Education and Employment Legislation Committee

Inquiry into Payment Times Reporting Bill 2020

July 2020

Australian Fresh Produce Alliance
Growing a healthier Australia

About the Australian Fresh Produce Alliance

The Australian Fresh Produce Alliance (AFPA) is made up of Australia's key fresh produce growers and suppliers. The members include:

- Costa Group
- Perfection Fresh
- Montague
- One Harvest
- Pinata Farms
- Fresh Select
- Mackay's Banana Marketing
- Driscoll's
- 2PH Farms
- LaManna Premier Group
- Rugby Farming
- Freshmax
- Fresh Produce Group.

These businesses represent:

- half the industry turnover of the Australian fresh produce (fruit and vegetables) sector - $4.5 billion of the $9.1 billion total
- a quarter of the volume of fresh produce grown in Australia - 1 million of the 3.9 million tonne total
- more than a third of fresh produce exports - $410 million of the $1.2 billion export total
- more than 1,000 growers through commercial arrangements, and
- more than 15,000 direct employees through peak harvest, and up to 25,000 employees in the grower network.

The key issues the AFPA is focusing on include:

- packaging and the role it plays in product shelf life and reducing food waste landfill,
- labour and the need for both a permanent and temporary supply of workers,
- market access to key export markets for Australian produce,
- product integrity both within and outside of the supply chain,
- pollination and research into alternative sources, and
- water security, including clear direction as to the allocation and trading of water rights.

The AFPA's aim therefore is to become the first-choice fresh produce group that retailers and government go to for discussion and outcomes on issues involving the growing and supply of fresh produce.

Products grown by AFPA Member companies include:

Apples	Blueberries	Cherries	Nectarines	Raspberries
Apricots	Broccoli	Fioretto	Onions	Salad leaf
Asparagus	Broccolini	Green Beans	Oranges	Spinach
Avocado	Brussel Sprouts	Herbs	Peaches	Strawberries
Baby Broccoli	Butternut	Lemons	Pears	Sweet Corn
Baby Corn	Pumpkin	Lettuce	Pineapples	Table grapes
Bananas	Cabbage	Mandarins	Plums	Tomatoes
Beetroot	Cauliflower	Mango	Potatoes	Water Cress
Blackberries	Celery	Mushrooms	Cucumber	Wombok

Summary

The Australian Fresh Produce Alliance membership supports the stated intent (*to improve payment outcomes for small businesses)* in principle; however, for the fresh produce industry the practices around payment times are well established and often within 30 days.

The 13 members of the Australian Fresh Produce Alliance represent half the turnover in the fruit and vegetable industry and are making payments to up to 1,500 farmers or small businesses at any time. Our members payments to small businesses often range from 7 to 21 days and often include advance payments to support farmers' production costs.

While there may be opportunities to improve the payment terms in the fresh produce industry to support farmers and small businesses, we need to ensure that the proposed reporting arrangements do not impose additional burden on business for no discernible benefit.

Industries with very favourable payment terms for small business should not be saddled with a permanent reporting requirement that increases the red tape and administrative burden on a functioning industry.

In an effort to improve payment terms, we understand that there are calls for a mandated 30 day payment term for all business across the economy. We understand that for industries where there are long payment terms that appears to be a good idea; however, there will be significant unintended consequences if a 30 day payment term is mandated across the economy.

While some will say that a mandated maximum 30 day term will support earlier payment terms (such as 7, 14 or 21 day payment terms) in practice, it will become a default. A mandated maximum 30 day term will delay payment for farmers to 30 days.

The Australian Fresh Produce Alliance does not support and is very concerned at any effort to move to a mandated 30 day payment term across the economy without a thorough investigation of the issues and extensive consultation with industry.

Introduction

The supporting documentation for the Payment Times Reporting Bill 2020 states that:

The Payment Times Reporting Bill (the Bill) introduces a new Payment Times Reporting Scheme (the Scheme) which requires large businesses and large government enterprises with an annual total income of over $100 million to publicly report on their payment terms and practices for their small business suppliers. In identifying small business suppliers, the Scheme will draw on a taxation legislation definition of small business as those entities with an annual turnover of less than $10 million.

The objective of the Scheme is to improve payment outcomes for small businesses by creating transparency around the payment practices of large business entities. By providing access to information on large business payment performance, small businesses will be able to make a more informed decision about their potential customers. Greater transparency on payment practices and performance will also create pressure for cultural change to improve payment times.

Industry Background

The Australian Fresh Produce Alliance membership supports the stated intent (*to improve payment outcomes for small businesses)* in principle; however, for the fresh produce industry the practices around payment times are well established and often within 30 days.

The 13 members of the Australian Fresh Produce Alliance represent half the turnover in the fruit and vegetable industry and are making payments to up to 1,500 farmers or small businesses at any time. Our members payments to small businesses often range from 7 to 21 days and often include advance payments to support farmers' production costs.

Australia's major food retailers generally pay our members for fresh produce within 30 days and often within 14 days. The fact that our industry is dealing in fresh produce with limited shelf life means that the supply chain is built on consistent supply and short payment terms.

For fruit in particular, there is a very short harvest window creating business operations that are highly seasonal. For most of the year, farmers are incurring significant costs without any revenue to offset, meaning there is a significant working capital requirement. Farmers tend to manage this by having favourable payment terms (such as 60 days) with input suppliers (such as packaging and chemicals) and if this is taken away, it would be an additional impost to farmers' cash flow and liquidity.

While there may be opportunities to improve the payment terms in the fresh produce industry to support farmers and small businesses, we need to ensure that the proposed reporting arrangements do not impose additional burden on business for no discernible benefit.

Problem Identification and Industry Coverage

As outlined above, the experience in our industry does not necessarily align with the findings of studies referenced in the explanatory documentation which presumably surveyed small businesses across the economy. There is a lack of clarity in problem definition, or more plainly 'what problem are we trying to solve in what industries?'. It is possible that late payments or long payment terms are more prevalent in industries which rely on significant projects which affect cash flows for all suppliers in the industry.

The focus of the legislation should be to provide greater transparency on the sectors where there are issues and facilitating a cooperative approach with industry to address issues, rather than over reliance on penalties. If there were significant payment issues in industries which are reliant on large projects, it is likely that the structure of the work and the contracts is affecting payment terms rather than simply poor business practice.

Industries with very favourable payment terms for small business should not be saddled with a permanent reporting requirement that increases the red tape and administrative burden on a functioning industry.

Proposal for a mandated 30 day payment term

In an effort to improve payment terms, we understand that there are calls for a mandated 30 day payment term for all business across the economy. We understand that for industries where there are long payment terms that appears to be a good idea; however, there will be significant unintended consequences if a 30 day payment term is mandated across the economy.

Our members are fierce competitors and consider favourable payment terms an important area of competitive advantage or tension. That is to say, fresh produce companies are competing to secure quality supply of fruit and vegetables by offering favourable payment terms to farmers. As outlined above, this includes advance payments on crops and favourable payment terms, often as short as 7 days.

While some will say that a mandated maximum 30 day term will support earlier payment terms (such as 7, 14 or 21 day payment terms) in practice, it will become a default. A mandated maximum 30 day term will delay payment for farmers to 30 days. If large purchasers of fresh fruit and vegetables, such as retailers, moved to default 30 day payment terms for all of their purchases of goods this will be detrimental for the fresh produce industry and have the opposite effect to the stated intention of the legislation.

The Australian Fresh Produce Alliance does not support and is very concerned at any effort to move to a mandated 30 day payment term across the economy without a thorough investigation of the issues and extensive consultation with industry.

Payments by Governments

In consultation on these issues, farmers have identified that all governments (local, state, federal) have the opportunity to demonstrate good practice by making payments within 30 days. Government payments for services, grants and other arrangements can often exceed 30 days and with all governments seeking to support Australia’s small businesses, this is a clear opportunity to provide small businesses with certainty in receiving payments from all levels of government.