SUBMISSION 25

AUSTRALIAN INDUSTRY
GROUP

Inquiry into labelling of palm oil

Australian Industry Group

response to

The House Economics Committee

Inquiry into the

Food Standards Amendment (Truth in Labelling – Palm Oil) Bill 2011

15 August 2011

Submission to the House of Representatives Standing Committee on Economics – Inquiry into Labelling of Palm Oil

Introduction

The Australian Industry Group (Ai Group) Confectionery Sector represents manufacturers of chocolate, sugar and gum confectionery, suppliers of ingredients, machinery, packaging materials and services to the industry, and wholesaler and distributor firms.

Ai Group has approximately 140 members operating in Australia and New Zealand.

The Australasian confectionery industry employs more than 8,700 Australians and New Zealanders.

The Australian confectionery industry's direct market value is in excess of $2.9 billion, with New Zealand's being $494 million.

Major confectionery manufacturing plants are principally located in New South Wales, Tasmania and Victoria, including in a number of regional locations (e.g. Ballarat and Lithgow) and to a lesser extent South Australia and Queensland where SME business are based.

Summary of Ai Group Confectionary Position on the Palm Oil Bill 2011

Ai Group is seriously concerned about the current state of health of Australia's manufacturing industry, including the confectionery sector.

The latest monthly Westpac consumer confidence survey for August shows the index at 89.6, which is at its lowest level since the height of the Global Financial Crisis and the early 1990s Recession – the recession we had to have!

Introduction of the carbon tax will add to business and consumer uncertainty, increasing pressure on manufacturers.

Turmoil in international share markets, the flow-on affects to Australia of the ongoing economic woes being experienced in Europe and the United States, the high Australian dollar impacting on the competitiveness of all our manufacturers and Australia's rising level of unemployment is a mix which should be troubling to all policy makers.

Given the current two-speed economy policy conundrum – where Australian manufacturers are principal losers - it makes no sense, therefore, to be adding additional burdens on those companies, at this time, via the proposals contained in the Palm Oil Bill 2011.

The Ai Group Confectionery Sector believes that the *Foods Standards Amendment (Truth in labelling – Palm Oil) Bill 2011* (Palm Oil Bill) should be opposed for the following reasons:

1. It will fail to achieve sustainable palm oil production and use.
2. Enforcement is problematic.
3. It ignores the voluntary move to source certified sustainable palm oil by the majority of the food industry.
4. It will add substantial costs to every confectionery manufacturer; at the very time Australia's manufacturing industry is suffering from the high dollar, low consumer confidence and an unstable international economic situation.

<u>Informing the Public</u>

There is a place for all food products, including confectionery, in a modern diet.

There are no bad foods, rather bad diets.

Government, manufacturers, retailers and public health groups need to work in concert to provide consumers with a consistent, accurate message about balanced diets and food contents so that the public can make informed choices about their food intake. This includes through easily understood food labelling.

<u>Related Inquiries and Reports</u>

A related Bill, the *Food Standards Amendment (Truth in Labelling Laws) Bill 2009* was referred to the Senate Community Affairs Legislation Committee for inquiry. The Committee's report found that clear and accurate information about food products was a commendable objective, whilst noting that the Bill circumvented the existing regulatory environment.

A Review of Food Labelling Law and Policy, chaired by former Australian Health Minister, Dr Neal Blewett AC, was undertaken to examine improved arrangements for the labelling of food. Its final report was released in early 2011. It recommended amendments to food labelling, including provision for reference to palm oil under added fats.

Resulting from the Blewett Review, the Ai Group Confectionery Sector is working with the Federal Government on improvements to confectionery labelling through the long established, successful *Be treatwise* program.

<u>Be treatwise</u>

In November 2006, the Confectionery Manufacturers of Australasia, now the Ai Group Confectionery Sector, launched *Be* treatwise – a confectionery industry initiative with global links, designed to educate and raise consumer awareness of the role of treats in a balanced diet and active lifestyle. The initiative was launched as part of the broader food industry percentage daily intake (%DI) labelling system – Daily Intake Guide (DIG).

Be treatwise incorporates a front of pack logo, responsible consumption message and on the reverse a mandatory nutrition information panel (NIP), included with the third percentage DI column. Additionally, where space permits, manufacturers have incorporated %DI thumbnails on the back of pack. This shows the percentage of daily nutrients (energy, protein, fat, saturate fat, carbohydrate, sugars and sodium) that a serve of the product contains as a proportion of the average adult diet.

Be treatwise features on a majority of confectionery items manufactured by Australian and New Zealand manufacturers. A March 2011 supermarket audit by the Ai Group Confectionery Sector found that approximately 80 per cent by volume of confectionery in the Australian marketplace carries the *Be treatwise* responsible consumption message.

Palm Oil

Palm oil is an important ingredient for the confectionery manufacturing industry and is used in a range of products [e.g. chocolate, compounded chocolate, cream centres, caramels and nougats as well as in food additives incorporated in small quantities in the production of confectionery]. It has specific qualities which currently make it an essential product within the confectionery sector.

A number of companies (e.g. Mars) are examining reducing the saturated fat content of their confectionery products. One of the ways of doing so is through the use of sunflower oils instead of palm oil. This has the potential to improve the nutritional composition of confectionery products without compromising taste or quality.

A further benefit from such a shift would see the volume of palm oil reduce by around 25% over the next two years. The technology associated with such a change is being developed in Europe. Once the technology is proven the plan is to introduce it in Australia.

The Ai Group Confectionery Sector member companies are actively involved in the Roundtable on Sustainable Palm Oil (RSPO) and, consequently, support the sustainable sourcing of palm oil. Examples are Ferrero Australia, Nestlé Confectionery and Snacks, Kraft Foods Australia and Mars Australia, all of which have made a commitment to source 100% of certified sustainable palm oil by 2015 and are already on this journey.

While confectionery products use minimal amounts of palm oil, many contain ingredients that include minor amounts of fatty acids that are often derived from palm oil. Under the Bill as currently drafted, each of these ingredients (regardless of threshold content) would need to be labelled as containing, or being derived from, palm oil. At present, there is no way to analyse or verify the origin of these ingredients, making enforcement of the Bill extremely difficult.

Cost Impact on Confectionery Manufacturers of the Palm Oil Bill 2011

The confectionery manufacturing sector, along with the wider Australian manufacturing sector, is experiencing considerable cost pressures. This results from rising energy, wage, water and transport costs, along with global market pressures. The high dollar is adding considerably to the many challenges being faced by manufacturers. Consumer confidence is low, impacting on retail sales.

Current food regulation does not require palm oil to be explicitly labelled on food products. According to information provided, for example, by Mars Australia, any decision to force companies to include specific reference to palm oil in labelling is estimated to cost that company an amount greater than $2 million, which would only cover the cost of label changes.

More widely within the Australian confectionery sector, it is estimated that the cost of labelling changes arising from the Bill would amount to some $25.5 million (based on an average of $8K/SKU – there may be anywhere from two to four levels of packaging per SKU). This does not take into consideration return on investment and the disproportionate impact on SMEs, noting that they generally have small sales volumes.

The above mentioned costs do not take into consideration the broader implications associated with research and development, product reformulation, new factory systems and logistics management programs to deal with alternative labelling.

Trans Tasman manufacturers typically operate under the same management regime and different regulatory requirements will impact negatively on their operating efficiencies.

Multinational operators also compete against their regional counterparts for export business and with differing regional regulatory requirements and the need to run duplicate packaging for local and export markets will also negatively impact their cost efficiencies (packaging and processes) and competitiveness for exports.

In addition to the cost impact of this Bill, the Blewett Review, if implemented, would also require companies to change their current labelling. This would amount to a double whammy on Australian manufacturers at a time when they can least afford it.

Failure to Respect the Established Food Regulatory System

Australia (and New Zealand) has a world-class food regulatory system, where food labelling is determined by an agreed mechanism involving proposal development and review via the Australia and New Zealand Food Regulation Ministerial Council. Application of the Council of Australian Government's (COAG) principles of "minimum effective better regulation" and the resulting implementation occurs in consultation with stakeholders and is based on sound scientific advice.

Any move to by-pass the proven, established process for food regulation runs the risk of a number of unintended consequences, which would be costly both to consumers and manufacturing companies. It would further lead to a loss of confidence in, and respect for, the established regulatory regime.

Importantly, the Bill applies in Australia and not New Zealand. Australian manufacturers will be disadvantaged against their New Zealand counterparts as the Trans Tasman Mutual Recognition Agreement (TTMRA) will permit New Zealand compliant product to be legally sold in Australia. Equally, imports from a third country may also passage through New Zealand, as a back door entry to Australia, without requirement to comply with the Bill.

This Bill sets a dangerous singular issue regulatory precedence and Ai Group is concerned about what may follow.

Conclusion

The Ai Group Confectionery Sector fully supports the Government's opposition to the Palm Oil Bill 2011. Its' passage would create major additional cost and other burdens on the confectionery manufacturing sector, at a time when it can least afford it. Industry is already a long way to achieving the intent of the Bill through the prospect of alternatives to the use of palm oil as well as adherence to sustainable sourcing practice.