



# Farm Institute Insights

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## What happens next?

### *Emerging policy responses to COVID-19 impacts on Australian agriculture*

Richard Heath

Executive Director, AFI

The world is a very different place now compared to when the last *Insights* was released. The February newsletter was released the day after the Commonwealth Government implemented its emergency response plan for COVID-19 and before the first death attributable to the disease in Australia. Ironically, the focus of that edition was disease risk and biosecurity incursions, however I am sure that most people at that stage thought that the devastation wrought upon various fisheries from disease outbreaks was far removed from any analogous threat to human

populations. While there is historical precedent of massive pandemics (and indeed recent experience of slightly less globally impactful diseases such as Ebola and SARS), the scale of the disruption caused by COVID-19 has not been seen by most people alive today.

Now that the immediate health threat has been suppressed in Australia, attention is turning to whether this current disruption has permanent implications that will change the ways we experience our day-to-day lives, run businesses and interact with



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## What happens next?

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governments. While it is still too early to make definitive calls on likely outcomes, many areas of policy and strategy that would have been considered intransigent pre-COVID-19 are being reconsidered in the context of substantially different operating environments.

For agriculture this is a particularly interesting time. While there have of course been impacts, both through loss of markets and disruption to supply chains, compared to most other sectors of the Australian economy the immediate impact has been relatively limited and confined to specific industries or markets. The improvement in seasonal conditions on the east coast has by far outweighed the negative impact of COVID-19 in terms of confidence, and Australian agriculture has generally been spared the scale of disruption that has occurred in some other countries. For example, in the US it was estimated at one stage in April that 40% of pork processing capacity was shut down due to coronavirus infections in abattoir staff. This meant 200,000 pigs per week were not being processed, leading to a massive supply/demand disruption which impacted prices and the purposeless euthanasia of stranded livestock.

The breakdown of highly concentrated and specialised supply chains which have evolved to efficiently deliver just-in-time inputs and outputs for agriculture (and indeed the whole economy) has been one of the defining features of the COVID-19 pandemic. In response, one of the main agricultural policy issues to address post-coronavirus will be the need to build supply chain resilience in the face of global shocks. Some of the likely questions to be discussed in this context will include:

- Is it healthy for Australian agriculture to be so highly dependent on a few key countries for exports?
- How can more domestic manufacturing capacity be encouraged so that value is captured onshore and requirements for importation of processed foods are lessened?

- Should all food categories have surplus production in Australia so that imports are not required?
- How should we manage the need for adequate strategic reserves of inputs such as fuel, fertiliser and chemicals?

There is a tendency in times of great global disruption to revert to protectionist paradigms and many of these policy areas will involve challenging discussions about issues such as food sovereignty. As a trading nation, Australia must ensure the natural desire to protect against shocks to concentrated global supply chains for imports does not compromise future credibility in promoting open trade to provide markets for our exports.

The full impact of COVID-19 is still uncertain and is likely to be for some time, so appropriate long-term policies and responsive strategies are yet to be formed. The scope of the economic impact will undoubtedly have a large determination on the extent of change that may be visited on a range of agricultural and economic policies impacting the Australian farm sector.

Policy development will also be taking place in a paradox created by government responses to COVID-19 to date. Massive, nationwide programs have been enacted rapidly and have been well received, demonstrating the capacity for Australian governments to deliver transformational change in very short time spans. This provides a precedent for similarly transformational action on other pressing issues; however, the size of those very programs has depleted the fiscal resources required to responsibly act at such a scale in the future.

While the signs are positive that three months from now the next *Insights* newsletter will be able to report on some resolution of the immediate impacts of COVID-19, I am less optimistic that the long-term implications – and a thorough understanding of how Australian agriculture might have fundamentally changed as a result – will be as clear. ■

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## Going through the mill

Dr Turlough Guerin CAg, Chair, Ag Institute of Australia

A useful maxim in risk management is to hope for the best and plan for the worst. It applies to agricultural supply chains as with any other sector. Supply chain risks and opportunities post COVID-19 are shaping up to be material and preparation by agricultural professionals will be critical for success into the future. Due to the nature of Australian agriculture, it has vulnerabilities on both the supply and demand side, and agricultural professionals should be aware of the need to support their businesses as they plan for the future. While supply chains in Australian agriculture are at risk and will be reshaped at least to some extent by COVID-19, prudent risk management and governance, being prepared for the good seasons, and an eye to the future, means the sector is set for a strong return in the coming months and years. Australian agriculture and its work force are a resilient cohort and will adjust their businesses accordingly. Professionals in agriculture need to be prepared more than probably ever before in our nation's history. They will need to step up to help ensure the recovery of the Australian economy.

COVID-19 has side-swiped much of the business sector. The pandemic – a very serious, deliberate and scientific definition – has taken Australia and the world largely by surprise. Coming after severe flood, drought conditions and fires in eastern Australia, concerns have been raised by some people about Australian food and fibre security. These concerns are understandable, but misplaced. Despite temporary shortages of some food items in supermarkets caused by an unexpected surge in demand, Australia does not have a food or fibre security problem.

In Australian agriculture, advisors, consultants and professionals supplying services and advice to the sector, should however, be acutely aware of the coming changes, post COVID-19, that are likely to have on the sector. Here I explore further issues related to agricultural supply chains that agricultural and natural resource management professionals ought to be considering when thinking through client problems and

decision-making for these businesses. The year 2020 will be a year of resetting business models, the way we as professionals view risk, and provide another reason why agricultural professional need to continue to develop their capabilities to meet new industry challenges.

### Australian agriculture is at risk

Larger agricultural firms will already be reviewing their suppliers' contracts with a view to the above considerations. If COVID-19 ends up being a short-term disruption, as a professional in your organisation, you will in any case benefit greatly from the attention you give this important risk exposure.

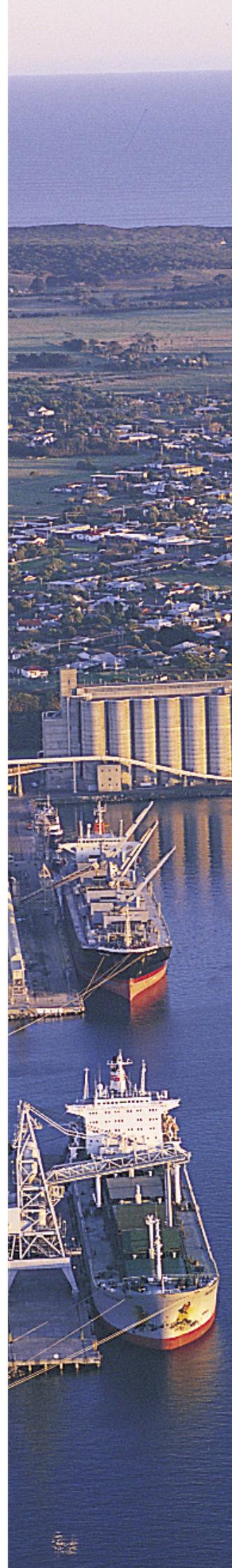
While the biggest concern is undoubtedly the serious risk to public health, fears are also mounting over the potential impacts on global trade in commodities. This puts Australian agriculture in the firing line.

Food and drink exporters believe disruptions at ports could hit global sales to China, while importers from China are worried supply chains could eventually be hit.

Agricultural commodity traders will be following China's economic status closely, with the country now one of the world's largest consumers of products such as vegetable oils. There are a range of 'expert' views in this area. Some suggest that these markets should be largely insulated from wider economic forces. Others are less optimistic.

The coronavirus outbreak is already having a severe impact on China's foodservice and on-trade channels and this could become more serious and longer-lasting if the virus is not contained, leading agribusiness bank, Rabobank, has recently warned in a report.<sup>1</sup>

<sup>1</sup> Rabobank's podcasts can be found on the RaboResearch channel via any podcast app or at this link <https://research.rabobank.com/far/en/sectors/regional-food-agri/Podcast-Coronavirus-how-worried-should-we-be.html> which was a source for some of content in this article.



## Feature - Going through the mill

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But the extent of the impact on Australia's agricultural sector is expected to be limited in the short term and will depend on how quickly the virus is contained. *Recent Coronavirus Impacts on Chinese food and agriculture*, the Rabobank study says "disruptions are being experienced across the entire food and agricultural supply chain" with the virus. While the report says a quick and effective containment of the virus could lead to a rapid bounce-back, the longer the virus is uncontained, the more extensive, sustained and structural the impact will be on the food and fibre supply chain.

Regardless of when coronavirus is contained, COVID-19 is likely to have a larger impact on food and beverage industries than the global SARS (Severe Acute Respiratory Syndrome) epidemic in 2003 – including in Australia. It is Australia's much higher trade exposure to China that is the biggest difference between current (COVID-19) events and SARS. For example now in 2020, Australia sends around 28% of its food and agricultural exports to China, much of which is consumed within China.

### Costs of supply will likely increase

With managing risk comes costs. The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) warnings on scarce and expensive air freight and logistics are important to note and experts rate logistics the biggest threat to the industry after a bounce back in demand in China.<sup>2</sup> ABARES indicates that there were positive signs for trade with China as long as the COVID-19 recovery there was sustained, but also indicates growing issues in other markets.

With the virus now spreading well beyond China, second and third waves of impacts on Australia's food and fibre sectors are likely. In the immediate future, supply chain and logistics disruptions will create the most significant risk to the sector and hence to producer incomes. ABARES expects softer prices on global markets as a result of falling incomes and changes in where food is consumed.

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<sup>2</sup> ABARES has recently released a study examining COVID-19 impacts on trade in the sector: [https://daff.ent.sirsidyntix.net.au/client/en\\_AU/search/asset/1030221/0](https://daff.ent.sirsidyntix.net.au/client/en_AU/search/asset/1030221/0)

Some countries have already imposed restrictions on food exports. However, ABARES indicated that this was unlikely to have a significant impact on Australian producers and consumers though the sector is in largely uncharted waters in this regard and any aspect of Australian export agriculture could be impacted in the coming months as the sector transitions through the pandemic.

Professionals working in and interfacing with agriculture will be aware of the critical role that China plays in Australia's primary production supply chain and keeping abreast of these risks will be crucial.<sup>3</sup>

### Planning during and learning from the experience is critical

Primary producers are impacted on the supply side of their businesses (e.g. fertilisers, input chemicals) which then can have an impact on the production or output side. Recent observations by experts on the farmer supply side suggest that this year it is going to be a case of making sure you have got your orders in early, giving the supplies plenty of time to arrive and not just buying hand-to-mouth.

The global picture shows the slowing of the movement of goods in all commodities, so farm supplies will likely be impacted. For example, there may be a lack of containers available or staff at wharves. On the buy side for farmers, the supply chain has held up in the face of COVID-19. While there are expected to be hold-ups and some difficulties in farmers getting supplies, the experts suggest that there will be delays rather than not being able to source the product at all.

While there is evidence of manufacturing bouncing back in China, Australia's biggest supplier of farm inputs, ABARES warned restricted supply from other countries could hit Australian crop production. Farmers in some parts of Australia have already complained about shortages of key chemicals, like weed killer glyphosate, as they prepare for much bigger plantings of winter crops after recent

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<sup>3</sup> See also the view on China and how it plans its transition post COVID-19 as one of the world's largest exporters and importers: <https://www.foodnavigator-asia.com>

widespread rain. Another example is the dairy industry which has flagged potential supply issues of items such as tins for milk powder, but ABARES expects producers to find domestic solutions to those problems.

From an agricultural professional view, it is important to accept the learning experience that comes from these types of trying times. Keeping attendances up at online conferences should be an important part of your personal strategy.

## Understanding material risk

What is of the highest priority for businesses and governments during a crisis is the wellbeing of people – the individuals. Businesses can contribute and complement these efforts by having a functional and fit-for-purpose crisis management plan.<sup>4</sup>

A strong crisis management plan can also help businesses ensure the wellbeing of their people, keep their resources protected and strengthen their ability to perform optimally when they are literally and physically going through the mill.

The other priority is restoring and/or redesigning the financial business model which will need to include tough decisions on restructuring of logistics across every part of a business. Some of the questions below point towards the type of thinking needed.

Perhaps the most valuable outcome from the pandemic has been the opportunity to reflect on what resilience means to professionals and their clients from a practical sense, and why some individuals and organisations appear to be better prepared and able to cope in these times of uncertainty.

In terms of capital and risk management in agriculture, there is still much work to be done. More family farms need documented business plans, including succession plans, and need to be employing a range of more sophisticated financial tools to manage risk. And off-farm, there needs to be further increases in equity investment in Australian farm businesses.

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4 Planning tools to help businesses reopen and be COVIDSafe are available from the Commonwealth Government, including an online planning tool to help businesses develop a plan to keep their workers, customers and the community safe as they reopen or increase their activities in the weeks and months ahead: <https://www.agriculture.gov.au/coronavirus/industry>

## What is the future outlook for Australian agriculture?

While this article has focused on risk in the sector, I see a strong outlook for Australian agriculture and still think that the 2030 vision of a \$100 billion sector is achievable.<sup>5</sup> Put optimism bias aside, the improved terms of trade, increased rainfall in the eastern states, continued strong demand for food and the ongoing embrace by the industry of emerging innovation and technology, means that it will be one of the strongest sectors post COVID-19. Those of you who even casually browse the rural and agricultural newspapers and journals across Australia will have already noticed that many subsectors are announcing record harvests now or on their way.<sup>6</sup>

It is true that agriculture is more volatile than any other sector of the Australian economy. Environmental, health, labour issues (modern slavery), and animal welfare considerations will increasingly sway purchasing decisions when it comes to Australia's agricultural produce. Meeting these expectations presents opportunities to build on our competitive advantage as a sector and nation. It also increases reputational risks if expectations are not met. Responding to climate change will play a major role in Australian agriculture's next decade, mitigating climate risk while creating diverse new income opportunities. Australia's policy response can position us as a global leader in low emissions agriculture. Done poorly, our policy response could saddle farm businesses with additional risks and costs.

While it would be naïve to think that there will be no shocks and impacts coming out of the pandemic (and we are already seeing geopolitical impacts knock onto Australian producers as of mid-May 2020), the agility, ability to pivot, and innovate, reflect the sector's overall trajectory – well positioned to return to strong growth.

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5 For details of the current inquiry into the sector and its projected 2030 vision, please see: [https://www.aph.gov.au/Parliamentary\\_Business/Committees/House/Standing\\_Committee\\_on\\_Agriculture\\_and\\_Water\\_Resources/Agriculturegrowth](https://www.aph.gov.au/Parliamentary_Business/Committees/House/Standing_Committee_on_Agriculture_and_Water_Resources/Agriculturegrowth)

6 For further insights into the agriculture sector from the leading professional body, see the weekly updates here: <http://www.aginstitute.com.au/pages/weekly-alert.html>

## Feature - Going through the mill

Many people involved in the Australian agricultural value chain would certainly feel like they "have been through the metaphorical mill".

Professionals in agriculture will need to step up to help the economy reboot. And this will require an eye to the future and I argue a more sustainable approach to the way we do agriculture, and to come out the other side in a stronger position. Being part of a transformed Australian agriculture, which leverages the upside risk (it is facing now) is, in my view, where professionals need to move towards. For professionals, this means a shift to a growth mindset. This will help reboot the sector post COVID-19.

### Questions for agricultural professionals

Here are questions for agricultural professionals to help think through and better manage supply chain risks in relation to preparing for post COVID-19<sup>7</sup> in the agribusiness sector:

<sup>7</sup> For the source of questions for businesses, see the note by EY: [https://www.ey.com/en\\_au/covid-19/covid-19-crisis-management-essential-ten-better-questions-to-ask](https://www.ey.com/en_au/covid-19/covid-19-crisis-management-essential-ten-better-questions-to-ask)

- Are any of your suppliers impacted? How are they likely to come out on the other side of COVID-19?
- What will your organisation do if the virus spreads far more widely than at present?
- What if your suppliers in China are unable to supply product for an extended period? How long can you tolerate reduced or no shipment of products, spare parts or components?
- Do you have clarity on the contractual arrangements with your major suppliers and how their inability to supply product will impact your prioritised activities?
- Have you identified alternative suppliers for you and your client businesses? Is there an opportunity for you as a professional to demonstrate leadership in this regard?

Further questions you can ask yourself and your clients to evaluate the fitness of your crisis management systems – while most relevant to larger organisations – there are some useful prompters here:

- Have you defined supply chain and production risks that crises might pose and what you could do to mitigate those risks?
- What safeguards or redundancies do you think are now needed from a logistics perspective to help ensure business continuity?
- Have you considered the impact of the current crisis in the budgeting and business planning processes, and implemented early warning mechanisms? How can you ensure sustainable financing and stable cash reserves?
- Is your financial business model resilient enough to recover from the impact of this crisis and manage potential crises in the future?
- How will demand disruption impact you and how will you recover from its aftermath? What measures will you take to ensure the most sustainable transition possible for your clients' businesses?

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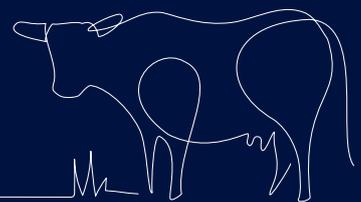
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## Policy and agriculture sector impacts from the COVID-19 pandemic

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### Rob Gordon

CEO, SunRice

Rob joined SunRice in February 2012 as CEO. Rob has more than 30 years of senior strategic experience, including as President South-East Asia and Senior Vice President of Viterra Inc; CEO and Managing Director of Dairy Farmers Ltd; Managing Director of Goodman Fielder, Consumer Foods; and has held various senior executive positions at Unilever. Rob is also a Director of Inghams Group Limited.



The SunRice Group is a major Australian branded food company with approximately 2000 employees across multiple businesses. With more than 30 major brands in around 50 countries across the world, SunRice's operations and assets span Australia, New Zealand, the Middle East, the United States, Papua New Guinea, the Pacific Islands and Asia.

### Emma Germano

Managing Director,  
I Love Farms



Emma is the Managing Director of her family mixed farming operation, I Love Farms in Gippsland. I Love Farms has a firm focus on sustainability and strives to connect consumers with Australian farmers to increase community understanding of food and fibre production.

Emma is the Vice President of the Victorian Farmers Federation and Chair of the VFF Horticulture Group.

Emma was awarded a Nuffield Scholarship in 2014, and her research examined global export opportunities for Australian primary producers.

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### Question 1 – What have been the causes of the food shortages on supermarket shelves during the COVID-19 pandemic?

#### Rob Gordon:

Changes to consumer shopping patterns leading to significantly increased demand have been the biggest driver, however, there have also been some supply chain impacts across various sectors which have at times contributed to the shortages.

#### Emma Germano:

Panic buying! I really struggled to understand why people were panic buying anything, let alone perishable goods. Then I reflected at the time the sense of security I was feeling because I was a farmer. It was an overwhelming security actually, one that I had never connected with in quite the same way as during the initial stages of the pandemic. The panic buying really highlighted the lack of understanding that the general consumer has of the supply chain in Australia, and I reflected on the things that I felt 'panicked' about. It was the things that I felt I didn't quite understand or where I felt I have no control.

Some horticultural products would have been in relatively short supply without COVID-19. We had smaller numbers of vegetables planted and lighter fruit yields on the back of drought conditions up the eastern seaboard.

What totally overwhelmed me was the fact that we as a population have a very limited understanding of the basic principle of supply and demand. Some farmers, wholesalers and retailers definitely took advantage of the situation by price gouging. Sadly, it is always the vulnerable people who suffer. We know that food security issues are real for over 3 million Australians.

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### Question 2 – How has your sector been impacted by the COVID-19 pandemic?

#### Rob Gordon:

There has been a range of supply and demand impacts. From a demand side in Australia, we saw unprecedented demand for a range of rice products, in some cases more than 200% above forecasts. The increased demand has

exacerbated existing shortages of Australian rice due to the last two years of extremely low domestic production, caused by drought, low water availability and high water prices. Approximately 98% of Australian-grown rice is produced in the Riverina region of NSW, and SunRice processes and markets almost all of that production. The crop that has just been harvested represents less than 25% of Australia's annual rice consumption, which has led to an increasing reliance on imported rice. While we have ramped up production at our Riverina facilities to respond to the additional demand, if current levels of demand continue, we may now exhaust remaining supplies of Australian rice towards the end of 2020. SunRice has significant capability and expertise in international rice supply chains, and is flexing that capability to meet increased demand in Australia, but we have observed instability and risk to international rice supply chains in key markets where we operate as a consequence of COVID-19. This includes some major rice exporting nations restricting exports to shore up food security, and impacts to shipping which have lengthened the delivery time of international supply chains.

**Emma Germano:**

Horticulture, like the rest of agriculture, has been a mixed bag in regards to the impacts of COVID-19. There were some very solid prices for farmers initially, though some specific commodity lines did crash after the panic buying settled. Lines like bananas, avocados and baby leaf vegetables that had come to the fore in recent times thanks to the food service sector were dumped or ploughed in. Consumers didn't eat smashed avo on toast at home as often as they did at their favourite café.

We were also inundated with people looking for work. Recently laid-off workers from many sectors flooded our farm gates and inboxes. An interesting phenomena was the number of Australian 'local' workers applying. Once the JobKeeper program was announced, interest from Australians died off, though backpackers were still desperate to replace their hospitality work on a farm.

Horticulture industry representatives rallied together to ensure that the Seasonal Worker Program and Working Holiday Maker visa holders would be granted extensions to shore up our harvest labour force – an ongoing concern for industry recently.

**Question 3 – What longer-term policy questions do you believe the COVID-19 pandemic will provide the opportunity to address (e.g. global trade or increased domestic food processing)?**

**Rob Gordon:**

The global COVID-19 pandemic has highlighted that some of Australia's manufacturing supply chains for key industries are not self-sufficient, and are in fact reliant on other countries. I note that the Federal Government is taking a keen interest in this, and that this was the focus of a recent National Press Club address from the Federal Industry Minister Karen Andrews. As above, this includes rice, in which Australia is not currently self-sufficient. While drought has been a major factor in low rice production during the last two years, we believe its impacts have been exacerbated by water policy settings in the southern Murray-Darling Basin. The way that policy settings have rolled out in the Murray-Darling Basin, there has been a focus on water flowing to the highest-value use for export crops like almonds, which has meant less water has been available for annual crops like rice. Unless there is a change, we may be in a position where we are reliant on global free trade and international supply chains to supply Australian consumers with key staples like rice – as we are increasingly now due to the extremely low levels of Australian rice production. And as highlighted above, we have seen increasing levels of instability in international rice supply chains in recent months – and throughout key markets in the Pacific, Asia and the Middle East we have had direct requests from sovereign states to secure safety stocks of rice for food security reasons.

Here in Australia, our view is that there have been unintended consequences of national water reform which have disproportionately impacted annual cropping. In particular, we believe that the allocation yield of NSW General Security Water Entitlements – used to grow rice and other annual crops – has been significantly eroded as a consequence of water reforms including the Murray-Darling Basin Plan and other state-based policies. If governments want production of annual irrigated crops like rice in the southern Murray-Darling Basin at scale, we believe steps need to be taken to address those inequities. Over our 70-year history, SunRice has invested in significant assets in the Riverina of NSW to value-add and transform the high-quality Australian-grown rice into branded products, which has ensured that the

production isn't just exported as a commodity but also creates local jobs. In years of normal production, our value-added manufacturing directly contributes close to \$400 million in those Riverina communities, employing some 600 full time equivalent staff.

However, the future of those manufacturing jobs and our ability to continue supplying the domestic market with Australian-grown rice is entirely dependent upon rice production returning to normal levels. Our view is that governments need to have policy settings that stimulate diversity in the agricultural crops grown in the southern Murray-Darling Basin, as opposed to there just being a monoculture created by water flowing to the highest-value use, without any regard for the broader socioeconomic benefits other crops like rice deliver through localised value-adding.

### **Emma Germano:**

In the long term we need reform in many areas of agricultural policy, as well as policy in general. Industrial relations reform will be vital, as we weigh up the risks of employing people with our desire for business and economic growth. The very act of trying to roster staff in pack houses in a new world of 'social distancing' highlighted the inadequacies of a rigid award system that no longer serves either the employer or employee.

Immigration reform will be required to ensure Australia has the right skills and people in the right places to underpin economic recovery. It will be essential that we don't get into an 'us vs them' debate. For horticulture, we are reliant upon a migrant workforce as the foundation of the total employment of our supply chains. We must move away from the 'they steal our jobs' mentality to a 'they enable and secure our jobs and our regional communities' approach. We must not put all our eggs into one basket, with changes and restrictions to global movement we must be strategic in regards to our immigration intake. A diverse workforce is a strong workforce.

Just as we must diversify our immigration intake, so too with our markets. We must unite, we must have **one** Australian produce brand, and we need to ensure that our trade agreements reflect the needs of our sector, one that has underpinned a sense of security for our community – and, indeed, our politicians' confidence in international relationships.

And we must take care of our environment. We must have a framework for the environment that is a founding principle of our economic recovery.

## **Question 4 – Do you think the pandemic will result in lasting changes in consumer behaviour?**

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### **Rob Gordon:**

In the short term, SunRice experienced unprecedented increase in demand for some of its products – and while we are now seeing demand levels normalise, the global COVID-19 pandemic remains a dynamic and fluid situation. In terms of general consumer behaviour, while demand levels are normalising it appears that people were not just stockpiling; they were also using more of our products, as demand continues to still be higher than usual. In particular, demand for our small packs is still continuing, which speaks to this behaviour being more than just about pantry stocking.

In terms of longer-term changes, while ever social distancing measures continue, we will continue to observe significant changes to our food service channels. So there is likely to be more eating at home, which we expect may lead to continued higher demand for our products. However as above, the situation is extremely dynamic so it remains to be seen what the impacts will be.

### **Emma Germano:**

We have a little retail shop at our farm gate where we had to reassure people that there would be plenty more vegetables each day, and grappled with how far under supermarket prices we should stay before we were in fact not being charitable but a being bit stupid in business.

The takings skyrocketed for a fortnight and then settled back down, but to a higher amount than before, over a 100% increase. That has been sustained now for two months, despite everything being available on the major retailers' shelves. I think this is because consumers had their relationship with food supply tested in a way that most of us haven't in generations. We had new customers seek us out during that time who decided to stay on purchasing with us, no doubt because of the emotional attachment to food. Their trust that the supermarket shelves are always full was challenged.

We have been locked down long enough to change habits. I think that there will be definite cultural shift that reflects a greater appreciation for food and where it comes from. Some people will even need to go out in the year 2027 and buy more tinned tomatoes! What is clearly evident is that agriculture constantly has the capacity to rise to the shifting demands, both here and abroad. ■



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## Feedback on the Farm Biodiversity Scheme

Teresa Fox, AFI Researcher

According to the Environmental Performance Index, Australia ranks quite poorly for environmental management for biodiversity and habitat (EPI, 2018).<sup>1</sup> Recent natural disasters – including drought, the 2019–20 bushfire crisis and flooding – have further damaged this continent’s fragile biodiversity.

Australian farms have an important role to play in improving and protecting biodiverse ecosystems; however, the sector must strike a delicate balance of improving environmental outcomes while concurrently remaining profitable and increasing productivity to meet growing demand.

The Australian Government announced funding for the implementation of an Australian Farm Biodiversity Scheme (FBS) as part of the Agriculture Stewardship Package in 2019. The proposed scheme aims to reward farmers for managing biodiversity on-farm through market-based mechanisms. The AFI is conducting Phase 1 of the project to develop an FBS, focused on discovery via desktop and consultative research. The outputs of this phase will underpin the practical development and trial of a scheme to be developed in phases 2 and 3.

In this discovery phase of the project, consultation has been vital to identify the primary objectives of an FBS along with barriers to implementation. Twelve open forums and three webinars were held online between March and May, with most meetings focused on particular regions to establish points of difference between geographic areas. In addition, the project team met virtually with key stakeholders and conducted interviews with topic specialists. Altogether almost 500 individuals have contributed their thoughts to the project to date.

Forum participants discussed both the aims of an FBS and the specific attributes which would make a scheme successful. Although each region demonstrated emphases on specific considerations and some unique points were raised, commonalities were readily apparent.

*“There needs to be a clear value proposition for participants - language used in a scheme needs to be clear and consistent.”*

For example, participants articulated the importance of biodiversity in landscapes and its role in maintaining healthy, functioning ecosystems, but many questioned

the specific focus on biodiversity (rather than overarching goals like sustainability). Given the broadness of the term biodiversity, many also noted the need to clearly define what would be covered and for associated language to be clear and consistent. Another strong point from forum feedback was the need to consider how a national scheme would fit in with existing industry schemes and BMP models.

Participants also noted a scheme should be built from the bottom up rather than the top down, meaning farmers should be extensively involved in the development and implementation of a scheme as well as the assessment, collection and reporting. The importance of expertise and involvement of cross-disciplines in designing a successful scheme was stressed, with transparency and authenticity highlighted as key principles to enhance adoption.

All forum participants agreed on the need for a scheme to be long-term and have bipartisan support in order to maximise benefits to both the environment and participating farmers or land managers.

A primary concern raised consistently across all forums was additionality; i.e. how to ensure farmers already implementing biodiversity improvement practices would not be disincentivised from participating in an FBS.

The interview process also uncovered some interesting points; e.g. strongly held views that industry-run biodiversity or sustainability programs have little credibility in the market with consumers or environmental groups. Interviewees noted that the future of an FBS turns substantially on whether reliable objective metrics of biodiversity can be developed. Another barrier to participation identified was in the interaction with finance; i.e. where a commitment to a scheme by a farmer requires a covenant to be placed on a title (or otherwise

<sup>1</sup> <https://epi.envirocenter.yale.edu/epi-indicator-report/BDH>

## Discoveries

restricts the future options for land use), the valuation of the land is likely to be reduced by a lender. In addition, the design of a biodiversity scheme is taking place in a context in which many of the global food companies already have sustainability requirements in many of their supply chains. The relevance of an FBS to international schemes and accounting methodologies was extensively discussed in both interviews and forums.

The feedback will be combined with the desktop review and catalogue of international and domestic schemes to identify key critical success factors required for an FBS. Phase 1 of the project, which will make recommendations for a strategic development of a pilot trial, is set to be completed by early July.

A webinar recording can be viewed on the AFI website at [farminstitute.org.au](http://farminstitute.org.au) and more information on the project can be found on the National Farmers' Federation website at [nff.org.au/programs/australian-farm-biodiversity-certification-scheme-trial](http://nff.org.au/programs/australian-farm-biodiversity-certification-scheme-trial).

*“A scheme should limit complexity, be transparent and authentic.”*

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## Agriculture as a buffer against economic shocks

Katie McRobert, AFI General Manager

At a time when the rest of the economy is contracting, ABARES<sup>1</sup> has forecast a 53% increase in winter crop production in 2020–21. If the forecast holds, this could result in the fourth-largest crop produced in Australia. This capacity of agriculture to support the economy in a countercyclical fashion and provide stability in times of external shock has historical precedent, as explored in the AFI's inaugural John Ralph Essay Competition (JREC).

The 2010 JREC topic investigated the role of primary industries in buffering the Australian economy in the context of the global financial crisis (GFC) of 2007–08. The chosen papers, published in the November 2010 *Farm Policy Journal*, noted that the export revenue and diversity provided by primary industries are critical for economic resilience and also attract much-needed capital investment.

The journal featured an article by Gaétane Potard and Mick Keogh which noted that the performances of the agriculture and mining sectors are driven largely by exogenous factors (such as seasonal conditions or global market fluctuations) and thus tend to operate on different cycles to the rest of the economy. This asynchronicity provides the benefit of diversifying economic risk.

*"The fact that Australian primary industry economic output increased for a substantial proportion of 2007 and 2008 [during the GFC] ... acted as a buffer while the manufacturing and services sectors experienced a strong contraction in output over this period. In a technical sense, the contribution of the primary industries sectors prevented the Australian economy experiencing a recession."*

Accounting for more than two-thirds of all export revenue in 2008, primary industries also generated significant investment and employment across the economy, although the authors noted the link between these and exports was not immediately obvious from official statistics.

The winning entry of the essay competition, titled *Australia's primary industries: a bulwark against external shocks?*, was contributed by

1 The Australian Bureau of Agricultural and Resource Economics and Sciences

Daniel Gibbons. This paper also highlighted the importance of primary industries in providing much-needed diversification, particularly given the dominance of the services sector in the Australian economy. Gibbons noted that economic policies focused on increasing productivity and removing trade barriers to improve the competitiveness of Australian primary industries had been largely successful.

*"Australian governments have played a strong role in promoting an efficient and effective primary industries sector ... [creating] a competitive advantage for Australia, which can be leveraged in times of crisis. Falling subsidy rates have freed up funds for use in more productive investments or Keynesian stimulus."*

However, Potard and Keogh cautioned that the performance of primary industries sectors will not always act as an economic buffer; reduced primary industry output has at times dampened national economic performance.

With approximately 70% of the total value of agriculture, fisheries and forestry production exported, ongoing access to free trade is foundational to the economic success of Australian primary industries. To this end, the Cairns Group Farm Leaders<sup>2</sup> recently urged governments to ensure free and fair international trading is not compromised by protectionist responses to COVID-19.

While a decline in overall economic activity has impacted discretionary spending on some agricultural products, Australian farm exports have remained strong during COVID-19 despite supply chain disruptions.<sup>3</sup>

As noted a decade ago post-GFC, Australia's internationally competitive primary industries continue to provide the economic diversity which reduces the risk of a severe and prolonged national economic downturn.<sup>4</sup>

- The November 2010 *Farm Policy Journal* is available to purchase for download at [farminstitute.org.au](http://farminstitute.org.au), along with related research reports.

2 The National Farmers' Federation is a member and secretariat of the Cairns Group Farm Leaders, a coalition of 19 agricultural exporting countries.

3 Jackson, T, Zammit, K & Hatfield-Dodds, S (2020), *Australian Agriculture 2020* (p. 8), ABARES.

4 AFI (2010), *Are farmers and miners saving the day?*, *Farm Policy Journal*, 7(4), 56.



# CONSERVATION AGRICULTURE IN 2030 WEBINAR

**10am to 3pm – 22 June 2020**

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Due to the impacts of COVID-19 on travel and gatherings, **part 1** of the ***Conservation Agriculture in 2030 Conference*** will be conducted as an **online webinar** on Monday 22 June. Part 2 of the conference will be held face-to-face later in the year on a date to be confirmed.

The webinar will address the current state of conservation agriculture and emerging threats to best practice, the evolution of new practices and systems, and the policies and strategies needed to ensure that Australian farmers can continue to farm in a profitable, productive and sustainable fashion.

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## John Ralph Essay Competition 2020: Are competition measures delivering a fair go for farm businesses?

Five years ago, the Agricultural Competitiveness White Paper was released as a roadmap for growth in the agricultural sector. Priority action area 1 in the paper was titled 'A fairer go for farm businesses' and focused on competition and profitability with funding for a boost to the Australian Competition and Consumer Commission (ACCC) to enable better engagement with the agricultural sector as well as programs which provided knowledge and materials on cooperatives, collective bargaining and innovative business models designed to help farmers with contract negotiations.

The year previously, Rod Sims, ACCC Chair, had highlighted in a speech at the Australian Farm Institute Roundtable how Australian agriculture could benefit from better competition policy and measures to make markets work better.

Competition policy is a vital component of any rules-based market economy and ensures that businesses, companies and agencies compete fairly with each other. Functional competitive markets should encourage enterprise and efficiency creating more choice for consumers while reducing prices and improving quality.

Many competition reforms have been applied specifically to agriculture, with changes to water markets one of the more

visible and impactful reform measures enacted. While the competition brought about through water market reforms may have achieved the overall benefit for Australian agriculture the ACCC was seeking, there are also many farmers who would say that 'the fairer go for farm businesses' laid out in the Agricultural Competitiveness White Paper has not eventuated.

The John Ralph Essay Competition 2020 asks the question: ***'Are competition measures delivering a fair go for farm businesses?'***

Respondents should clearly outline the impacts (positive or negative) of competition policy on Australian agriculture (in its entirety or for specific industries) and propose a path forward for the continuing operation of fair and functional markets for the sector.

**Entries are due by 10am on Monday, 14 September 2020.**

The winner of the **Open** category of the John Ralph Essay Competition will receive a cash prize of **\$5000** and the winner of the **Novice** category will receive a cash prize of **\$1000**. Both winners will also receive a one year's membership of the Australian Farm Institute (valued at \$330).

Visit [farminstitute.org.au](http://farminstitute.org.au) for more detail