National Farmers' Federation

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Response to the Expert Panel of the Fair Work Commission re Annual Wage Review

16 May 2022

Introduction:

Firstly, the National Farmers Federation would like to thank the Expert Panel for the question in relation to our submissions sent 31 March 2022 and offer our apologies for the delayed response.

The question, specifically, being;

> *The NFF initial submission places emphasis on the slim margins farmers work with.*[1] *This seems to contrast with the profit margins data produced by the Australian Bureau of Statistics (ABS) and reported in the Commission's Statistical Report (Table 3.5). Are the profit margin estimates produced by the ABS a fair reflection of profitability in the agriculture sector, and if not why not?*

We acknowledge the statistics referenced by the panel. However, we do not see the data produced by the Australian Bureau of Statistics in their latest report as a fair reflection of profitability in the agriculture sector for the following reasons.

- The ABS statistics provide an accurate average estimate of profit margin at an aggregate industry level, however, the average hides differing performance within commodity groups.

- Different commodities, farm types and sizes within agriculture perform extremely differently to each other in terms of profitability, which risks skewing averages and not providing an accurate distribution.

- Similarly, farming profitability should not be assessed at a point in time and should look over the farming business cycle, which is often a decade. The last three years has been some of the most successful years on record, however, the margins attained have to compensate for the years of drought suffered previously.

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[1] NFF initial submission, 1 April 2022, at p. 11.

Agriculture profitability & the data:

We believe that relying on averages across industries and commodities is inherently problematic. In the first instance, grouping agriculture, forestry and fishing, whilst a standard taxonomy, dilutes the data and cannot be representative of each sector individually. Indeed, taking this data as reflecting of the experience of farmers generally, is arguably akin to suggesting that minimum wage and wage reviews are unnecessary as the average income is well above it already.

It is also the case that different commodities would have different commercial experiences. Australian Bureau of Agricultural and Resource Economics and Sciences (**ABARES**) data shows that small farms generally achieve less profit than larger farms, and that the averages are heavily skewed upwards by a small percentage of highly profitable farms.

The use of averaging, importantly, misses the distribution of farms, both across farm size and commodity. As with any industry or sector, there will always be those that do well and others that don't. Smaller farms will typically have smaller margins and, therefore, less to invest in innovation, technology and processes leading to a greater reliance on labour, and less insulation from the labour costs.

Therefore, at a conceptual level averaging data across all of "agriculture forestry and fishing" is likely to be skewed by large operators in the historically more profitable commodities, 'hiding' the experiences of the small and medium sized farms, or those in traditionally less profitable commodities.

The below ABARES graphs bring to light some of the data which is 'hidden' by general averages, as they relate to farm profit margin by farm size for broadacre and dairy farms.
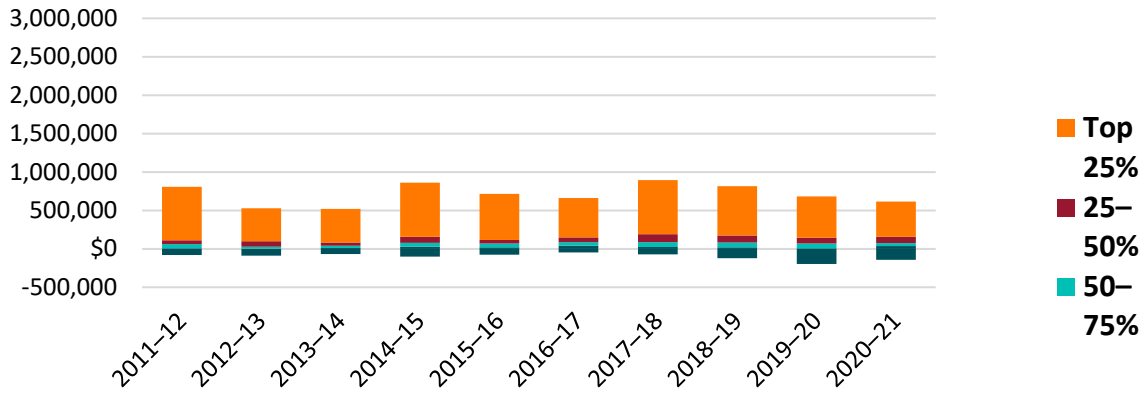
Additionally, there is a clear relationship between the labour-intensive commodities such as horticulture and dairy, to those such as specialist cropping. The trend is that the less labour intensive the commodity, the greater the profitability. This is consistent in the data, and further reinforces the fact that labour costs/wages are one of the most significant factors when it comes to farm profitability.

Notably, the trend differs to ABS data, with smaller businesses having a lower profit margin compared to all. Initially, it may appear that agriculture is doing better than the ABS data indicates. However, by looking at the data, one can observe that the high averages are being propped up by the top 25% of the industry recording extraordinary profits as opposed to the remaining 75%, who are returning much more moderate levels, and on average just 'breaking even'.
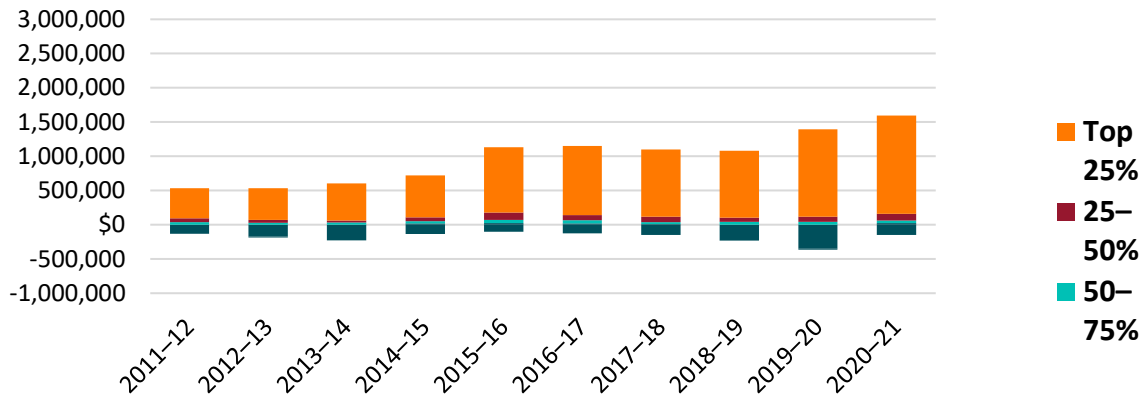
The top 25% are able to have such healthy margins, due to moving away from the need for labour via automation and technology, reducing costs exponentially. The potential profit farmers from a giant producer such as Costa, compared to a small berry farm who needs to employ a high volume of seasonal workers during harvest are incomparable, and thus should be drawn apart in order to see the full picture. As mentioned above, the graphs below show the distribution of net farm income by quartile, by industry. With top and bottom 2% of farms in each industry excluded due to extreme results. The income has been converted to 2022 dollars.
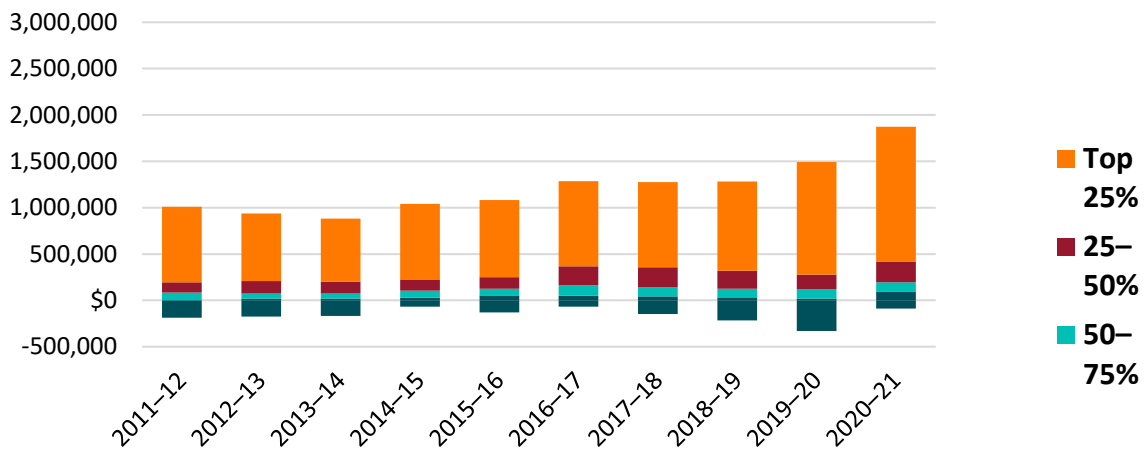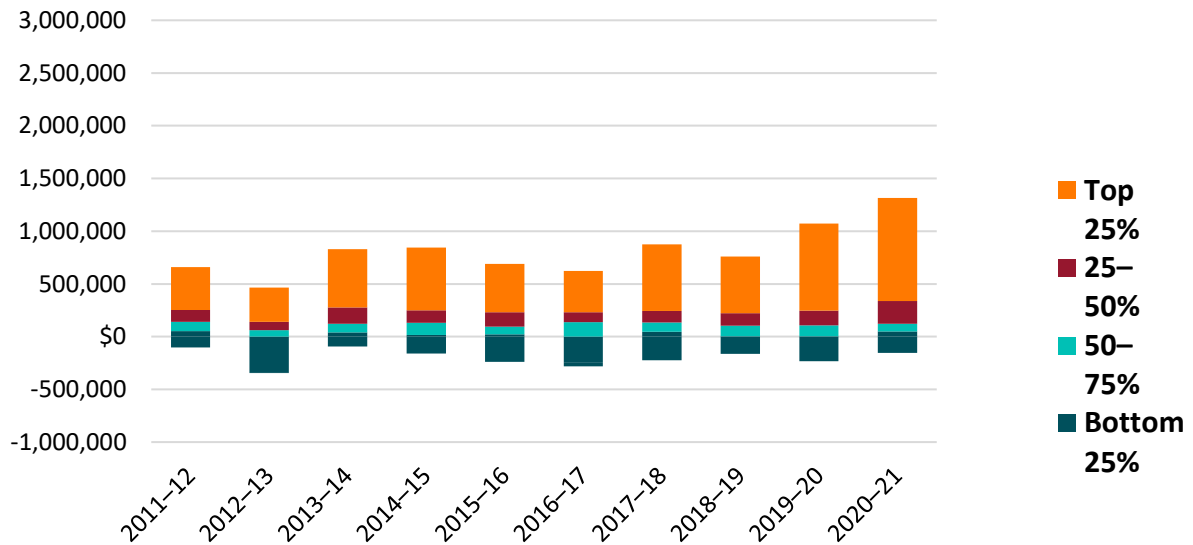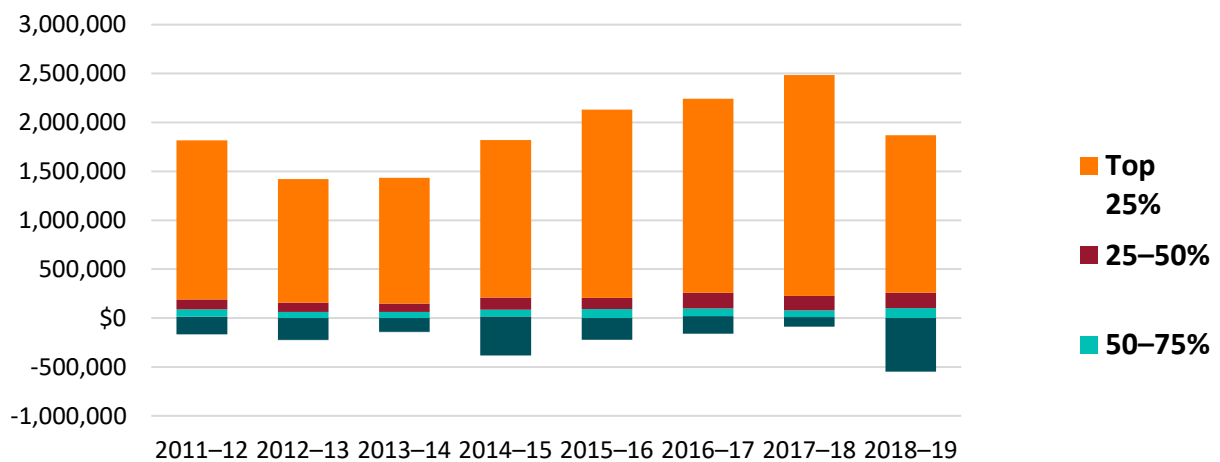
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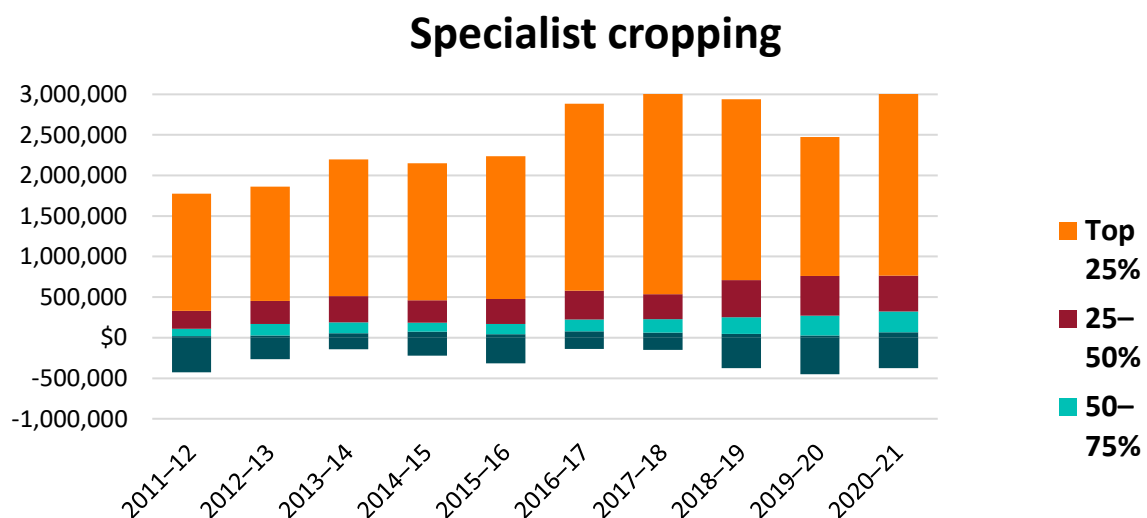
Sheep

Beef

Mixed farms

Dairy

Legend:
- Top 25%
- 25–50%
- 50–75%
- Bottom 25%

Vegetables

Legend:
- Top 25%
- 25–50%
- 50–75%

As can be seen in essentially every graph, the high profitability averages are being driven by the top 25% of farms who are, for the most part, turning over far more profits than the majority of farmers. Most farmers are achieving nowhere near these levels of profit, with many actually operating at a loss.

When all this data is considered together, it is clear that the ABS data alone is not representative of the current economic situation of agriculture, and that the majority of farmers have not enjoyed the profits levels as outlined in the ABS data.