

7 DECEMBER 2022

Committee Secretary

House of Representatives Standing Committee on Agriculture

PO Box 6021

CANBERRA ACT 2600

via email: Agriculture.Reps@aph.com.au

Dear Secretary,

Parliamentary Inquiry into Australia's Food Security

Small businesses and family enterprises play a critical role in producing and delivering our nation's food supply, from family farms to independent transport operators to a local café.

Recent disruptions to the supply chain where consecutive natural disasters compounded by the ongoing effects of the COVID-19 pandemic, and the increasing cost of essential inputs such as energy and oil have led to empty shelves and higher prices. Australia's food security relies heavily on small and family businesses and their capacity to adapt to future challenges.

We support an approach that builds the long-term resilience of small food businesses and therefore food systems to a range of future shocks linked to climate change, biosecurity hazards, and geopolitical shifts. To build resilient food supply chains and ensure small businesses are recognised as a necessary contributor to the food supply chain, we provide the following recommendations:

- 1. Government efforts to strategise national food security must include consultation with, and actively consider the unique challenges of, small businesses. Efforts to ensure our national food security should involve local, state, and federal governments.**

Small and family businesses play a key role in food supply chains, as primary producers, freight services, and retailers. To truly improve the resilience of our food supply chains, any national strategy must be all-encompassing, built upon a mapping of critical areas of activity and vulnerability and recognise the critical role small businesses play in ensuring food accessibility for Australian communities. Collaboration at different levels of government, with a consensus and clarity on the challenges each local and regional food supply chain experience is key to combating food insecurity as a national issue and essential for business confidence in the sector. A coordinated approach with industry is necessary as national food supply becomes more vulnerable.

- 2. Government and industry should develop a list of critical import dependencies.**

The Australian food industry's reliance on imported ingredients, packaging, and additives is not adequately quantified, presenting both risks and opportunities to the food sector. While benefits of importing these products are evident, dependency risks need to be understood and communicated so that both large and small businesses within the food sector can develop and implement appropriate risk mitigation strategies. Although the Productivity Commission has

reported chemical inputs are a key vulnerable category for food suppliers, a granular approach needs to be taken to identify an exhaustive list of imported inputs with mapping to key suppliers.¹

3. Create provisions that prevent ‘unfair business practices’ against small businesses and include solutions on how best to educate large businesses of their obligations.

It is imperative that the government ensures sustainable competition in food supply chains to encourage businesses to reinvest, and appropriate risk allocation across supply chains. Small businesses can face a significant power imbalance when negotiating outcomes with their large business counterparts. We are concerned that large businesses can utilise this imbalance to incorporate unfair business practices that have significant negative impacts on small business productivity and are not reasonably necessary to protect the large business’ commercial interests. These practices often go unreported as it is difficult to seek remedial action for practices that are not illegal. These practices erode the resilience of supply chains by disproportionately misallocating risk to smaller firms.

These unfair business practices are not covered by existing legislation, including under the Competition and Consumer Act 2010 (Cth) (CCA) and Australian Securities and Investments Commission Act 2001 (Cth) (ASIC Act), and work in favour of larger business’ bargaining power. Further, they are not captured by the Unfair Contract Terms regime, and do not reach the high bar of ‘unconscionability’. The Treasury instructed inquiry conducted by the Australian Competition and Consumer Commission into perishable agricultural good supply chains confirmed that power imbalances are likely to arise in these supply chains.² In industries such as poultry meat, dairy, and horticulture, this is creating an unsustainable situation, eroding Australia’s food security. Currently, many local fresh food industries face conditions that are not conducive to long-term growth and investment, endangering their future in the industry.

4. Government should reform policy to reduce red-tape and recognise the diversity of participants involved in food distribution.

Australia’s urban freight task alone is expected to grow by 26 per cent by 2050 with a 77 per cent increase in road freight and the existing infrastructure is already struggling under the weight of capacity constraints.³ Transport underpins availability and accessibility of food supplies through national distribution networks and depends heavily on public infrastructure. A more cohesive regulatory framework and information sharing process across all levels of government will help to reduce the susceptibility of the distribution network to logistics blockages.

5. The National Reconstruction Fund should be leveraged towards value-adding sovereign food manufacturing, particularly towards additives identified by the Office of Supply Chain Resilience.

The Australian Government should work with the private sector to encourage sovereign food manufacturing capabilities, particularly leveraged towards additives which have been identified as a national vulnerability. Government activity should work to mitigate our exposure to international pressures and critical dependence on imported products. The Government should

¹ Productivity Commission, Vulnerable Supply Chains: Study Report, July 2021, Canberra ACT.

² Australian Competition and Consumer Commission (ACCC), Perishable Agricultural Goods Inquiry, August 2020.

³ Bureau of Infrastructure and Transport Research Economics (BITRE), Australian aggregate freight forecasts: 2022 update, Research Report 154, 2022.

work to establish a new incubator grants program for food producers to stimulate the establishment of small scale, product specific manufacturing/processing plants close to growers, adding value to fresh produce.

6. We suggest the Government further their collaborative work across jurisdictions, in partnership with industry to strengthen national biosecurity systems.

The Australian Government should work with the states to standardise the National Livestock Identification System with stronger penalties to ensure compliance. The National Biosecurity Framework requires sustainable funding which adequately shares the costs proportionally across the industry, without creating undue burden on small businesses. The Government's recent investment of \$75.6 million to bolster Australia's biosecurity system against escalating animal disease risks needs to be informed by extensive stakeholder consultation and delivered in manner which does not create undue burden on small businesses.

7. We encourage the ongoing Government support for research and development on climate change adaptations.

Government needs to incentivise primary producers to the transition to more sustainable production. Small primary producers can benefit from renewable energy generation and storage technologies. Farmers are already living with the impacts of climate change and The Department of Agriculture, Water and Environment estimates that since 2000, climate change has reduced average annual broadacre farm profits by 22 per cent.⁴

8. Consideration should be given to long-term needs for labour across food industries.

We recognise the current labour drain is an economy-wide issue and support the work of the Agricultural Tripartite Working group. We encourage the government to look towards long term solutions to encourage a sustainable workforce across the food supply sector. The existing labour drain significantly impairs the ability for the food supply chain to deliver to meet status quo demand, and in response to external shocks. The food industry requires a holistic workforce approach to ensure longevity bringing together policy solutions that address skills development, participation, and migration.

9. Consideration should be given to how the complexity of family enterprises affects succession planning and efficient transition of business ownership between generations.

A substantial number of primary producers trade under family owned and operated business structures with complex dynamics influencing immediate and long-term decision-making processes. Improved access to decision support tools and advice would help these primary producers successfully navigate a fair intergenerational wealth and asset transfer process with respect for family dynamics, individual best interests, and national food security outcomes.

10. Consideration should be given to how government can support primary producers to strategise and articulate their Environmental, Social and Governance performance.

Primary producers are subject to changing consumer expectations about how food is produced and as such, need to become more accountable for their Environmental, Social and Governance (ESG) performance to remain competitive and profitable in the food supply chain.

⁴ Hughes, N., Galeano, D., Hattfield-Dodds, The effects of drought and climate variability on Australian farms, Australian Bureau of Agricultural and Resource Economics and Sciences, 2019.

Practical readily-actionable guidance appropriate for small primary producers will allow the sector to credibly demonstrate and better communicate their ESG performance. It is important that small primary producers can defend their operational practices without creating an undue impost of regulation or disproportionate market-led compliance requirements.

Banks are beginning to particularly scrutinise the Scope 3 emissions for new equipment finance applications for machinery that is run using fossil fuel energy sources. As such, primary producers need support to understand and articulate their business plans and ESG risk to secure access banking and lending services into the future.

11. Consideration should be given to how government can support commodity producers with tools and advice that may help facilitate access to finance.

Greater resourcing and promotion of the Rural Financial Counselling Service would improve access to appropriate and timely expert advice regarding financial sustainability and help facilitate access to finance through ‘fit for purpose’ business planning.

Most agricultural commodity producers are ‘price takers’ rather than ‘price makers’, limiting their capacity to absorb financial losses generated by seasonal variation, catastrophic events and market supply and demands. Carrying these risks for the rest of the food supply chain whilst managing production risks, cashflow, and capitalising on emerging opportunities in support of our national food supply chain requires strong financial management skills and access to financial products such as overdrafts and business loans. However, as barriers to entry rise and banks consider these risks, primary producers may find it increasingly difficult to access necessary financial products and services.

12. Retention of tax incentives such as the \$150,000 Instant Asset Write Off threshold may encourage small business to continue investing in new assets.

As consumer expectations evolve and banks scrutinise their customers’ ESG performance, small businesses need support to invest in more sustainable and efficient mechanical assets. This would further complement the work of the Energy Efficient Communities Program for small businesses to improve energy efficiency, reduce costs and lower energy consumption.

The Agricultural, Forestry and Fishing industry division made the highest number of claims to the Instant Asset Write Off (IAWO) program from income years 2015-16 to 2019–20.⁵ Retaining a higher value IAWO threshold could encourage additional, ongoing small business investment in new assets and reduce the sector’s reliance on commercial equipment finance as banks tighten their criteria for asset finance.

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact Ms Bridget Tracy on [REDACTED] or at [REDACTED].

Yours sincerely,



The Hon. Bruce Billson

Australian Small Business and Family Enterprise Ombudsman

⁵ Australian Tax Office, Instant Asset Write Off Statistics: Income years 2015-16 to 2019–2020, September 2022. Calculated using data for businesses with aggregated turnover more than \$0 to less than \$10 million.