

Australian Food and Grocery Council

SUBMISSION

OCTOBER 2011

TO:

**SENATE SELECT COMMITTEE ON AUSTRALIA'S FOOD PROCESSING
SECTOR**

IN RESPONSE TO:

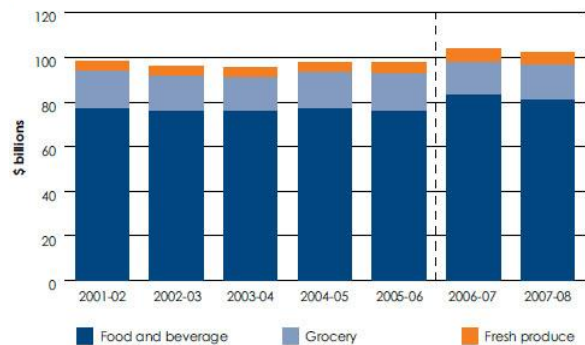
INQUIRY INTO AUSTRALIA'S FOOD PROCESSING SECTOR



The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food, drink and grocery manufacturing industry. Membership of AFGC comprises more than 150 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the processed food, beverage and grocery products sectors. (A full list of members is included in Appendix A).

AFGC's aim is for the Australian food, beverage and grocery manufacturing industry to be world-class, sustainable, socially-responsible and competing profitably domestically and overseas. With an annual turnover of \$102 billion (Figure 1), Australia's food and grocery manufacturing industry makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity.

Figure 1. Industries turnover (\$2007-8)



Source: ABS, catalogue number 8221.0 and 8159.0⁶

Manufacturing of food, beverages and groceries in the fast moving consumer goods sector¹ is Australia's largest and most important manufacturing industry, four times larger than the automotive parts sector – the food and grocery manufacturing industry is a vital contributor to the wealth and health of our nation. Representing 28 per cent of total manufacturing turnover, the sector is comparable in size to the Australian mining sector and is more than four times larger than the automotive sector. The industry's products are in more than 24 million meals, consumed by 22 million Australians every day, every week and every year. The food and grocery manufacturing sector employs more than 288,000 people representing about 3 per cent of all employed people in Australia paying around \$13 billion a year in salaries and wages.

The growing and sustainable industry is made up of 38,000 businesses and accounts for \$44 billion of the nation's international trade. The industry's total sales and service income in 2007-08 was \$102 billion and value-added increased to nearly \$27 billion². The industry spends about \$3.8 billion a year on capital investment and over \$500 million a year on research and development. Many food manufacturing plants are located outside the metropolitan regions. The industry makes a large contribution to rural and regional Australia economies, with almost half of the total persons employed being in rural and regional Australia³.

It is essential for the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

¹ Fast moving consumer goods includes all products bought almost daily by Australians through retail outlets including food, beverages, toiletries, cosmetics, household cleaning items etc..

² AFGC and KMPG. *State of the Industry 2010*. Essential information: facts and figures. Australian Food and Grocery Council. Oct 2010.

³ About Australia: www.dfat.gov.au

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EXECUTIVE SUMMARY

The Australian Food and Grocery Council (AFGC) welcomes the opportunity to make this submission to the *Inquiry into Australia's Food Processing Sector*.

AFGC notes that the Inquiry is one of a number of policy deliberations of direct relevance to the food manufacturing sector including development of the *National Food Plan*, the *National Food Processing Strategy* and the response to the comprehensive *Review of Food Labelling Policy and Law*. AFGC has provided the perspective of the food manufacturing sector to these activities and advises that they be developed in an aligned manner.

Currently the international competitiveness of the food manufacturing sector is under pressure due to:

- **rising input costs** – raw materials, energy, transport costs are all going up;
- **exchange rate effects** – the high Australian dollar makes food manufacturers less competitive against imports in the domestic market and competition in export markets;
- **regulatory compliance costs** - State and Territory, and Commonwealth regulations including food standards, environmental regulations, planning regulations, occupational health and safety and workplace relations impose a high regulatory burden on industry. The lack of uniformity across jurisdictions in particular creates unnecessary compliance costs; and
- **retail sector concentration** - retailers are engaging in aggressive price competition to win market share and expanding private label offerings. This is taking a greater share of sales and retailers are limiting the range of branded food products resulting in product delisting making life particularly difficult for Australian SMEs.

These factors combine to erode margins and reduce profitability thereby compromising long term competitiveness.

AFGC recognises that whilst the first two points cannot be directly addressed by Government to assist the food manufacturing sector specifically, the final two points are amenable to direct government policy and regulatory interventions.

AFGC considers regulatory reform to ameliorate regulatory compliance cost should be a key government policy area to improve productivity within the food processing sector. This requires a recommitment by COAG to the business regulatory reform agenda. Food regulation was identified as one of many areas requiring reform, and the Government has yet to deliver a substantive initiative in this area. One area which stills dogs the food manufacturing sector, along with other sectors is the lack of cross-jurisdictional alignment of regulations. AFGC proposes that the current mutual recognition policy derived from agreement between the Commonwealth, States and Territories regarding interstate trade of products be extended to services and business practices.

Retail concentration has been a major issue for food manufacturers in Australia for some time, but the recent practices of both major supermarkets has highlighted it as community concern. AFGC considers a greater commitment to fair business practices and equitable risk and return along the supply chain would be enhanced by **introducing a co-regulatory Supermarket Fair Trading Code of Conduct overseen by a Supermarket Ombudsman.** The Code would provide guidance on

acceptable approaches for negotiating trading terms and contracts. Applicable to retailers with greater than \$1b p.a. turnover it would limit the power of the supermarkets to extract unreasonable additional funds from suppliers beyond original contractual agreements. The Ombudsman would arbitrate disputes arising from trading practices not consistent with the Code of Conduct.

Notwithstanding the importance of these issues AFGC considers there are a number of additional measures which the Government can take to help reduce regulatory burden and assist the food manufacturing sector identify growth opportunities viz:

- reviewing with a view to streamlining biosecurity arrangements and regulations;
- promoting to industry, and particularly to SMEs, new opportunities for exporting under bilateral and regional free trade agreements which Australia has signed and/or is negotiating; and
- assisting the industry to promote tertiary study of key technical disciplines to address the skills shortage currently affecting parts of the food manufacturing industry.

AFGC looks forward to providing further input into the development of policies to secure the future of the food manufacturing industry in Australia and its capability to provide Australians, and many more consumers overseas, with safe, nutritious and affordable food products.

RECOMMENDATIONS

AFGC recommends that:

1. **The Government notes the many rising input costs for the food processing sector and consider the potential impact on the productivity and profitability of food manufacturing companies.**
2. **All Australian Governments recommit to the COAG business regulatory reform agenda seeking best regulatory practice across all legislative frameworks which directly affect the food manufacturing sector**
3. **The Government establish a Supermarket Fair Trading Code of Conduct and a Supermarket Ombudsman charged with ensuring fairness in trading term negotiations along the supply chain and providing a mechanism to resolve disputes regarding trading practices.**
4. **Commonwealth and State and Territory jurisdictions explore the potential for an overarching agreement which allows regulatory agencies to deem companies compliant with regulation (regarding products, services or business practices) in one particular jurisdiction to be compliant in all jurisdictions, with provision for jurisdictions to opt out with justification.**
5. **Biosecurity regulation and its implementation be reviewed with a view to streamlining processes and reducing costs for industry, whilst maintaining a high level of biosecurity protection for Australia's agriculture production systems and the environment.**
6. **The government explore ways in which the outcomes of bi-lateral and regional free trade agreements can be better promoted to the food manufacturing sector to ensure all food companies, and especially smaller companies, can take advantage of the new opportunities for export provided by those agreements.**

1. INTRODUCTION

The Australian Food and Grocery Council (AFGC) welcomes the opportunity to make this submission to the Senate Select Committee on Australia's Food Processing Sector in response to the *Inquiry into Australia's Food Processing Sector* ('the Inquiry').

AFGC notes that the Terms of Reference for the Inquiry include a number of issues upon which views are sought which have been canvassed in the recent past by Government. AFGC has provided its views in a number of submissions and position statements. These have been provided also to the Inquiry (attached). They comprise:

1. a submission in response to *National Food Plan Issues Paper* released by the Department of Agriculture, Fisheries and Forestry;
2. two submissions to the comprehensive *Review of Food Labelling Policy and Law* (the Blewett Review) earlier this year; and
3. an AFGC Position Statement in response to the Blewett Review report *Labelling Logic: The Final Report of the Review of Food Labelling Policy and Law..*

AFGC requests the Committee consider the positions and recommendations presented by the AFGC submissions and position statements as they are highly relevant to the Inquiry.

AFGC has also provided a just-released survey on the food and beverage sector conducted by Grant Thornton Australia Pty in collaboration with Monash University and AFGC. This survey summarises the business outlook for the food processing industry in the short to medium term as perceived by individual companies.

AFGC is also undertaking some work examining the longer term outlook for the food and grocery sector. This work will be completed in November 2011 and will be made available to the Inquiry.

AFGC also notes that the Government is developing a *National Food Processing Strategy*. AFGC considers this Inquiry can assist the development of that strategy.

In this submission to the Inquiry AFGC will build and refine its arguments and recommendations in selected areas which AFGC considers to be of particular importance.

The submission is in two parts:

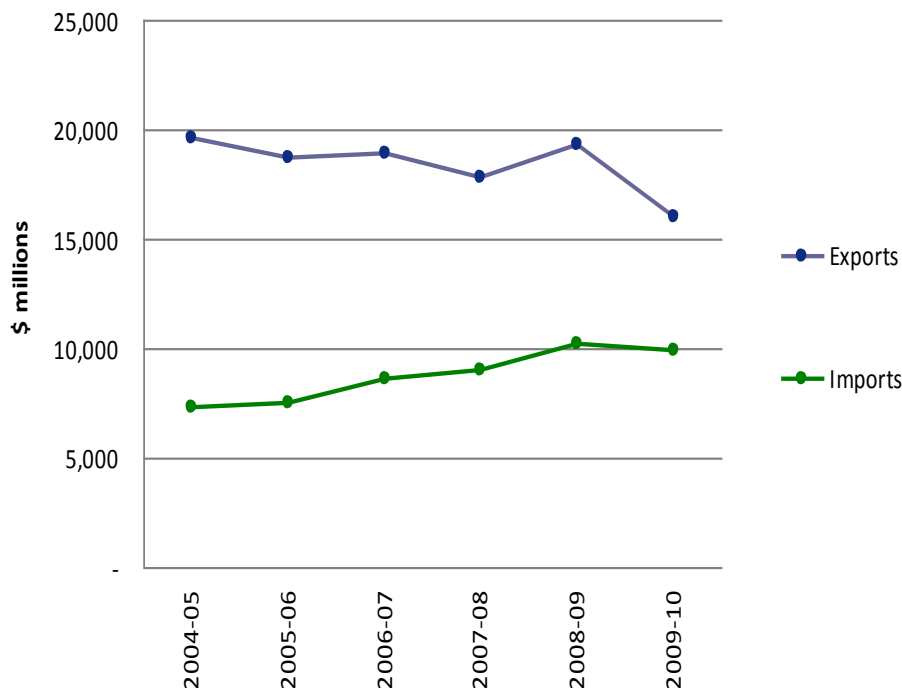
1. general comments about some of the major challenges currently facing the food processing industry; and
2. specific comments relevant to the Terms of Reference of the Inquiry where the issue is not covered elsewhere.

2. GENERAL COMMENTS

The food manufacturing industry is, by and large, a success story. It provides an abundance of wholesome foods - safe, nutritious, convenient and affordable – from which Australians can construct healthy diets. Moreover, as the largest manufacturing sector, it contributes substantially to economic activity employing many Australians directly and indirectly, with almost half in regional Australia. Through the 1990s and into the first part of the last decade, exports from the sector also grew reaching \$17 -18b p.a. by 2004-2005².

More recently, however, the industry has been under pressure from a number of factors in both export and domestic markets. The clearest empirical evidence for the loss of international competitiveness is no, or sluggish, growth in exports of processed food products, coupled with a growing numbers of imported food products (Figure 2) in recent years². **It is against this backdrop that the Government’s focus on food policy and food manufacturing policy is timely.**

Figure2. Imports and exports of substantially transformed food products².



2.1. INDUSTRY COMPETITIVENESS IS DECLINING

The major factors contributing to the erosion of international competitiveness of the food manufacturing sector are:

- **rising input costs** – raw materials, energy, transport, labour are all going up in concert, with prices establishing a long term upward trend;
- **exchange rate effects** – with a high Australian dollar imported foods are becoming more competitive and exports less competitive putting downward pressure on prices in the domestic market and providing less revenue from export markets;
- **retail sector concentration** - retailers are pressuring their suppliers as they engage in aggressive price competition to win market share. Private label is taking a greater share of sales and retailers are limiting the range of branded food products resulting in product delisting. This environment is particularly difficult for Australian SMEs; and
- **regulatory compliance costs** - State and Territory, and Commonwealth regulations including food standards, environmental regulations, planning regulations, occupational health and safety and workplace relations impose a high regulatory burden on industry . The lack of uniformity across jurisdictions in particular creates unnecessary compliance costs.

The overall effect is a decline in margins and the profitability of the industry limiting funds available (including from raising debt) for investment and reinvestment in new plant and new process i.e. in innovation. This limits the growth in productivity – i.e. becoming more efficient and effective – necessary to remain competitive in international markets.

Other factors limiting the industry's ability to grow and prosper include:

- shortages in skilled workers – food companies are reporting difficulty in securing high calibre, technically trained professionals ;
- infrastructure bottlenecks – with almost 50% of truck movements on roads carrying food and beverage products substandard traffic flow, particularly in capital cities is become a problem;
- declines in innovation support by Governments at state and territory level – the risk / reward balance where Governments acknowledge the broad community benefits of innovation are not being maintained; and
- trade barriers (tariffs and quotas) and bi-lateral agreements between other countries can penalise Australian exporters.

AFGC will not discuss these issues in great detail in this Submission, but rather requests the Inquiry to review the AFGC submission in response to the *National Food Plan Issues Paper*.

2.2. RISING INPUT COSTS/ EXCHANGE RATES.

Agricultural commodities represent a major input cost for food manufacturers and almost without exception price increases have been the dominant trend in recent years (Figure 3.). Furthermore given the increasing demands from an increasing world population it is unlikely that prices will return to previous low levels in the foreseeable future.

Figure 3. Annual world indicator prices of selected commodities⁴

Commodity	Unit	2006	2007	2008	2009	2010	2011
Crops							
Wheat	US\$/t	212	362	271	209	317	310
Corn	US\$/t	151	201	190	160	254	306
Rice	US\$/t	320	551	609	532	518	615
Soybeans	US\$/t	335	549	421	429	555	566
Cotton	USc/lb	58.1	72.9	61.2	77.5	162.0	103.0
Sugar	USc/lb	11.2	10.9	13.3	20.9	25.5	29.0
Livestock Products							
Beef	USc/kg	282	289	307	319	391	379
Wool	Ac/kg	864	945	794	872	1132	1200
Butter	US\$/t	2023	4027	2485	3477	4683	4200
Cheese	US\$/t	3004	5073	3281	3748	4221	4250
Skim Milk Powder	US\$/t	3188	4204	2333	2948	3392	3390

Energy costs – electricity and fuel - have also been rising in response to the growing demands of an expanding economy in Australia, and a trending up of global oil prices. Coupled to the long term objectives and effects of the proposed carbon tax it is likely that energy prices will continue to rise. With fuel a major component of transports costs, and little indication that Australia’s transport infrastructure will be overhauled in the short term, it is clear that increases in oil prices will lead to increases in transport costs.

The mining boom in Australia is driving higher wage expectations in other parts of the economy. This coupled to relatively high levels of employment and a labour shortage, particularly skilled labour, is resulting in higher labour costs for food manufacturers.

These issues are, of course, relevant to industry sectors beyond food manufacturing. AFGC considers it important, however, that as the Government develops and refines its policy for the economy as a whole the importance to the food industry and possible impacts are included in the policy deliberation.

⁴ http://adl.brs.gov.au/data/warehouse/pe_A20110920.01/AC2011.V1.1_AgCommodities1.1.0_LR.pdf.

The same comment applies to the exchange rate. The Government has recognised the impact high exchange rates have on the competitiveness of Australia industries. Whilst the market determines exchange rates, fiscal policy settings can also have a significant influence. Once again, AFGC encourages the Government to be mindful of the potential impact of fiscal policy settings on exchange rates and the food manufacturing sector.

When all these factors are considered, the short to medium term outlook for food manufacturers is likely to be challenging. In fact, in a recent survey of food and beverage CEOs 94% reported that they thought manufacturing costs likely to increase over the next two years⁵.

Recommendation

AFGC recommends that the Government note the many rising input costs for the food processing sector and consider the potential impact on the productivity and profitability of food manufacturing companies.

2.3. REGULATORY REFORM

AFGC considers regulatory reform the most prominent and important policy lever which the Government can pull to assist the food industry meet the challenges it is now facing. Compliance with regulation is always costly, compliance with ineffective, inefficient or unnecessary regulation is wasteful in the extreme. It reduces business profitability directly, undermines investment attractiveness and diverts funds from innovative activities necessary for continued competitiveness and productivity growth.

AFGC has presented in detail its concern regarding regulatory reform in its response to the *National Food Plan Issues Paper* ([attached](#)). AFGC considers it appropriate to register its concerns again to this Inquiry and specifically to encourage the Government to re-commit to the COAG business regulatory reform agenda.

Recommendation

AFGC recommends that all Australian Governments recommit to the COAG business regulatory reform agenda seeking best regulatory practice across all legislative frameworks which directly affect the food manufacturing sector.

2.4. RETAIL SECTOR CONCENTRATION

In its submission to the *National Food Plan Issues Paper* AFGC documented in detail the extent of retail concentration by providing data on the market share of Australia's two major retailers – Coles and Woolworths.

⁵ Food for Thought. Food and Beverage Industry CEO survey. Grant Thornton. September 2011.

AFGC argued that retailers are putting excessive pressure on their suppliers (both manufacturers and fresh food suppliers) to support their aggressive price competition in the market place. Whilst arguably benefiting the consumer in the short term, this is punishing food producers and manufacturers who are absorbing a significant amount of the costs associated with these price reductions. Private label is taking a greater share of sales and supermarket shelves with retailers able to contract manufacture anywhere in the world rather than being tied to manufacturing assets in Australia. Retailers are also de-listing branded products to allow for the expansion of private label making it harder for manufacturers to access the market.

The combination of market concentration, substantial growth in private label and restricting brands on shelf provide supermarket retailers with unprecedented power and opportunity to force lower prices from their suppliers – i.e. food manufacturers. This in turn reduces margins. Margin squeeze necessarily means profits are diminished and the returns on investment are eroded. **The ultimate result is that the business case for companies to invest and re-invest in manufacturing in Australia is severely compromised.** This leads to reduced levels of innovation, loss of competitiveness and business closures or relocation offshore.

AFGC recognises the difficulty for Government in addressing this issue, particularly against a backdrop where suppliers are unwilling to report anti-competitive behaviour or unfair contract terms. **Notwithstanding this, there is precedent for Government to establish regulatory and co-regulatory mechanisms to oversee markets where there is evidence of potential market power abuse** (for example, the Horticultural Code of Conduct)⁶

AFGC considers there is a strong case to introduce a co-regulatory Supermarket Fair Trading Code of Conduct overseen by a Supermarket Ombudsman. The Code of Conduct would provide guidance on acceptable approaches of trading terms and contract negotiations. The Ombudsman would be an umpire to assist resolving concerns and help create a level playing field in the highly-concentrated supermarket industry. The Ombudsman would promote fairness along the supply chain and provide recourse for those participants in the food and grocery sector who lack market power, particularly producers and small-to-medium food manufacturers

The Ombudsman should also be supported by retailers as it will provide a mechanism for them to address ongoing concerns regarding asymmetry in market power and concerns stemming from concentration in the retail sector.

2.4.1. SUPERMARKET OMBUDSMAN – PROPOSED ARRANGEMENTS

Key Functions

The primary function of the Supermarket Ombudsman would be to oversee and enforce the Supermarket Fair Trading Code of Conduct. The Ombudsman would have the power to investigate potential breaches of the Code and arbitrate disputes between suppliers and large retailers. Where

⁶ <http://www.accc.gov.au/content/index.phtml/tag/horticulturecode/>

there is a breach of the code , the Ombudsman will have the power to name and shame and impose financial penalties.

In addition the Supermarket Ombudsman would provide:

Leadership – the Ombudsman would advocate fair business returns along the supply chain based on equitable risk and reward sharing.

Information Gathering and Reporting – the Ombudsman would gather, collate and subsequently report on supply chain practices as a way of monitoring performance of the supply chain and adherence to acceptable trading terms negotiations and settlement.

Performance Monitoring – periodic assessment of the effectiveness of the Ombudsman and his office in improving perceived and actual business practices along the supply chain would allow Government and stakeholders to determine whether the Ombudsman system should continue, be modified or abandoned.

Supermarket Fair Trading Code of Conduct

The primary purpose of the Code is to ensure the imbalance in market power which clearly exists along the supply chain does not result in market power abuse. It provides a mechanism for trading terms to be examined against community values and general expectation that, in this day and age, the concept of fairness and a fair go should be a feature of business practices.

The Code would apply to all retailers with an annual turnover of over \$1 billion and it must be incorporated into contracts with suppliers.

The Code would limit large retailers power to:

- alter supply terms retrospectively unless there is agreement to do so;
- demand suppliers fund promotions such within stores;
- delist products without reasonable notice to suppliers;
- seek reimbursement for theft in distribution centres or stores from suppliers;
- make changes to suppliers' supply chain procedures
- make suppliers pay certain marketing costs and compensation for waste
- make suppliers pay retailers for stocking their products
- seek reimbursement from suppliers for inaccurate sales forecasting by retailers.

The Code would require retailers to:

- deal fairly and lawfully with suppliers
- pay suppliers within a reasonable time
- take care when ordering for promotions
- have similar requirements for private label products and branded products with regards to access to shelf space
- respect suppliers right to take complaints to the Ombudsman and not take any retaliatory action against a supplier that places a complaint.

In the long term, AFGC considers this will benefit consumers as Australian producers and manufacturers will be given the capacity to stay competitive ensuring choice, innovation and quality products continue to be available on supermarket shelves.

International Perspectives

In May 2011 the UK Government released a paper to accompany a draft *Groceries Adjudicator Bill* which is published for pre-legislative scrutiny by the UK Parliament. The Bill establishes a Groceries Code Adjudicator to oversee compliance with a Grocery Supply Code of Practice⁷. The proposal follows concerns being raised in the UK similar to those raised in Australia regarding the exercise of buyer power by grocery retailers. More specifically the Commission which examined the issue found that:

“.....when, in the hope of gaining competitive advantage, retailers transfer excessive risks of unexpected cost to their suppliers, this was likely to lessen supplier’s incentives to invest in new capacity, products and production processes, with the potential for detriment to the long term interests of consumers.”

These findings echo the concerns raised in Australia regarding the impact of excessive market power of retailers, as was detailed earlier in this submission. It should be noted that retailer concentration in the UK is significantly less than in Australia .

AFGC considers the UK model has merit.

Recommendation

AFGC recommends that the Government establish a Supermarket Fair Trading Code of Conduct and a Supermarket Ombudsman charged with ensuring fairness in trading term negotiations along the supply chain and providing a mechanism to resolve disputes regarding trading practices.

⁷ The Government’s Policy for a Groceries Code Adjudicator. UK Government. May 2011

3. SPECIFIC COMMENTS

AFGC makes further specific comments in relation to matters raised in the Terms of Reference.

3.1. RESEARCH AND DEVELOPMENT

Innovation underpinned by research and development (R&D) is a critical element in maintaining industry productivity growth, company profitability and therefore competitiveness. The food industry is no exception to this rule with investment in R&D by food companies generally running between 1-2% of sales⁵.

Public sector support for the food processing industry, however, is lower now than any time in the past decade through a combination of the erosion of the value of the R&D Tax Concession scheme and a loss of direct grants to the industry. **Given the importance of the food processing sector to securing some of the Government's broader long term objectives in the areas of food security, preventive health and diversity in the economy AFGC considers the time is right for a review of both the level and nature of government support for research and development by food manufacturers.** AFGC considers this is most appropriately conducted as part of the *National Food Processing Strategy* being developed by the Department of Industry Innovation Science and Research.

3.2. FOOD LABELLING

Food labelling remains a highly contentious with many issues debated in the absence of an overarching food labelling policy pursued by Government. The recently completed comprehensive *Review of Food Labelling Policy and Law* ("the Blewett Review") has done little to guide the development of policy, and certainly fell short of the COAG's aim of streamlining regulatory arrangements to reduce cost for industry, in line with its business regulatory reform agenda.

AFGC prepared two submissions which were presented to the Blewett Review as well as comprehensive a position statement responding to the outcomes of the review. AFGC requests the Inquiry to refer to those documents when considering the issue of Food Labelling.

3.3. CROSS-JURISDICTIONAL REGULATIONS

Cross-jurisdictional regulations, or to be more precise, inconsistent cross-jurisdictional regulations, remain a constant source of regulatory drag on the Australian economy imposing unnecessary costs on individuals, industry and governments all. Indeed, this has been recognised through successive Governments from both sides of politics. Most recently the current Government launched the **National Partnership Agreement to Deliver a Seamless National Economy**⁸. Food regulation was singled out as one of number of areas requiring the special attention. Unfortunately, however, substantial

⁸ <http://www.coagreformcouncil.gov.au>

reform has not been delivered in this area and in fact the COAG Reform Council reported for 2009-10 as follows:

*“Progress on **food** regulation reforms remains behind schedule. There is a risk that an intergovernmental agreement will not be agreed by December 2010, due to unresolved issues about the proposed centralised interpretative advice service.”*

Since then the reforms that have been delivered are:

- establishing a central interpretative advice service within Food Standards Australia New Zealand; and
- changing the voting arrangements of the Australian New Zealand Food Regulation Ministerial Council.

In addition, COAG commissioned the comprehensive *Review of Food Labelling Policy and Law* but far from leading the a streamlining of regulation AFGC is concerned that it will lead to greater regulatory burden upon industry.

AFGC does not consider that to date the COAG business regulatory reform agenda has delivered substantial benefits to the food manufacturing sector through reform of food regulation.

The food manufacturing sector is, of course, directly affected by differences in jurisdictional regulatory requirements across numerous regulatory areas - food standards, environmental standards, occupational and health standards and road transport regulations to name but a few.

It is interesting that whilst there are Commonwealth agreements in place that any product which can legally be sold in one jurisdiction is legal for sale elsewhere in Australia, this principle does not extend more widely. For example, truck loads legally compliant in one State are not necessarily compliant in all States. AFGC concedes there may be legitimate reasons for not allowing the free movement of goods, services and business practices across State borders – quarantine issues, for example, may be one such reason. It is unlikely, however, that all current restrictions are justified, and indeed the imperative of creating a “*seamless national economy*” suggest strongly that there is sufficient concern regarding cross-jurisdictional regulations and their mis-alignment. An alternative approach might be to introduce a national agreement which deems companies compliant with regulation in one particular jurisdiction to be compliant in all jurisdictions, with provision for jurisdictions to opt out with justification.

This approach reflects the principle that regulations should be outcomes focused – and compliance with regulation is not an end in itself.

Recommendation

AFGC recommends that Commonwealth and State and Territory jurisdictions explore the potential for an overarching agreement which allows regulatory agencies to deem companies compliant with regulation (regarding products, services or business practices) in one particular jurisdiction to be compliant in all jurisdictions, with provision for jurisdictions to opt out with justification.

3.4. BIOSECURITY

AFGC strongly supports a strong and well resourced government agency protecting Australia's biosecurity. This is important to protect agriculture production systems as well as the natural environment upon which they depend.

Biosecurity should be driven primarily by sound science and with risk analysis processes to provide rationale assessments of potential impacts including economic impacts. AFGC considers that to a large extent the methodologies utilised by Biosecurity Australia and State and Territory agencies are generally consistent with this principle. Notwithstanding this AFGC is concerned this is not always the case with outcomes being inappropriate on occasions due to:

- 1) **non-scientific, arbitrary regulatory requirements** – for example, there are import regulations which differentiate products on the basis of the proportion of their dairy ingredients. This in effect creates arbitrary “cut-offs” for products which are not based on science or sensible risk analysis;
- 2) **lack of funding** – the recent Asian Honey Bee debate seemed to eventuate in part from a unwillingness of some jurisdictions to contribute to eradication funding, possibly based on a lower risk to their particular jurisdictions associated with the Asian Honey Bee becoming endemic in Australia; and
- 3) **political intervention** – in recent times there has been high level political pressure on decisions made by bureaucrats regarding import of beef and import of apples. This may lead to science and risk-analysis outcomes undermined by political expediency within agencies.

Notwithstanding these comments, AFGC does not consider Biosecurity Regulation *per se* are a major impediment to industry profitability and competitiveness. There is, however, scope for review and streamlining of regulation and processes of its implementation in this area.

Recommendation

AFGC recommends biosecurity regulation and its implementation be reviewed with a view to streamlining processes and reducing costs for industry, whilst maintaining a high level of biosecurity protection for Australia's agriculture production systems and the environment.

3.5. BARRIERS TO INTERNATIONAL TRADE

There is substantial international trade in processed food products, and Australia imports foods from all over the world. The top ten countries are shown in Figure 4².

Australia also exports processed food products to many countries around the world. It is clear therefore, that in common with food manufacturing industry around the world, Australia's enjoys significant international trade in food and beverage products (Figure 2).

Figure 4. Value of imported foods to Australia and its origins.

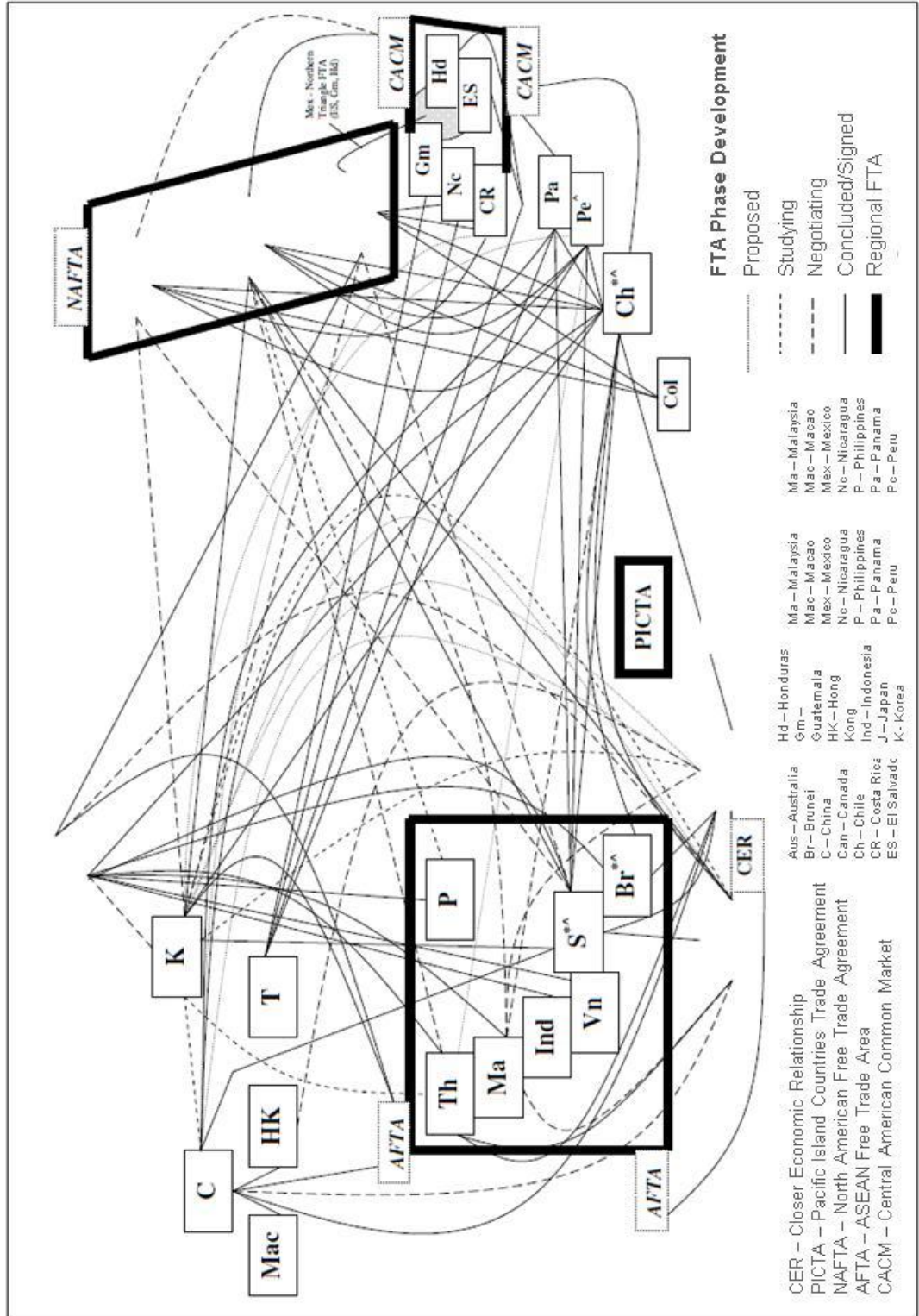
Country	\$m
New Zealand	1,677
United States of America	973
Thailand	734
China	639
Ireland	588
Italy	458
Malaysia	417
United Kingdom	334
France	333
Denmark	296
Other	3,427

Australia trades in a region where Free Trade Agreements (FTAs) abound between countries (Figure 5⁹). Whilst these agreements can be valuable to the signatories, they also, of course, potentially disadvantage trade from countries which are not signatories to the agreement. This "shutting out" phenomenon is poorly documented with respect to effects on the food and beverage industry in Australia. Nevertheless, when countries which imposed tariffs of up to 40% on food product imports sign bi-lateral free trade agreements with other select countries, industry in non-signatory countries face greater challenges in exporting to them.

The complexity of the FTAs makes exporting for food companies relatively complex, particularly when exploring the potential of new markets in which to export. This may be particularly challenging for small companies with limited resources to review and understand the implications of each of the FTAs.

⁹D.Burrows. *FTA Value Creation and Related International Trade Opportunities*. AFGC Roadshow. 2010

Figure 5. Free Trade Agreements in the Asia Pacific Region.



AFGC considers there is an opportunity for Government in being more proactive in promoting FTAs both during their negotiation, and subsequent to their implementation. Specifically Government should provide guidance to smaller companies in particularly on the new trading arrangements to assist them to explore new exporting opportunities. This will maximise the benefit to Australia of FTAs and ensure that value to industry, which is key driver to such agreements, is fully realised.

Recommendation

AFGC recommends the Government explore ways in which the outcomes of bi-lateral and regional free trade agreements can be better promoted to the food manufacturing sector to ensure all food companies, and especially smaller companies, can take advantage of the new opportunities for export provided by those agreements.

3.6. EFFECTIVENESS OF ANTI-DUMPING RULES

AFGC has been concerned for a number of years that the anti-dumping rules have not been effective enough at protecting the industry from anti-competitive dumping behaviour of some importers of food and beverage products. This led to AFGC developing and communicating to Government a number of guiding principles which anti-dumping policy and legislation should reflect viz:

- Australian industry and particularly the manufacturing sector must have ready and easy access to measures that have the clear objective of preventing products from being dumped in Australia to the detriment of the domestic sector;
- Australian business should be able to compete equitably on the global market and anti dumping measures should provide for transparent and equitable remedies but not allow or encourage vexatious or frivolous claims;
- the measures should be administered and processed in a timely way that minimises costs and uncertainty for the business and provides a swift remedy to any activity that is injuring, or will injure, the domestic sector;
- the anti dumping legislation should provide clear, unambiguous and transparent definitions of what constitutes dumping and be able to report on the magnitude of imports and the proposed impact of the imported products on the domestic industry including final cost to consumer; and
- the arrangements should provide for a transparent and equitable process for appeal from parties associated with any action.

The Australian food and grocery manufacturing industry does not seek protection nor unfair advantage. It does, however, seek adequate policy and regulatory measures that facilitate a competitive and innovative domestic industry which can compete in a global trading environment. Those measures should be effective at preventing Australian manufacturers being materially disadvantaged by subsidised and unsustainable products dumped on the Australian market.

AFGC welcomed the Government's announcement in June 2011 that it will establish the International Trade Remedies Forum and is participant in the Forum. AFGC looks forward to working with Government on reforms which will lead to better anti-dumping laws, whilst maintaining a

commitment to free trade and obligations and principles of international trade rules under the World Trade Organisation. AFGC considers key to those reforms will new provisions for greater resource allocation to allow more rapid handling of alleged dumping practices.

Another important, and related issue, is parallel importing – that is the importing of branded products manufactured overseas, often to different commercial and regulatory requirements. Like anti dumping, this is an issue of concern to the food and grocery sector and one which contributes to the challenge of maintaining a safe and sustainable sector in Australia. Parallel importing could raise serious concerns with respect to food standards and health of Australian consumers specifically in relation to correct and accurate labeling requirements and quality standards.

3.7. ACCESS TO A SKILLED WORKFORCE

For some time AFGC and its members have been concerned about the shortage of high calibre candidates for senior management roles in technical areas such as technology management and quality assurance. Although the reasons for poor recruitment of students into food science, technology and engineering disciplines have not been clearly established AFGC considered it is more deep rooted than a simple reflection of the skills shortage which Australian industry generally is experiencing. One contributing factor is thought to be the general lack of awareness among young people of the career opportunities which exist in the food industry, including in technical areas. Another factor which has been noted not just by AFGC but also organisations such as the Australian Institute of Food Science and Technology is that although there has been an expansion of food science and related courses offered by the tertiary sector, there has also been a dilution of the core science components of the courses to the extent that students are not equipped with the practical scientific, technical and engineering skills required by food companies of their technologists.

In response to this issue in 2010 the AFGC Board agreed to partner with the University of Queensland (UQ) in establishing a professorial position and a supporting research and scholarship program. Commencing in early 2012 an appointee will take up the role of Australian Food and Grocery Council Professor of Food Science and Technology. The focus of the appointment will be not only to conduct research relevant to food industry needs in Australia, but also to develop an industry placement and scholarship program for undergraduate and post-graduate students. The partnership between AFGC and UQ is based on mutual benefit whereby UQ will secure greater student enrolments and AFGC members will gain access to quality students whose education has been shaped to meet their future staffing needs.

Although commencing with UQ, it is hoped that the approach will form a template for further opportunities for scholarship programs to be established in other universities. The focus will be on providing incentives for high calibre students in science disciplines to seek a technical career in the food manufacturing sector. The benefits to industry in the longer term will be substantial as these students will be the innovators of the future. Food companies will also benefit by participating in the scholarship program through having access to the best and the brightest undergraduates and graduates to induct into their own workforces.

As the AFGC/UQ program gets underway in 2012 AFGC will be seeking opportunities to sit down with Government to discuss ways in which it can assist to further enhance the attractiveness technically based food manufacturing industry careers to top students.

4. CONCLUSIONS

The Australian food processing industry is finding business conditions particularly challenging due to a number of factors coming together at once to create a “perfect storm”. Some can be directly influenced by Government policy, others are of global nature. It is, however, no exaggeration to state that the well-being of the food manufacturing sector and the well being of Australians are intricately linked. Indeed this has been the maxim of AFGC for some time. Given that Australians expect as a right - and indeed the Government have a duty to provide – safe, nutritious, affordable food, it follows that there should be an overarching policy framework which ensures the industry sectors (agriculture, food manufacturing, transport infrastructure etc) are as well placed as possible to maintain the wholesome food supply Australia currently enjoys.

AFGC stands ready to provide further input into the food policy debate currently playing out in its many guises, to secure the ultimate goal of a growing, profitable and competitive Australian food manufacturing sector.

Membership as at 31 JULY 2011

Arnott's Biscuits Limited	Kraft Foods Asia Pacific	*Baking Association Australia
Asia-Pacific Blending Corporation P/L	Laucke Flour Mills	CAS Systems of Australia
Barilla Australia Pty Ltd	Lion Nathan National Foods Limited	CHEP Asia-Pacific
Beak & Johnston Pty Ltd	Madura Tea Estates	CSIRO Food and Nutritional Sciences
Beechworth Honey Pty Ltd	Manildra Harwood Sugars	CoreProcess (Australia) Pty Ltd
Beerenberg Pty Ltd	Mars Australia	*CropLife
Bickfords Australia	McCain Foods (Aust) Pty Ltd	CROSSMARK Asia Pacific
Birch and Waite Foods Pty Ltd	McCormick Foods Aust. Pty Ltd	Dairy Australia
BOC Gases Australia Limited	McDonald's Australia	Food Liaison Pty Ltd
Bronte Industries Pty Ltd	Merisant Manufacturing Aust. Pty Ltd	FoodLegal
Bulla Dairy Foods	Nerada Tea Pty Ltd	*Foodservice Suppliers Ass. Aust.
Bundaberg Brewed Drinks Pty Ltd	Nestlé Australia Limited	*Food industry Association QLD
Bundaberg Sugar Limited	Nutricia Australia Pty Ltd	*Food industry Association WA
Byford Flour Mills T/a Millers Foods	Ocean Spray International Inc	*Food Q
Campbell's Soup Australia	Only Organic 2003 Pty Ltd	Foodbank Australia Limited
Cantarella Bros Pty Ltd	Parmalat Australia Limited	*Go Grains Health & Nutrition Ltd
Cerebos (Australia) Limited	Patties Foods Pty Ltd	Grant Thornton
Cheetham Salt Ltd	Pfizer Consumer Healthcare	GS1
Christie Tea Pty Ltd	Procter & Gamble Australia Pty Ltd	Harris Smith
Church & Dwight (Australia) Pty Ltd	Queen Fine Foods Pty Ltd	IBM Business Cons Svcs
Clorox Australia Pty Ltd	QSR Holdings	innovations & solutions
Coca-Cola Amatil (Aust) Limited	Reckitt Benckiser (Aust) Pty Ltd	KN3W Ideas Pty Ltd
Coca-Cola South Pacific Pty Ltd	Safcol Canning Pty Ltd	KPMG
Colgate-Palmolive Pty Ltd	Sanitarium Health and Wellbeing	Leadership Solutions
Coopers Brewery Limited	Sara Lee Australia	Legal Finesse
Danisco Australia Pty Ltd	SCA Hygiene Australasia	Linfox Australia Pty Ltd
Devro Pty Ltd	Schweppes Australia	Logan Office of Economic Dev.
DSM Food Specialties Australia Pty Ltd	Sensient Technologies	Meat and Livestock Australia Limited
Earlee Products	Simplot Australia Pty Ltd	Monsanto Australia Limited
Eagle Boys Pizza	Spicemasters of Australia Pty Ltd	New Zealand Trade and Enterprise
FPM Cereal Milling Systems Pty Ltd	Stuart Alexander & Co Pty Ltd	*PLMA Australia / New Zealand
Ferrero Australia	Subway	Red Rock Consulting
Fibrisol Services Australia Pty Ltd	Sugar Australia Pty Ltd	RQA Asia Pacific
Fonterra Brands (Australia) Pty Ltd	SunRice	StayinFront Group Australia
Food Spectrum Group	Tasmanian Flour Mills Pty Ltd	Strikeforce Alliance
Foster's Group Limited	Tate & Lyle ANZ	Swire Cold Storage
Frucor Beverages (Australia)	The Smith's Snackfood Co.	Swisslog Australia Pty Ltd
General Mills Australia Pty Ltd	The Wrigley Company	Tetra Pak Marketing Pty Ltd
George Weston Foods Limited	Tixana Pty Ltd	The Food Group Australia
GlaxoSmithKline Consumer Healthcare	Unilever Australasia	The Nielsen Company
Go Natural	Vital Health Foods (Australia) Pty Ltd	Touchstone Cons. Australia Pty Ltd
Goodman Fielder Limited	Ward McKenzie Pty Ltd	Valesco Consulting FZE
Gourmet Food Holdings	Wyeth Australia Pty Ltd	Visy Pak
H J Heinz Company Australia Limited	Yakult Australia Pty Ltd	Wiley & Co Pty Ltd
Harvest FreshCuts Pty Ltd	Yum Restaurants International	
Healthy Snacks		
Hela Schwarz	Associate & *Affiliate Members	PSF Members
Hoyt Food Manufacturing Industries P/L	Accenture	Amcor Packaging Australia
Hungry Jack's Australia	Australian Pork Limited	Bundaberg Brewed Drinks Pty Ltd
Jalna Dairy Foods	ACI Operations Pty Ltd	Schweppes Australia Pty Ltd
JBS Australia Pty Limited	Amcor Fibre Packaging	Coca-Cola Amatil (Aust) Limited
Johnson & Johnson Pacific Pty Ltd	*ASMI	Lion Nathan Limited
Kellogg (Australia) Pty Ltd	AT Kearney	Owens Illinois
Kerry Ingredients Australia Pty Ltd	BRI Australia Pty Ltd	Visy Pak
Kimberly-Clark Australia Pty Ltd	Baker & McKenzie	

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