

Chapter 5

Supply chain issues

5.1 This chapter briefly considers a variety of supply chain issues that affect the viability of agricultural production and the affordability of food for consumers. These include:

- rising input costs;
- the availability of water for food production;
- deteriorating transport infrastructure;
- food waste along the supply chain; and
- retail issues.

Input costs

5.2 Input costs for producers are an important determinant of whether it is viable for farmers to continue taking financial risks to produce food, as well as influencing the price of food for consumers where these costs are able to be passed along the supply chain.

5.3 Red meat representative organisations highlighted steeply rising prices for fertiliser, labour and fuel as making it difficult for Australian farmers to compete globally.¹

5.4 Growcom raised labour shortages as being of critical importance:

Horticulture producers continue to face labour and skills shortages that threaten their future viability. Access to sufficient labour is essential as labour is the most critical factor in ensuring the smooth running of field preparation, planting, maintenance, harvesting and packing activities. It follows that human resources are growers' most valuable resource. The future viability of the industry is heavily reliant on securing and retaining sufficient human resources. The trial of a seasonal labour scheme may be a positive forward in achieving this goal, however will not solve the issue.²

1 *Submission 29*, p. 9.

2 *Submission 23*, p. 8.

5.5 The Victorian Farmers Federation told the committee that drought and opportunities in other industries had caused a loss of labour that would be hard to replace when full agricultural production is re-established.³

5.6 Fertiliser costs were discussed at length during the committee's hearing in Canberra on 30 April 2010. This issue was also examined extensively during the committee's previous inquiry into pricing and supply arrangements in the Australian and global fertiliser market, which was tabled in August 2009.

5.7 The committee raised the issue of using grain for biofuels in its discussion about land use in Chapter 2. Concerns about the effect of biofuel demand on input costs for livestock producers were raised by both the Australian Lot Feeders Association and Australian Pork Limited.⁴

5.8 A number of submitters also warned of the effect of input cost increases associated with an emissions trading scheme.⁵

Water availability

5.9 Another critical input for food producers is water, which has been increasingly scarce for many Australian farmers over most of the past decade. Reductions in rainfall or water available for irrigation inevitably affect the level of agricultural production.

5.10 According to the Department of Agriculture, Fisheries and Forestry (DAFF), 65 per cent of the water used in Australia is used for agriculture, which means that any decline in the availability of water affects food production more than any other commercial activity.

5.11 Evidence to the committee related to the questions of the likely future scarcity of water and the most effective way to ensure the water that is available is allocated as productively as possible, within the constraints imposed by human and environmental needs.

5.12 DAFF suggested that climate change is likely to reduce water availability and, consequently, agricultural output.⁶ The Commonwealth Scientific and Industrial Research Organisation (CSIRO) stated that environmental change, including variability of rainfall, will require significant changes to agricultural systems in

3 *Submission 22*, p. 7.

4 *Submission 8*, p. 9; *Submission 15*, pp 3-6.

5 See for example: AgForce, *Submission 50*, p. 2; CSIRO, *Submission 27*, p. 4; New South Wales Department of Primary Industries, *Submission 39*, p. 5; Victorian Eco Innovation Lab (VEIL), *Submission 46*; VEIL Research Report: No. 1, 'Sustainable and Secure Food Systems for Victoria', April 2008, p. 25.

6 *Submission 93*, p. 14.

Australia, highlighting the need to improve agricultural water-use efficiency as requiring particular attention.⁷

5.13 Currently, the Commonwealth Government has committed funds to assist farmers to use water more efficiently and to purchase water entitlements from willing irrigators for environmental flows.⁸

5.14 The NSW Irrigators' Council emphasised that the price of water for producers directly affects the cost of food for consumers, and this fact needs to be considered when assessing how water is to be allocated among multiple users.⁹ The council indicated that while government purchases of water for the environment would increase the cost of food, it supported this market mechanism. However, it did not support compulsory acquisitions.¹⁰

5.15 The Victorian Farmers Federation was strongly critical of agricultural water in the north of that state being diverted for metropolitan water supplies, arguing that alternative sources for urban water use should be found, instead of reducing water used to produce food. They referred to recycled water and stormwater capture as two possible options.¹¹

Infrastructure

5.16 One of the key aspects of the supply chain is transport infrastructure that allows food to be transported from producers to processors to consumers in an efficient, timely and economical way.

5.17 Agforce told the committee that infrastructure bottlenecks are affecting competitiveness:

One key element which is sadly lacking is the infrastructure to be able to transport the food to market domestically and for export. Rail is a key area of limitation and one which demonstrates a quantifiable impact - \$20/t less for grain in QLD than NSW due to transport issues. Market forces cannot dictate our competitiveness as long as infrastructure bottlenecks prevent the movement of products. These bottlenecks also serve to limit the availability of input supplies at competitive rates...¹²

5.18 Agforce emphasised that rail and road transport integration is a significant problem in Queensland:

7 *Submission 27*, pp 9-10.

8 Department of Agriculture, Fisheries and Forestry, *Submission 93*, p. 29.

9 *Submission 11*, p. 4.

10 *Submission 11*, p. 5.

11 *Submission 22*, p. 5.

12 *Submission 51*, p. 3.

The rail network in Queensland is currently unable to cope with the transport needs of both the agricultural and resources sectors with increasing volumes being pushed onto the road network. This has resulted in increased pressures on major feeder roads such as the Warrego Highway and bottlenecks accessing the Port of Brisbane by road, particularly from Toowoomba.¹³

5.19 In Victoria, the VFF commented that the 'rail network in Victoria has become increasingly inefficient due to significant underinvestment in the network', as well as arguing for standardisation of gauges across the rail network to ensure 'the long term sustainability of efficient and competitive rail freight'.¹⁴ With regard to roads, the VFF stated that the poor condition of local roads in their state adds costs to the supply chain that are ultimately passed on to consumers.¹⁵

5.20 Red meat representative organisations also noted problems with integrating different transport modes:

Governments have been slow to upgrade land transport infrastructure to keep pace with improvements in sea transport. In particular road transport infrastructure has not been upgraded to accommodate the change from 20 foot to 40 foot containers that has been implemented by the globalised shipping industry.¹⁶

Waste

5.21 The committee also heard about supply chain inefficiencies that are caused by waste. Food Chain Intelligence claimed that:

Food waste in Australia is estimated to be 3.3 million tonnes annually, worth about AUD \$5.3 billion. The reasons for food waste are numerous and encompass all food chain players, from producers to consumers.¹⁷

5.22 Professor Julian Cribb suggested that addressing food waste was a critical part of feeding the entire human population:

...we are wasting half the world's food at the moment. We actually waste enough food to feed three billion people worldwide at the moment. There are one billion starving people in the world at the moment. So technically this is an issue that can be solved. We have seen a lot of focus on this in Britain in the last year or so—the waste of food and ways to curb it. But it

13 *Submission 51*, p. 9.

14 *Submission 22*, pp 2-3.

15 *Submission 22*, p. 3.

16 *Submission 29*, p. 20.

17 *Submission 1*, p. 4.

seems to me that if we want to save our water and save our land, we have to save the food. That is the most economical way to do it.¹⁸

5.23 Professor Cribb cited the conflict between strict health regulation and food waste as being an important aspect of the problem, in addition to food that has been disposed of not being recycled in order to close the nutrient loop.¹⁹

5.24 Population Health Queensland noted the wastage that occurs before food reaches consumers:

During production and processing there is often significant wastage of food. For example, over-supply of processed lettuce into convenience packs can result in greater wastage than transporting and selling the lettuce unprocessed. Processing and transportation of surplus produce incurs costs that may make it more economically to simply dump the extra produce rather than distribute it – to food banks for instance. This practice could have an increasing negative impact on national food security and population nutrition in the future.²⁰

5.25 Interestingly, FoodLegal suggested that supply chain efficiencies and associated minimal inventories could lead to food shortages in the event of a major crisis.²¹

Retail issues

5.26 Finally, the interaction between food retailers, consumers and those further up the supply chain has a major effect on returns to growers and the retail price of food for consumers.

5.27 Growcom told the committee that a concentration in the retail market had negative consequences for farm viability:

There is a concentration of the domestic fresh food market within the two major retailers, with serious concerns being raised about their increasing market power and opportunities for unconscionable conduct. The clear trend of these retailers is to use their market power to push costs, risks and responsibilities back down the supply chain. Anecdotally, ten years ago growers worked on a rule of thumb of farm gate return being around 50% of the retail price. Today, this margin is generally less than 20%. Growers' profit margins continue to decrease, while the profit margins of the major retailers remain at record highs.²²

18 Private capacity, *Committee Hansard*, 12 October 2009, p. 6.

19 *Committee Hansard*, 12 October 2009, p. 13.

20 *Submission 38*, p. 5.

21 *Submission 6*, p. 4.

22 *Submission 23*, p. 8.

5.28 DAFF informed the committee that:

In 2007-08, supermarkets accounted for around 61 per cent of sales in the retail sector. The large supermarket chains are increasingly contracting some of their requirements for fresh horticulture directly from larger growers and meat from feedlots with integrated processing facilities. However, packaged products such as cereal foods and frozen foods and pre-prepared meals are typically sourced from processor intermediaries.²³

5.29 DAFF indicated that food retailing in Australia is 'highly competitive' although 'the value of raw commodities has tended to represent a declining proportion of the final sale price of food products'. The submission stated that this was attributable to the following:

The growing gap between farm-gate and retail prices is mainly a reflection of the rising cost of services (including transport, storage, handling, distribution and retailing) and the incorporation of additional attributes (packaging, presentation and qualities) in the final product in response to consumer demands.²⁴

5.30 DAFF also commented that prices for consumers had not been found to have risen because of concentration in the retail sector:

The ACCC found that the grocery retailing market in Australia is workably competitive with the rising global price of food, increases in costs of production and domestic weather conditions largely responsible for the 21 per cent rise in Australian food prices over the past five years. Less than five per cent of the increase in food prices over this time was estimated to be directly attributable to increased supermarket margins. The ACCC found little evidence to support the proposition that retail prices have risen while farm-gate prices have stagnated or declined, contrary to the claims of some rural lobby groups that made representations to the inquiry. In general, the ACCC found that movements in shelf prices broadly reflect changes in wholesale prices over time.²⁵

5.31 The Tasmanian Institute of Agricultural Research suggested that retailers are often reluctant to adopt strategies that would maximise value for producers:

A critical issue here is the ability to embody...value in the product and thus create consumer awareness of the value. For example via provenance labelling, "buy Australian", "buy local", "buy Low input production", "buy ethical production". These require regulation at point of sale and accurate labelling. As many impose imposts on retailers and the value chain and create educated consumers, they are often unpopular in concentrated marketing systems (such as the food retail system in Australia) or in global systems where buyers want undifferentiated products to allow substitution.

23 *Submission 93*, p. 19.

24 *Submission 93*, p. 19.

25 *Submission 93*, pp 26-27.

Potentially they also require recognition by the elements of the chain of the value proposition and creation of methods to retain the value.²⁶

5.32 The submission from the University of Sydney's Urban Research Centre stated that alternative sources of food distribution are necessary for producers to gain a greater share of consumer spending and for consumers to get more affordable and better quality food.²⁷

Committee view

5.33 The committee considers that the supply constraints identified in this report need to be considered as part of a broad strategic food plan for Australia, as discussed at the conclusion of Chapter 1.

5.34 The committee notes that it would have liked to examine a number of issues relating to food production in more depth. However, the intervention of the 2010 federal election has prevented this from occurring. It is therefore the intention of the committee chair to seek from the Senate the re-establishment of this committee in the new parliament, in order to pursue these matters further. This would include any proposed emissions trading scheme and its implications for food production in Australia.

Recommendation 4

5.35 The committee recommends that the Senate re-establish the Select Committee on Agriculture and Related Industries in the new parliament to further examine issues relating to food production, including the implications of any proposed emissions trading scheme for affordable, sustainable food production and viable farmers.

Senator the Hon. Bill Heffernan
Chair

26 *Submission 62*, p. 3.

27 *Submission 102*, p. 5.

