisations	ii
Statistics on Australian Agriculture	iv
Introduction	6
The exclusion of food supply chains from the analysis.....	6
Risks and vulnerabilities not related to supply chains.....	8
Risks and vulnerabilities related to supply chains.....	8

Introduction

The National Farmers' Federation (NFF) welcomes the opportunity to comment on the Productivity Commission (PC) inquiry into vulnerable supply chains.

The NFF is concerned that the review has explicitly ruled out analysis of the agricultural sector, despite the criticality of issues like food security. This failure may lead to false-negative findings, an outcome the PC specifically highlighted that it sought to avoid. Consumer reaction to perceived disruptions in food supply chains in 2020, and the subsequent panic buying in supermarkets that was evident is indicative of what could happen if there were an actual disruption.

Similarly, the PC assumption that longer-term impacts can be mitigated or adjusted to, requires further justification before confining analysis to impacts and disruptions over a six-month time period. The predominant impact of disruptions to agricultural supply chains will be felt in the long-term.

With respect to agricultural supply chains, the implicit assumption that other goods or imports could replace the absence of staple commodities does not mirror the reality of consumer behaviour. Similarly, Australia is not well versed in the importation of certain commodities, there are significant biosecurity risks with their importation, and disruptions in agricultural supply chains (such as lack of ag-vet chemicals) that could lead to global shortages. It is instructive that many countries, such as Vietnam with rice, restricted or banned the export of staple commodities during initial COVID-19 restrictions.

In assessing agriculture's vulnerability, the interaction of non-supply chain vulnerabilities, such as drought and disease, should be assessed in conjunction with supply chain related vulnerabilities in identifying impact. Supply chain risks or vulnerabilities include:

- the availability of key inputs such as fuel, machinery, ag-vet chemicals, fertilisers and seeds;
- reliance on overseas labour and expertise;
- availability of farm machinery and spare parts;
- reliance on diesel fuel;
- fragility of market access arrangements for agriculture; and
- the ability to manage biosecurity risk.

The exclusion of agricultural supply chains from the analysis

“Food, while essential, is excluded from the analysis because Australia is a major and diversified producer of food. While food products may have vulnerable supply chains, food as a category is much less so.” - Productivity Commission 2021

The NFF is concerned at the exclusion of food and agricultural supply chains from the PC analysis and recommends that these supply chains form a central component of any vulnerable supply chain analysis. The NFF supports

recommendations made by GrainGrowers that food and fibre production and associated services be designated as an essential service to avoid such omissions.

This is a peculiar exclusion, noting that guaranteeing food security is a top priority for governments around the world.

The ‘judgement’ call by the PC to exclude food:

- inadequately weighs up the risk of disruption in food supply chains with its potential impact; and
- incorrectly assumes that all food types are substitutable, and fails to consider the likely severe adverse impacts if staple commodities, such as grains, were disrupted.

The NFF is also concerned around focussing on a six-month period to assess the impacts of disruptions “*because in the long-run there is greater capacity to adjust and adapt to shocks*”. Relying on ‘rules-of-thumb’ such as this increases the likelihood of false-negatives, the very outcome the PC explicitly states it is trying to avoid. Food and agricultural supply chains are the exception to this rule, where the impacts of short-term disruptions will, on the most, have long-term impacts.

Assessing the risk and impact

While the risk of the entire food and agricultural supply chain breaking down is limited, the social and economic impact of a break-down, large or small, is profound. Even a perceived breakdown of food and grocery supply chains can have devastating impacts for Australia.

During the initial phase of COVID-19 restrictions, the perception that food supply chains may be compromised saw hoarding like behaviour by consumers on staples such as mincemeat, rice, flour and pasta. This led to significant shortages for consumers, and disproportionately impacted those on low incomes, pricing them out of the ability to buy the basics that they rely on.

It should be noted that this was a result of a perceived breakdown of food supply chains, and the consumer behaviours that an actual breakdown may cause would potentially be amplified, and there is a strong correlation with the breakdown of food supply chains and social unrest.

Disruptions to staples, such as grains and rice, will not lead to substitution with other foods, this is a simplistic view of consumer and social behaviour.

Agricultural impacts from disruptions manifest in the long-term

Disruptions to food and agricultural supply chains are likely to have long-term impacts as opposed to just short-term ones. As an example, disruptions to grains production are unlikely to have short-term impacts for consumers, noting that during times outside of drought there would be months of grains supply stored in silos.

The disruptions would occur months after the disruptions after storage is utilised. Noting that Australia is not accustomed or equipped to import large volumes of grain, there are real possibilities of shortages in the medium to long term. Any

importation of grains into Australia, particularly done in a hasty ad-hoc manner, could have significant biosecurity risk, damaging Australia's food production capabilities indefinitely.

The importation of bulk grain poses a high biosecurity risk. Before importation of grains is initiated, the probability for importation of exotic plant and animal pests and diseases must be eliminated. This is not a technical barrier to trade, the ad-hoc importation of grains would create significant risk of long-term damage to the agricultural sector and Australia's food production capacity.

Noting the absolute priority of food security for countries around the world, and concentrated international market for agricultural inputs, supply chain disruptions may create shortages simultaneously across staple commodities globally. It would be a foolhardy assumption that any domestic shortage will be filled through imports.

The lessons from COVID-19 have not been learnt. At the height of the pandemic and associated restriction, many agricultural exporters banned the international export of staple commodities. As an example, Vietnam restricted or banned the export of rice for many months during 2020.

Risks and vulnerabilities not related to supply chains.

Unlike most other industries, food and agricultural supply chains have significant vulnerabilities to disruptions unrelated to supply chains including natural disasters, disease, plagues and drought. Extrapolating food and agriculture's supply chain vulnerability based on past events, where other variables (such as the weather) were favourable, will lead to a high risk of a false negative.

During initial COVID-19 restrictions, Australia was fortunate to have been enjoying favourable weather conditions. Had COVID-19 restrictions coincided with the drought or a disease outbreak and food supply chain disruptions, the adverse social and economic impacts to Australia could have been profound.

Risks and vulnerabilities related to supply chains

The NFF recommends that the PC assess the impacts of food and agricultural supply chain vulnerability in conjunction with the non-supply chain disruptions. The key supply chain risks and vulnerabilities have been highlighted below.

Ag-vet chemicals

Australian farmers are heavily reliant on imported ag-vet chemicals for herbicides, pesticides and fungicides, and the active ingredients for these products are mostly only available from one country. During 2020 there was real fears that the availability of glyphosate would be severely curtailed due to supply chain disruptions in China. Any disruption to glyphosate would have impacted most Australian agricultural commodities and would likely adversely impact other agriculture exporting countries.

This would make the task of importing commodities to meet any shortfall difficult.

Fertilisers and seeds

The agricultural sector is heavily reliant on the timely availability fertilisers and seeds to ensure food and fibre on our supermarket shelves. The NFF would welcome analysis as to whether these supply chains are susceptible to disruptions, and if so, what the mitigation strategies for any disruption would be.

Overseas labour

The availability of overseas labour is another vulnerability for the agricultural sector, particularly for horticulture, but also for commodities that require specialised skills. Dairy as an example relies on artificial insemination experts from countries like New Zealand, and disruptions to this expertise could create long-term issues in the supply of milk.

Farm machinery

Australian agriculture is heavily reliant on the importation of agricultural machinery and spare parts, and their availability was significantly diminished during COVID-19 restrictions in 2020. The impact of this lack of availability will be variable and dependent on other conditions within the market.

The inability to bring machinery (and spare parts), particularly during times of harvest, will have significant impacts on the availability of those commodities. This is particularly the case for grains, who rely on a handful of good years in a decade to provide supply and bring in cashflow. The inability to utilise good conditions will jeopardise long-term supply and put the viability of such farm businesses into question.

Energy

Agriculture is heavily reliant on diesel fuel to power on-farm activities. Recent Federal Government announcements relating to Australia's refining and storage capacity has gone some way to address some of this vulnerability.

As per the GrainGrowers submission, farm businesses must be included in the *Liquid Fuel Emergency Act 1984* and associated state and territories acts and guidelines.

The transition away from liquid fuels also leaves the sector exposed. The transition to electrification, renewables and hydrogen energy systems must account for the impacts on agriculture and implications for food and fibre production.

Export markets

The long-term economic consequences of disruptions to export supply chains have particularly been felt in food and fibre supply chains. Agriculture exports more than 70% of farm-gate output, and its long-term viability is explicitly tied to access to overseas markets. As recent trade disruptions have shown, this access is extremely precarious and can change with little warning.

Similarly, the transport and freight supply chains that deliver these physical commodities are extremely susceptible to disruption. The mass disruption to air-travel would have crippled whole industries in seafood, chilled meats and high value horticulture with the Federal Government International Freight Assistance Mechanism.

Biosecurity

Australia's relative freedom from agricultural pests and diseases provides our industries with access to the worlds premium markets. Maintenance of this status is imperative to Australia's agricultural industries achieving our shared goal of \$100 billion in output by 2030. The funding and resourcing of Biosecurity systems that protects Agriculture from exotic disease incursions have not kept pace with the increase in pest and disease pressure on our borders.

Already this year, biosecurity authorities have detected (and seized) material containing such infectious diseases as African Swine Fever and Foot and Mouth Disease, both of which would be catastrophic to Australia's livestock industries if they were to successfully enter our food and fibre supply chain. Our plant industries face similar risks with 23 incursions registered by the Department of Agriculture Water and Environment between 2010 and 2018.

The notion that imports will easily replace any domestic disruption to agricultural commodities must explore this option through a biosecurity lens.

Should you have any questions regarding this submission, please contact Mr Ash Salardini, Chief Economist and General Manager Trade on 0490 785 390 or at asalardini@nff.org.au.

Yours sincerely



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