



23 September 2019

Submission to:
The Joint Standing Committee on Trade and Investment Growth
Via on-line lodgement

INQUIRY INTO SUPPORTING AUSTRALIA'S EXPORTS AND ATTRACTING INVESTMENT

1. The Role of the Infant Nutrition Council

The Infant Nutrition Council Ltd (INC) is the industry association for the infant formula products and toddler milk drink industry in Australia and New Zealand. The more than 40 council members include some of the most respected food companies in Australia and internationally, (see Appendix 1 for a full membership list of the INC).

The Australian infant formula industry is considered to be one of the safest and most well-regulated dairy industries in the world. The INC plays a key role in ensuring compliance and safety in the industry, with all members required to abide by a Code of Conduct that provides direction on industry issues including the support of breastfeeding, food regulations and standards, food safety issues, and company representatives' conduct and activities.

The INC also works with local and international regulators to advance infant nutrition. The INC advocates to ensure that the regulatory environment includes the benefits provided by global research and the consideration of global trade and harmonisation with international food standards.

The INC has strong relationships with the Australian and New Zealand Governments, as well as with government departments and agencies. It works in partnership with government to protect the Australian and New Zealand brands and to support the public health goals for the protection and promotion of breastfeeding and, when needed, infant formula as the only suitable alternative.

2. A High Growth, High Value Export Industry

The Australian infant formula products and toddler milk drink industry is a strong and growing sector, due in large part to the burgeoning Asian middle-class consumer and their increased demand for, and trust in premium dairy products sourced from Australia.

As high value-added products, infant formula products and toddler milk drinks have played an important role in the development and growth of Australia's dairy exports.

In 2018, Australia's total export for the sector (including bulk ingredient and finished retailed products) was valued over A\$758million, comprising 22% of the total \$3.4 billion of dairy exports¹. Compared to 2017, **this reflects an increase of over 57% in value.** (See Appendix 2 for a more detailed summary of Australia's key export markets).

2.1. The Chinese Market

Over the past decade, Australia has seen significant demand from overseas markets, especially from Chinese consumers. This has been driven by a number of factors including recognition of the high quality and safety of Australian sourced infant formula products and toddler milk drinks. Other factors include the growth in cross-broader e-commerce trade in China; the reduction in tariffs resulting from the China Australia Free Trade Agreement; and a growing Australian Chinese community.

The increase of the infant formula trade with China has also been influenced by China's history of tainted food incidents which came to a head in 2008 with the Melamine milk scare. Following this incident, consumers avoided Chinese domestic-produced infant formula and as a result, imported infant formula levels grew rapidly. Chinese importers and the grey market 'Diagou' sellers' selected safe Australian (and overseas) quality produce. This opportunity created an immediate market entry mode of export from Australia to China.

China has shown consistent growth as an importing country taking over 90% of Australia's worldwide infant formula and toddler milk drink exports, and making Australia the 7th largest exporter to China. **Australian exports to China increase by 70% between 2017 and 2018, and have more than doubled since 2016.**

2.2. Cross Border e-Commerce Channels

Australian infant formula products and toddler milk drinks are also available in China, and increasingly other growth markets in Asia, through cross-border e-commerce (CBEC) channels such as Tmall (<http://about.tmall.com>), JD Worldwide (<https://global.jd.com/>), WeChat (<https://web.wechat.com/>) and via Daigous (personal shoppers).

¹ *Australian Dairy Industry In Focus 2018*

Daigou trade is a term used to describe a discreet group of shoppers who purchase through Australian retail and specialised gift shops and operate largely through Chinese language social media platforms. This trend has contributed to the development of the Australian dairy sector (and other sectors such as vitamins and healthcare products) and provides significant value across the sector and the broader economy.

The INC estimates that the CBEC market accounts for over 25% of the total retailed infant formula products and toddler milk drink exports from Australia to China. The table at Appendix 3 shows infant formula exports by air, which generally refers to CBEC sales.

2.3. Other Key Export Markets

Whilst 90% of Australia's infant formula exports are to China, other key markets include Hong Kong, Taiwan, Vietnam and South Korea (see Appendix 2). Whilst total exports to these markets are modest when compared with China, they provide huge "upside" opportunities for Australian exporters and in many cases are easier to enter and have more transparent regulatory environments.

3. The Role of the Australian Government in Continued Market Access

The INC believes that the Australian Government plays a vital role in supporting the continued export growth of the infant formula and toddler milk drink industry.

3.1. The Importance of Appropriate Industry Regulation

As mentioned previously, the INC supports industry regulation and has an important role in ensuring member compliance around the industry's Code of Conduct that covers food regulations and standards, food safety issues, and company representatives' conduct and activities.

The INC works closely with Food Standards Australia and New Zealand (FSANZ) and other regulators, however feels that it is important to ensure a balanced approach is taken to the regulatory environment, and in particular that the global competitiveness of the Australian industry is not compromised by decisions taken by regulators in isolation.

A current example of this relates to labelling regulations - ***Application A1155 2'-FL and LNnT in infant formula and other products***. This application relates to the current position being taken by FSANZ to prohibit plain English terms such as 'human milk identical oligosaccharide' or 'HiMO' (or similar words or abbreviations) on infant formula labels to explain the benefits of ingredients '2'-Fucosyllactose' (2'-FL) and Lacto-N-neotetraose (LNnT). This is completely at odds with the decision to apply generic ingredient labelling requirements, and puts Australian exported products at a distinct disadvantage when

competing globally with other countries' products that are able to speak to the consumer in plain language about the innovative ingredients contained in their products.

3.2. Addressing Non-Tariff Measures

The Government has an important role in addressing non-tariff measures that arise in key export markets such as China. Where those markets are covered by Free Trade Agreements, mechanisms contained in those Agreements should be utilised to ensure fair market access for Australian exports. For the Australian infant formula and toddler milk drink industry, the current complexities and delays in obtaining brand and recipe registration by China authorities presents a considerable risk to the industry and its continued export growth.

3.3. Bi-lateral and Multi-Lateral Trade Agreements

The Australian Government's implementation of Free Trade Agreements with key export partners has been important in reducing tariffs. In some markets infant formula attracts tariffs of upwards of 30%. Acknowledging the complexity of negotiations, the INC supports the continued pursuit of these agreements, particularly those that focus on high growth markets, such as the Regional Comprehensive Economic Partnership (RCEP).

3.4. In-Market Resources and Expertise

The in-market resources of Australian Government agencies (particularly the Department of Foreign Affairs and Trade, Austrade and the Department of Agriculture) provide invaluable services to the INC and its members, including advice and support on market entry strategies, regulatory environments and links to key networks.

These services are particularly valuable to SMEs, new exporters and in new export markets.

3.5. Supporting the Continued Growth of Cross Border e-Commerce Channels

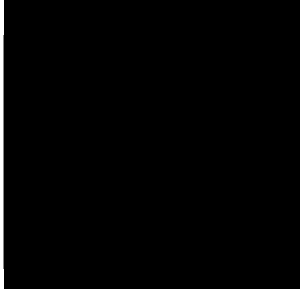
As outlined above, CBEC has proven to be an important sales channel into China and, to a lesser extent, other Asian growth markets. There is a growing consumer preference for on-line shopping via e-commerce platforms and social media, particularly amongst millennial, and CBEC provides a lower cost and more streamlined market entry channel for SMEs and new exporters.

We are witnessing an increasing of the regulations around CBEC (including the application of an 11% tax and also requiring daigou registration), as the Chinese Government looks to ensure protection of consumer health and provide increased certainty around the future of this sales channel. Overall, these initiatives are welcomed by Australian exporters, as uncertainty in the past is in part responsible for the decline in air mode exports, (see Appendix 3). In this context, there is an important role for the Australian Government to play

in supporting CBEC channels into China and other Asian markets and maintaining an open dialogue with regulators about future management of CBEC.

Thank you for the opportunity of providing a submission to the Committee's inquiry. I would be happy to provide additional details on any of the matters contained in this Submission, or to meet with Committee members at a convenient time.

Yours sincerely



Jan Carey
CEO

CURRENT INFANT NUTRITION COUNCIL MEMBERS

Ordinary Members:

Aspen Nutritionals
The a2 Milk Company Limited
Fonterra Co-operative Group Ltd
H.J. Heinz Company Australia Ltd
H.J. Heinz Company (New Zealand) Ltd
Nestlé Australia Ltd
Nestlé New Zealand Ltd
Danone Nutricia Australia Pty Ltd
Synlait Milk Ltd

Associate Members:

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|---------------------------------|---|
| Abbott Australasia Pty Ltd | NIG Nutritionals |
| Australian Dairy Park | New Zealand New Milk Ltd |
| Bakels Edible Oils (NZ) Ltd | Nuchev Food Pty Ltd |
| Bayer Ltd | Nu-Mega Ingredients |
| Blend and Pack Pty Ltd | Oceania Dairy |
| Bodco Dairy Ltd | Reckitt Benckiser |
| Bubs Australia Ltd | Saputo Dairy Australia Pty Ltd |
| Burra Foods | Snow Brand Aust Pty Ltd |
| Cargill Australia | Spring Sheep Milk Co |
| Dairy Goat Co-operative Ltd | Tatura Milk Industries |
| DSM Pty Ltd | The H&H Group |
| Freedom Foods | Wattle Health Australia Ltd |
| Fresco Nutrition Ltd | Westland Co-operative Dairy Company Ltd |
| GMP Dairy Ltd | Winston Nutritional New Zealand |
| Great Ocean Ingredients Pty Ltd | Yashili Dairy New Zealand |
| GrainCorp Ltd | |
| Jamestrong Packaging Pty Ltd | |
| Mataura Valley Milk Ltd | |

APPENDIX 2

| Australia Export Statistics by Value and Market Share | | | | | | | |
|--|-------------------|-----------|-----------|---------|--------|--------|-------------|
| Commodity: 190110, Food Preparations For Infant Use, Put Up For Retail Sale, Nesoi | | | | | | | |
| Calendar Year: 2016 - 2018 | | | | | | | |
| Partner Country | Australia Dollars | | | % Share | | | % Change |
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2018/2017 |
| World | 395719251 | 482120880 | 758145325 | 100.00 | 100.00 | 100.00 | 57.25 |
| China | 315163645 | 404074946 | 686935927 | 79.64 | 83.81 | 90.61 | 70.00 |
| Hong Kong | 54149298 | 51251430 | 24656229 | 13.68 | 10.63 | 3.25 | - 51.89 |
| Taiwan | 6778204 | 7701294 | 17763678 | 1.71 | 1.60 | 2.34 | 130.66 |
| Vietnam | 4573881 | 7538897 | 10110634 | 1.16 | 1.56 | 1.33 | 34.11 |
| Korea South | 8568205 | 3622882 | 8660786 | 2.17 | 0.75 | 1.14 | 139.06 |
| Malaysia | 2248102 | 2175013 | 2988895 | 0.57 | 0.45 | 0.39 | 37.42 |
| Singapore | 609422 | 2582998 | 1563735 | 0.15 | 0.54 | 0.21 | - 39.46 |
| New Zealand | 2575267 | 2344566 | 1511309 | 0.65 | 0.49 | 0.20 | - 35.54 |
| Bangladesh | 0 | 0 | 1415843 | 0.00 | 0.00 | 0.19 | 0.00 |
| Cambodia | 151414 | 482201 | 1061466 | 0.04 | 0.10 | 0.14 | 120.13 |
| Indonesia | 0 | 0 | 856247 | 0.00 | 0.00 | 0.11 | 0.00 |

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APPENDIX 3

| China Import from World (Transport Mode: Air) Via District: All Districts | | | | | | | |
|---|--------------------|-------------------|-------------------|--------------|-------------|-------------|---------------|
| Commodity: 19011010, Powdered Formulas For Infant Use In Retail Package, Containing Cocoa <5% | | | | | | | |
| Calendar Year: 2015 - 2017 | | | | | | | |
| Partner Country | Australia Dollars | | | % Share | | | %Δ 17/16 |
| | 2015 | 2016 | 2017 | 2015 | 2016 | 2017 | |
| World | 956,224,025 | 971,044,083 | 861,258,003 | 100 | 100 | 100 | -11.31 |
| Netherlands | 366,468,054 | 398,455,820 | 298,927,001 | 38.32 | 41.03 | 34.71 | -24.98 |
| New Zealand | 70,887,013 | 111,590,330 | 217,479,036 | 7.41 | 11.49 | 25.25 | 94.89 |
| Germany | 242,503,456 | 257,524,107 | 163,723,735 | 25.36 | 26.52 | 19.01 | -36.42 |
| France | 9,141,748 | 33,712,909 | 58,237,672 | 0.96 | 3.47 | 6.76 | 72.75 |
| Australia | 123,846,058 | 62,764,378 | 55,687,050 | 12.95 | 6.46 | 6.47 | -11.28 |
| Ireland | 20,149,152 | 35,813,381 | 25,503,699 | 2.11 | 3.69 | 2.96 | -28.79 |
| United Kingdom | 29,924,303 | 36,220,406 | 13,968,218 | 3.13 | 3.73 | 1.62 | -61.44 |
| Denmark | 25,442,547 | 13,508,157 | 12,732,113 | 2.66 | 1.39 | 1.48 | -5.75 |
| Austria | 4,703,042 | 2,376,506 | 4,823,967 | 0.49 | 0.24 | 0.56 | 102.99 |
| United States | 42,939,142 | 10,055,053 | 2,757,651 | 4.49 | 1.04 | 0.32 | -72.57 |
| Switzerland | 918,505 | 2,273,552 | 2,252,858 | 0.1 | 0.23 | 0.26 | -0.91 |

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