

The feasibility of a financial safety-net: Investigating financial mechanisms to protect NSW oyster growers from disease outbreaks

Analysis by Deloitte Access Economics for
NSW Farmers
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Persistent disease outbreaks are leaving oyster producers vulnerable to recurring supply disruptions

The NSW oyster industry is the state's most valuable seafood sector, recording a gross value of production of \$71.4m in the 22-23 FY.

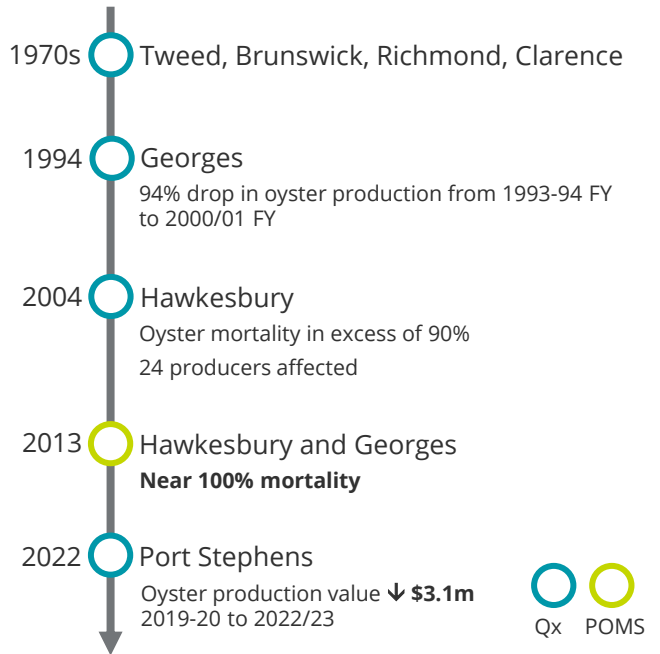
However, the industry is vulnerable to disruptions from disease, Harmful Algal Blooms and food-borne illness.

Disease outbreaks have caused widespread oyster mortality since the 1970s. As recently as 2022, a **Qx outbreak decimated Port Stephens' stock of Sydney Rock oysters, resulting in a 16% loss in NSW's total annual supply.**

No financial mechanisms exist to support oyster producers to endure major supply disruptions. The lack of support jeopardises current production, deters investment, and undermines the industry's growth potential.

To address this issue, Deloitte Access Economics explored a range of mechanisms which could support growers in the event of a supply disruption.

Timeline of major NSW disease outbreaks since 1970



A range of possible mechanisms were considered to support producers to recover from supply shocks

Six possible support mechanisms were identified through a research process which involved the following steps:

-  Reviewed approaches in other industries
-  Consulted with industry and government
-  Developed a long list of financial support options
-  Refined options using a multi-criteria analysis (MCA) assessment framework

A shortlist of three preferred options were identified for further analysis, which are summarised below (in no order of preference):

1. Tiered, shared-cost mechanism

A joint industry-government funded scheme. Government initially covers disruption response costs, part of which are later recovered from industry via a levy on production.

2. Industry-led common fund

Established by the oyster industry, growers pay into a common fund which is drawn down to cover costs in the event of a supply disruption.

3. Insurance

A market-based scheme developed by a private insurance provider, which compensates individual producers in the event of loss.

The three shortlisted options each have their own strengths and weaknesses

The options take different approaches to supporting oyster producers, and can be configured in multiple ways. A summary of the shortlisted options and their respective strengths and weaknesses is provided below.

Option	Strengths	Weaknesses
1. Tiered support, shared cost mechanism	<ul style="list-style-type: none"> + Reduces the need for ad-hoc government funding. + Provides high financial protection certainty and long-term funding sustainability. 	<ul style="list-style-type: none"> – Establishing a levy system may be expensive and time-consuming. – Government contributions may limit system flexibility.
2. Common industry fund	<ul style="list-style-type: none"> + Industry-led scheme affords greater flexibility and adaptability. 	<ul style="list-style-type: none"> – Greater risk of fund exhaustion due to repeat supply disruptions.
3. Insurance	<ul style="list-style-type: none"> + Direct grower-insurer arrangements increase scheme flexibility. 	<ul style="list-style-type: none"> – Requires comprehensive and accurate data. – Widespread industry buy-in is required for the scheme to be financially viable.

These options require further design work to be established. Collaboration between government, industry, and the private sector is needed to bring the support mechanisms to fruition.

Further detail on the different design approaches for each option can be found in the full report at www.oystersaustralia.org/2023-070.

Industry can take steps to progress the implementation of the shortlisted options

Key next steps for each shortlisted option include:

Tiered support, shared cost mechanism	Industry-led common fund	Oyster industry insurance
<ul style="list-style-type: none"> • Garner support from government to consider designing legislation to underpin the scheme. • Communicate new legislation clearly to all stakeholders and ensure transparency of funding distribution. 	<ul style="list-style-type: none"> • Identify qualified staff within the NSW oyster industry to design, establish and administer the fund. • Engage with growers during the design and establishment of the fund to ensure it is fit-for-purpose. 	<ul style="list-style-type: none"> • Conduct industry-wide forums with oyster growers to inform the design of potential insurance products and encourage buy-in. • Facilitate collaboration between industry and insurance providers to establish necessary data collection.

Implementing new options will require time and resources. In the interim, adapting existing schemes, like the **Farm Management Deposit scheme** and **low-interest loans from the Regional Investment Corporation**, could be explored while the preferred solutions are being investigated further.

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