

# **SUBMISSION**

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Submission to the

**House of Representatives Standing  
Committee on Industry, Science and  
Resources**

**Increasing the value added to Australian  
raw materials**

March 2001

## TERMS OF REFERENCE

This submission is made by the Australian Food and Grocery Council (AFGC), the peak body representing Australia's processed food, beverages and other grocery product manufactures. The House of Representatives Standing Committee on Industry, Science and Resources is inquiring into and reporting on the prospects of increasing value-adding to Australian raw materials. The Committee has started with an evaluation of the current state of value adding in Australia, and how that compares internationally. This has provided a base from which the Committee is to evaluate the following topics:

- incentives and impediments to investment;
- intellectual property rights;
- national/international marketing factors which may encourage or hinder Australian value-adding;
- government intervention, both nationally and internationally;
- the location of value-adding industries and projects in regional Australia;
- resource licensing/permit arrangements;
- the impact of vertical integration within particular industries; and
- the Australian skills base and any associated impediments.

This submission addresses the relevant terms of this inquiry.

## THE AUSTRALIAN FOOD AND GROCERY COUNCIL

The Australian Food and Grocery Council (AFGC) is the peak, national organization representing Australia's processed food, beverages [non-alcoholic] and other grocery products manufacturers ("the industry").

The AFGC's charter is to promote a business environment conducive to international competitiveness, strong and sustained investment, innovation, business growth and profitability, complemented by greater export market opportunities.

The AFGC's mandate in representing member companies is to ensure a cohesive and credible voice for the industry, to advance policies and manage issues relevant to the industry and to promote the sector and the virtues of its products enabling member companies to grow their businesses.

The membership of the AFGC comprises over 185 companies, subsidiaries and associates that constitutes in the order of 80% of the gross dollar value of the highly processed food, beverage and other grocery product sectors (a list of AFGC members is at [Appendix 1](#)).

## THE FOOD AND GROCERY PRODUCTS INDUSTRY

**The AFGC represents the nation's largest manufacturing sector.** By any measure Australia's food, drink and grocery products industry is a substantial contributor to the economic and social welfare of all Australians. The industry has an annual turnover in excess of \$54 billion, employs 165,000 people, almost one in five of the manufacturing workforce just under half of which are in rural and regional Australia, represents over 24 per cent of manufacturing output, and accounts for two-thirds (\$13 billion) of Australia's agrifood exports of \$19.9 billion (1999/2000), of which \$5.5 billion are highly processed having grown by 13.7% per year over the 8 years to 1999-2000.

The fortunes of both the processed foods and agricultural sectors are closely linked. The processed food industry sources in excess of 90% of its ingredients from Australian agriculture. Agricultural raw commodities and intermediate products account for between 40% and 60% of costs in simply transformed foods and account for around 30% in highly transformed products.

Together with its farm sector suppliers, the output of the agri-food industry was, in 1998-99, valued in the order of \$70 billion, accounting for approximately 5.5% of national Gross Domestic Product, 6.9% of national employment and for more than 25% of all Australian merchandise exports.

Farmers search for productivity gains to offset continuing decline in terms of trade will transcend traditional sources of labour and land to an increasingly sophisticated and interdependent through-chain approach to costs and value added synergies, particularly in product differentiation. Individual growers are increasingly establishing a basis for alignment with food processors (as their customers) to build the value chain and better capture rent from product differentiation. Food companies too are looking to build and capture the benefits of improved vertical integration arrangements extending to longer term supply contracts and or joint ventures, negating spot markets, improving the manufacturers capacity to reliably meet increasingly sophisticated product specifications, in line with changing consumer needs and expectations.

The non-food grocery sector provides a wide choice of products in household cleaning, health and beauty, paper, over the counter pharmaceuticals and laundry detergents accounting for more than \$5 billion in turnover.

In 1998-99, the processed food and beverage industry accounted for around \$49.2 billion in annual turnover, representing 22.3 per cent of manufacturing output and 18 per cent of manufacturing jobs. The industry's labour productivity is better than for total manufacturing. In 1998-99, turnover and value-added per person was \$300,500 and \$85,400 respectively (compared with \$239,200 and \$74,600 for all manufacturing).

Growth in the food sector's exports has increased markedly over the past decade. Of the total value of all food exports of \$19.9 billion in 1999-2000, two-thirds were processed (\$13 bill.) and over a quarter (\$5.5 bill.) were highly processed consumer pack products (or 40% of all processed food exports).

Growth in exports of highly processed foods has also been rapid, increasing at an annual rate of 13.7% in the eight years to 1999-2000, from \$2 billion to \$5.5 billion. This compares favourably with the rate of growth of other elaborately transformed manufactures. Not surprisingly, the industry commands a considerable trade surplus in highly processed products, exporting almost five times what it imports. Simply processed foods have increased over the same period from \$5.3 billion to \$7.6 billion and unprocessed from around \$2.7 billion to \$6.7 billion.

The industry's shift from a net importer to a thriving exporter, through the late 80's into the 90's, signified a realisation that in a mature domestic market, apart from cannibalising existing lines and catering for the shift in consumer demands, the real sources of growth lay offshore.

The burgeoning food markets in Asia, the Indian Sub-continent, Latin America, and the Middle East appeal to an industry increasingly under pressure from imports on account of deregulation, tariff reductions and increased global trade in processed products.

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## INTRODUCTION

While Australia has an undeniable comparative advantage in low cost, high quality raw materials, that comparative advantage is now eroding. The growth and competitiveness of Australian business continues to be challenged by greater trade liberalization, plant capacity utilization, economies of scale, labour productivity, factor input costs and the development of processed systems technology.

Australia can no longer continue to rely on its comparative advantage in raw materials to, in effect, cross-subsidise its competitive strength in value-added industrial transformation of raw commodities to consumer products.

Value adding represents the difference between total revenue and the costs of production. While as a matter of course it includes expanding output in value adding sectors, it also incorporates improvements in the processes of production – labour productivity, operating costs, real wages and the cost of inputs. This paper will focus more specifically on the capacity for growth in value adding industries like food processing as well as consider structural improvements through increased innovation and investment.

In the agrifood sector, by far the majority of value added in the process occurs after the farm gate. The total enterprise revenue per tonne of harvested wheat at the farm gate is approximately \$165, compared to more than \$2000 at the point of retail.

This submission will address the incentives and impediments to investment in the food and beverage industries in Australia, discuss national and international factors that may encourage or hinder Australian value-adding, consider appropriate government intervention, both nationally and internationally, and discuss other associated impediments to improving our value adding capacity in this industry.

It concludes with recommended specific policy initiatives to strengthen Australia's value adding of processed food and beverage industries.

## INVESTMENT

Industrial transformation processes traditionally are capital intensive. The transformation of commodities like grains, meat and milk into foods requires investment in capital which in turn increases labour productivity. High levels of investment result in improved output growth, employment and profitability.

Historically, Australia's lower levels of capital investment within the processed food industry compared with other OECD countries has led to a lack of innovation in products, brands, processes and technology and the development of relatively small scale plants. This, in turn, has resulted in lower labour productivity; constrained output growth; missed export opportunities and too great a concentration on cost reduction and rationalisation as primary sources of profit (McKinsey 1996).

Australia's key strengths in attracting investment are the stable transparent political, economic and legal systems in addition to sound macro economic fundamentals and broader business regulatory arrangements. However, international capital is highly mobile, competition for investment is

vigorous and a number of foreign countries provide competing investment incentive schemes that undermine the domestic industry's capacity to attract capital for new investment ventures.

## THE GLOBAL IMPERATIVE

### Globalisation

Globalisation, the increasing interdependence of the world's trade and commerce, is testament to economic and social benefits to individual countries in exploiting their comparative advantages in the production and trade of goods and services fundamental to their nation's social and economic development and prosperity.

This trend is increasing at a rapid rate, fuelled by the removal of barriers to the flow of information, capital services and goods, driven by rapid technological advancements in telecommunications and computer technology and particularly the internet, transport and financial services. Globalisation has contributed to an unprecedented improvement in global economic growth and prosperity, increased consumer purchasing power and improved living standards.

In the decade to 1996, an additional 500 million people in the developing world moved beyond the poverty line, and between 1965 and early 1990, the number of jobs in manufacturing and service industries doubled to almost 1.3 billion (source OECD).

It presents both threats and opportunities for businesses, delivering more open, more prosperous markets but intensifies more competition in domestic and export markets, concentrates ownership among both manufacturers and retailers and facilitates global sourcing of goods and services.

It has been significantly enhanced through the development of the internet as the trading hubs of global exchange. When coupled with technological advances in transport, biology (e.g. extended shelf-life etc) and smart packaging in fulfillment, it provides a dynamic capacity for growth in the processed food and beverage sectors.

### The Reality of Globalisation

Global economic and trade developments will continue to test the competitiveness of Australian industry. Value adding industries can expect global socio-political developments to require skillful public policy development to continue to develop a domestic economic and industrial climate conducive to business investment, growth, and profitability, and of the equitable distribution of wealth and social cohesion.

A significant proportion of the value adding in the food and beverage sector is done by trans-national businesses. Table 1 shows the top 20 food manufacturing companies in Australia by turnover and shows the levels of foreign ownership. These are under increasing pressure to justify Australia as a strategic location for corporate production, irrespective of whether they are Australian or foreign owned.

**Table 1: Top 20 food companies by turnover and foreign ownership, 2000**

Company	Turnover \$m	Foreign Ownership %
Coca-Cola Amatil	3,933	40
Foster's Brewing Group	3,408	0
Goodman Fielder	3,213	25
Nestle	2,115	100
ConAgra	1,934	100
George Weston	1,592	78
Lion Nathan	1,563	100
Dairy Farmers Group	1,438	0
Murray Goulburn Co-op	1,333	0
Bonlac Foods	1,255	0
Effem Foods	1,228	100
Unilever	1,167	100
Cadbury Schweppes	1,114	100
National Foods	1,106	0
Ridley	1,017	0
Inghams Enterprises	966	0
Arnotts/Campbell	916	100
Parmalat Australia	754	100
Simplot	719	100
Ricegrowers Co-op	696	0

Source: BRW

Globalisation of the world's economy increasingly exposes any underlying weaknesses, whether businesses are engaged in exports or not. Comparative advantages alone will not be sufficient to sustain competitiveness onshore in meeting import competition, and offshore in sustaining or forging new opportunities in export markets.

Businesses are under continual pressure to further rationalise and restructure to reduce costs, to improve economies of scale, to innovate in product, processes and packaging, striving for international competitiveness in meeting import competition and forging new export markets and cater for the increasingly diverse, complex and customised demands of consumers.

In an increasingly globalised economy, these companies' ability to internationalise their operations is as significant as their ability to trade globally. If industrial transformation in Australia is to be enhanced, our economy cannot attempt to forge its position in the global economy bearing the legacy of a commodities-based economy, parts of manufacturing inward looking and domestically focused, and too great a reliance on driving growth in the services sector.

Australian industry and government must take a proactive, even tactical approach to public policy to enable value-adding businesses to meet the threats and grasp the opportunities of globalisation. Australia cannot afford to be passive or resigned to the dictates of the market. In this, industry and government must recognise the critical interdependency of public policy, the market and business, and the requirement for a coordinated, whole of demand chain integrated strategy in the development of a globally competitive agrifood industry. This requires a tactical response that capitalizes on the industry's comparative advantages, recognises of its competitive strengths and weaknesses and identifies and implements policies and strategies that build on the strengths and remedy the impediments.

## **Changing Consumer Demands and Challenges**

The growing global middle class of consumers are more sophisticated and discerning, driving innovation and differentiation of products and services. Product and service differentiation is the dominant feature of the fast moving consumer goods market globally – trade in processed food products is estimated to have increased to 75% of global agricultural trade, from 50% in 1985 and growing at twice the rate of primary product trade (OECD, 1997).

Consumer demands have transcended a “simple product for a simple need”, to convenience, prompt and efficient fulfillment, through products and services that deliver health and nutrition benefits, choice but simple selections, yet tailored for their markets to meet the individual requirements and lifestyle expectations of the increasingly diverse and complex food consumers.

Customer value is increasingly defined in terms of customer experience, but brand and price remain key factors in choice. In developed countries at least, food safety is a given – it is simply not negotiable in the market – it is the price of market entry.

In contrast to food safety, determinants of quality transcend the traditional characteristics for organoleptic properties (smell, taste, feel), composition and nutrition to convenience, but with retention of freshness and naturalness as key characteristics. Changing consumer demand is driving extraordinary technical innovation in products, services, production processes, packaging technology and foods to meet the dynamic market.

## **Changing Society**

Global society is increasingly complex, often inherently contradictory in its aspirations and needs, and more inquiring and demanding of a pivotal role in determining public policy. This is particularly so in regard to the social, ethical, health and environmental consequences of biological and information technologies.

The food and beverage industry is, as are governments and institutions around the world, being challenged by a global society questioning the technological advancements and increasing globalisation that are the very foundation to their improved affluence. Economic prosperity breeds social awareness, and in turn, a more informed and proactive consumer.

The truly serious over-arching policy problems for growing global affluent middle class societies have become cultural, ethical and therefore political. Indeed, the intellectual debates about the direct economic benefits of globalisation and trade liberalisation have long been settled. The debate now is more focused on the social, ethical and environmental consequences of those trade and economic policies.

## **A Changing Industry in Response**

Increased trade, rationalisation and consolidation of businesses, increased concentration of ownership among both manufacturers and retailers, intensified competition and a dynamic, increasingly complex and demanding consumer are features of the food and beverage industry in Australia and industry across the globe.

International businesses are restructuring and extending their operations on global lines. Both international manufacturers and retailers are siting their operations globally to gain maximum strategic advantage. This trend is not just a product of increased trade liberalisation – the removal of global subsidies and protection that are distortions to production and trade creating new



opportunities for globally active consumer goods manufacturers and retailers. This results in more efficient utilisation of the physical capital in production facilities and the knowledge and expertise in design, processing, distribution and marketing.

Corporate production processes are increasingly integrated worldwide, developing strong interdependent linkages up and down the food production chain in the form of own facilities, strategic alliances and joint ventures.

There are changes in investment component sourcing such that elaborately transformed or complex products are increasingly a composite of knowledge, processes and manufactures from a range of countries.

Domestically, competition has increased for alternative formats, meal solutions and services, which challenge the industry's share of consumer spending. The focus of international manufacturers is increasingly on developing a smaller range of stronger, global brands than expanding brand portfolios.

The food and beverage industry is faced with the inherent contradiction of meeting the demands of a more discerning and sophisticated consumer, seeking premium products, and the business imperatives for rationalisation of costs through economies of scale and the environmental dictates for improved waste management.

### **Government Responses**

Governments around the world face the conundrum of meeting the political imperatives of satisfying consumer interests and community concerns cognisant of their limitations (government's limitations) in remedying market failure and of the consequences of inappropriate, if not illegitimate, policies on economic growth, prosperity and social welfare.

The key to sound policy which will facilitate organic growth of "value adding" industries in Australia is to ensure the intersection of industrial, trade and social policies which preserve the legitimate right of nations to exploit their comparative advantage in international trade and their sovereignty over security, the protection of health and safety and the environment.

A sound policy platform demands an understanding of the existing complementarity between trade, economic, environment and social policies, the fallacies of conflicts and the inappropriateness, if not inability, of either to deliver against the objectives of the other.

Trade, economic, environmental and social policies should compliment not compromise the integrity of the other – few argue that good trade and economic policy is not good social policy, even if not exclusively so.

The role of governments to address globalisation and trade liberalisation underscore the primacy of national responsibility in determining domestic economic, industrial and social policies conducive to the efficient and sustainable development of globally competitive industries [and food security through self-reliance].

Globalisation requires Australian governments to commit to economic and industry policy reforms that deliver Australia a stable macro environment founded in market liberalisation, internationalisation of the economy, export orientation, openness to foreign direct investment, fiscal consolidation, efficient and internationally competitive tax system, a disaggregated, decentralised and differentiated industrial relations system; increased real infrastructure

development and a capability to support, and be seen to support, best practice information and logistic systems.

## THE LOCATION OF VALUE-ADDING INDUSTRIES AND PROJECTS IN REGIONAL AUSTRALIA

Value adding industries have an emerging role in supporting and developing economic growth in regional Australia. The food manufacturing and other value adding processes have been the main source of employment growth in regional Australia for the past two decades.

Since the decline of terms of trade in commodities in the early 1980s, there has been a steady decline in employment from the farm sector. This has been facilitated by improvements in technology and rationalisations to achieve greater efficiency gains. This decline in farm sector employment has been largely offset by commensurate employment growth in manufactures and services, but particularly in the food and beverage sector.

The processed food and beverage industry provides a significant job (Table 1) and export base for many regions and towns such as the Murray and Goulburn Valleys, Albury-Wodonga, the Murrumbidgee irrigation area of the Riverina, Ballarat, Dubbo, Griffith, Bathurst/Orange, Wagga and the Riverland.

Over the past two decades these regions have realised the relationship between increasing economic activity, employment and an enhanced quality of life - and the extent of vertical integration of agriculture/horticulture and food processing [supported by a range of secondary industries supplying goods and services].

In the decade to 1996, the number of persons employed in agricultural production in Australia fell by 40,000, or 11 per cent. These job losses have all occurred in regional Australia. Where there has been growth in agricultural production, it has come from the urban centers in the new "value added" industries of aquaculture and horticulture.

Food and beverage processing has been significantly the fastest growing manufacturing employer in regional Australia. The sector created more than 10,000 jobs in the decade to 1996, at a growth rate of 18 per cent. ABARE estimates growth in manufacturing employment in inland and remote areas of Australia, at 25.2% and 33.3% respectively, and attributes the largest employment growth among manufacturing sub-divisions to the food and beverage industries.

Regional growth in food and beverage manufacturing has not been evenly spread. Most sectoral growth has occurred where there is a combination of proximity to inputs and markets, established and reliable infrastructure, (including utilities, telecommunications and transport) and the population base to supply a skilled workforce. This has resulted in significant employment growth in key regional centers as some food manufacturers restructure their operations to take advantage of efficiency gains from value adding opportunities closer to the source of raw materials inputs.

In some cases, this growth in food and beverage manufacturing in regional Australia has come at the expense of urban centers. Sydney shed nearly 4000 food and beverage manufacturing jobs in the decade to 1996, offset by growth in the Hunter Valley, Central Coast, Bathurst and Orange and in the Southern Tablelands. In NSW the loss of nearly 4,000 food and beverage jobs in Sydney was replaced by more than 5,000 jobs in regional centers.

Notwithstanding this significant growth [in regional centres], essential infrastructure and utilities in rural and regional Australia continues to deteriorate to the point where they are critical impediments to investment, productivity growth, employment and profitability in agri-food businesses in regional Australia. Similarly, Government policies at the State and Regional level affect the location of manufacturing businesses.

**Table 1: Food and beverage\* manufacturing employment growth  
 in key regional centers, Australia, 1986-1996**

Region	State	New jobs in food and beverage manufacture	Rate of growth in 10 years to 1996
Upper South East (Coonawarra)	SA	498	239.4%
Margaret River	WA	349	204.1%
Goulburn	NSW	405	139.7%
Mildura	VIC	688	104.7%
Bendigo	VIC	377	84.0%
Goulburn Valley	VIC	1402	78.1%
Sunshine Coast	QLD	348	71.2%
Murray Mallee	SA	342	60.4%
North Western Tasmania	TAS	319	59.0%
Barossa Valley	SA	570	46.0%
Wagga Wagga	NSW	494	45.8%
Tweed Heads/Byron Bay	NSW	712	43.4%
Bathurst/Orange	NSW	484	38.4%
Dubbo	NSW	248	36.2%
Darling Downs/Toowoomba	QLD	872	32.1%
Griffith	NSW	377	30.5%
Riverland	SA	224	22.8%

Source: ABS; \* Includes Wine

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

## THE AUSTRALIAN SKILLS BASE AND ASSOCIATED IMPEDIMENTS

### Economic and Industry Policy Reforms

Economic and industry policy reforms should aim to deliver Australia a stable macro economic environment founded in market liberalization, internationalisation of the economy, export orientation, openness to foreign direct investment, fiscal consolidation/underlying budget surplus, efficient and internationally competitive tax system, a disaggregated, decentralised and differentiated industrial relations system, increased real infrastructure development particularly telecommunication infrastructure capable of encouraging continued e-commerce development, innovation in products, processes and systems, a capability to support, and be seen to support, best practice information and logistic systems, environmental management manifest in the triple bottom line of financial profitability, social responsibility and environmental sustainability.

The AFGC supports:

- **Maintenance of the medium term fiscal strategy** of fiscal consolidation with a structural underlining budget surplus, real cuts in recurrent expenditure rather than to capital or infrastructure expenditure, and continued privatization of publicly held assets where appropriate.

- **Expenditure on essential public infrastructure** for utilities, transport, and information systems, particularly in rural and regional Australia, funded by taxation reform budget windfall gains and proceeds (in part) of further privatisation.
- **Further taxation reform**, notably simplification of business tax, the taxation treatment of foreign sourced income, including dividend streaming and the taxation treatment of entities.
- **Further industrial relations reform** emphasising responsibility for remuneration and other conditions of employment at the enterprise and individual employer/employee level, further decentralising, disaggregating and differentiating conditions of employment in favour of determinants of productivity gain and performance.
- **International trade reform** - vigorous pursuit of further multilateral trade negotiations with the WTO prioritising the reduction of barriers to trade in processed food and beverage products – considered by some to be the single largest potential gain from further trade liberalisation for the Australian economy, and specifically Australian food manufacturers and primary agricultural producers.
- **Reform of Australia’s food regulatory system** against the criteria of minimum effective regulation in the protection of public health and safety and the prevention of fraud and deception.

## Innovation

Innovation is what sets nations and businesses apart. It is the prime endogenous growth factor and is fundamental to technological advancement, improved productivity and optimized capital utilization. Value adding industries are reliant on continuous innovation in their processing technologies both to remain competitive and to improve the performance of their operations.

The development of greater value adding of commodities into food products will be enhanced by:

- the operation of a vibrant and effective national innovation system of public training and education involving research institutions closely linked and responsive to business research activities;
- an appropriate balance between public and business investment in research, development and innovation reflecting resource capabilities (institutional, technological, financial) in the approach to public sector expenditure;
- public sector institutional arrangements that are structured and rational, with the minimum of overlap and multiplicity of function complemented by private sector market driven research;
- a system of fiscal incentives (such as the R&D Tax Concession) to ensure the market is conducive to private sector R&D and subsequent commercialisation of technologies;
- research activities being pursued co-operatively and collaboratively, tempered with a high degree of contestability and accountability; and
- effectiveness and efficiencies being achieved through economies of scale resulting from collaborative projects and “clustering” of skills and disciplines into centres of excellence.

The food and beverage processing industry must be at the forefront of innovation to remain competitive. This requires increased commitment to research and development in production, products, processing technologies and supply chain systems, rapid adoption of resultant new

technologies and of other innovative technologies (e.g information, transport, packaging) to enhance the productivity (outputs to inputs) of the demand chain system.

- **Support for the Prime Minister's Science, Engineering and Innovation Council** as a body charged with establishing mechanisms for the identification of national strategic R&D priorities — “blue sky” (basic) research through to development and innovation with a commercial focus.
- **promotion and facilitation of the clustering of expertise** — centres of excellence — from research agencies, public and private, to pool resources supporting priority industries, vis:
  - the concept centers on incentives for collaborative R&D arrangements – centers for excellence
  - providing enhanced research, development and innovation for the processed food industry; and
  - the objectives are the “clustering” of intellectual capital (skills, competencies) and physical capital (infrastructure, equipment) from research providers and the private sector to provide a critical mass of research effort through identifying and creating synergies and sharing facilities; and capacity building in Australia's scientific/technical workforce in the food industry
  - the Council of Australian Governments could agree to the allocation of increased resources/funds supporting collaborative centers of excellence in food processing by research providers and the private sector;
  - government could establish a funding/incentives scheme for priority collaborative arrangements between public and private sector agencies and commit to the provision of infrastructure support to centers for excellence; and
  - funding in the short term could involve collaborative research projects, with a commercial focus, but with added incentives for staff exchange, salary loading, secondment and training.
- **Enhancing education and training opportunities** — building human capital – in sciences and technology projects with industrial focus.
- **Review fiscal incentives for private sector funding of strategic R&D** *vis*: facilitate venture capital from the financial markets through fostering appropriate institutional and incentive arrangements – targeted incentives towards patient capital (superannuation, pension funds)
- The provision of adequate public sector funding to public R&D institutions **to mitigate against cost recovery induced distortions** to research and development programs and projects, the relative emphasis on basic, applied and strategic research and in the allocation (diversion) of R&D resources.
- **Review and reform of Australia's agricultural research institutions and funding arrangements** toward a substantial shift from a production driven producer responsive agricultural commodities focus to an agrifood industry, market demand driven, consumer sensitive and responsive to value adding industrial transformation.

## Investment

Indiscriminate investment incentives are not considered efficient and sometimes not even effective in attracting foreign capital to supplement domestic sources of capital for investment. However, judicious use of incentives can improve the total business environment making it more attractive for both domestic and foreign investment *e.g.* incentives that improve utilities, transport, other essential infrastructure, that aid in building human capital through education and training, and that

stimulate capacity and resources in innovation through R&D and technological development – according to the World Competitiveness Yearbook, 1999, Australia ranks highly internationally in these and other key areas critical to a business environment conducive to growth and profitability. The challenge is to provide the resources to enable businesses and industry to capitalize on these strengths.

**Targeted/discriminate incentives can be applied on a case-by-case basis** (including sectoral initiatives) and could include grants, taxation relief or the provision of infrastructure services. Such measures could facilitate both domestic and foreign direct investment that might have otherwise been diverted, and that could make a significant contribution to net economic growth, employment and social welfare, arguably more so in rural and regional Australia where the risks to the investor are perceived to be greater and the capturable benefits lower, than in metropolitan areas or other countries.

- **Review of Australia's foreign investment guidelines** in consideration of increasing globalisation, and the unfettered flow of capital in most parts of the globe and the impact of exchange rate movements outside reasonable expected response to economic fundamentals.
- **Promotion of Australia as a sound location for investment** in that it offers a positive and stable economic and political environment, best practice in legal and regulatory arrangements, information and e-commerce systems, infrastructure and public utilities and access to cost competitive research and development expertise.

### Conversion Efficiency

- **enchmarking essential infrastructure services** (*e.g.* utilities, storage and transport, telecommunication and IT), and suppliers of other goods and services including equipment, packaging, raw commodities, professional services *etc.*
- **Implementation of competition policy** in both the traded and non-traded good sectors supplying goods and services to the industry *i.e.* inputs from direct and indirect infrastructure services, competitive material markets, and raw inputs from statutory marketing arrangements that restrict competition.
- **Review of policies and administrative arrangements governing acquisitions and mergers** which recognise the need for Australian-based companies, in a global market, to build economies of scale and establish vertically integrated strategic alliances/joint ventures in meeting import competition and/or forging export markets.

## **SUMMARY AND CONCLUSIONS**

Value adding industries are capital intensive and operate in a global environment. In order to increase investment both in infrastructure and technological development, domestic conditions will need to be established which enhance the advantages of operating in Australia and mitigate the disadvantages.

Value adding in the food industry would benefit significantly from increased capital investment – in both product innovation and plant technology and in development of improved regional infrastructure to allow greater decentralization of the industry. It is one of the major value adding industries in Australia, and represents one of the key sectors for further expansion.

The best way for Australia to capitalize on its comparative advantage in the production of the raw materials used to manufacture processed foods is to adopt strategic public policy which delivers substantial reforms to both the macro and micro conditions for the industry in Australia.

Development of the industry will also be significant in enhancing real and sustainable economic growth in regional Australia, providing a logical and direct substitution of employment and investment following continuous rationalization of the farm sector over the past two decades.

**MITCHELL H. HOOKE**  
**CHIEF EXECUTIVE**



AAB Holdings Pty Ltd	GF Ingredients Group	Sanitarium Health Food Company
Abbott Australasia Pty Ltd	GF International	Longa Life Vegetarian Products Pty Ltd
Ardmona Foods Ltd	Goodman Fielder Milling & Baking Group	Sara Lee Bakery (Australia) Pty Ltd
Arnott's Biscuits Ltd	Bunge Defiance Pty Ltd	Schwarzkopf and Henkel
The Kettle Chip Company Pty Ltd	Goodman Fielder Mills Ltd	Sharpe Laboratories Pty Ltd
Asia-Pacific Blending Corporation Pty Ltd	Leiner Davis Gelatin (International)	Simplot Australia Pty Ltd
Australia Meat Holdings Pty Ltd	Meadow Lea Foods	SmithKline Beecham International
Australian Food Ingredient Suppliers Pty Ltd	Quality Bakers Australia Ltd	Snack Brands Australia
Beak & Johnston Pty Ltd	Serrol Ingredients	Specialty Cereals Pty Ltd
Berri Limited	Starch Australasia Ltd	Spicemasters of Australia Pty Ltd
BOC Gases Australia Ltd	The Uncle Toby's Co Ltd	Stafford-Miller Ltd
Boots Healthcare Australia Pty Ltd	Green's Foods Ltd	Sugar Australia Pty Ltd
Bristol-Myers Squibb Australia Pty Ltd	H J Langdon & Co Pty Ltd	Sunbeam Foods
Bronte Industries Pty Ltd	Hans Continental Smallgoods Pty Ltd	Taylor's Foods Pty Ltd
Buderim Ginger Ltd	Harvest FreshCuts Pty Ltd	Tetley Australia Pty Ltd
Bundaberg Sugar Ltd	Heimann Foodmaker Group	The Smith's Snackfood Company Ltd
Bunge Meat Industries	Heinz Wattie's Australasia	Unilever Australia Limited
Don Smallgoods Co Pty Ltd	Southern Country Foods Pty Ltd	Lever Rexona
Cadbury Schweppes Asia Pacific	Henry Jones Foods Pty Ltd	Unilever Foods
Campbell Australasia Pty Ltd	Herron Pharmaceuticals Pty Ltd	Canned Fish & Produce/Unilever Aust Export
Campbell Brothers Ltd	Hoyt Food Manufacturing Industries Pty Ltd	Culinary Foods
Cantarella Bros Pty Ltd	International Flavours & Fragrances (Australia) Pty Ltd	Ice Cream
Carter Holt Harvey Tissue Aust Pty Ltd	Johnson & Johnson Pacific Pty Ltd	Spreads & Bakery
Cascade Beverage Co	Kellogg (Australia) Pty Ltd	Tea
Cerebos (Australia) Ltd	DSM Group	Universal Foods Corporation (Aust) Pty Ltd
Chisholm Manufacturing	Kimberly-Clark Australia Pty Ltd	Wella Australia
Chr Hansen Pty Ltd	Kraft Foods Ltd	Wyeth Australia Pty Ltd
Christie Tea Pty Ltd	La Famiglia Fine Foods Pty Ltd	Yakult Australia Pty Ltd
Coca-Cola Amatil Ltd	Madura Tea Estates	ASSOCIATE MEMBERS
Colgate-Palmolive Pty Ltd	Mainland Dairies Pty Ltd	Accenture
Consolidated Foods Australia Ltd	McCormick Foods Australia Pty Ltd	Amcor Fibre Packaging
Coopers Brewery Ltd	Mother Earth Fine Foods Pty Ltd	Australian Dairy Corporation
Cultor Food Science Inc (Cultor/Danisco)	National Foods Ltd	AWB Limited
Cussons Pty Ltd	NationalPak Pty Ltd	Cap Gemini Ernst & Young
Dairy Farmers	Nerada Tea Pty Ltd	Chep Australia
Darling Downs Bacon Co-operative Association Ltd	Nestlé Australia Ltd	Clayton Utz
Demicombe Pty Ltd	Nestlé Beverages Division	DiversyLever Consulting
Derby Industries Pty Ltd	Nestlé Confectionery Division	Ernst & Young
Devro-Teepak Pty Ltd	Nestlé Dairy Products Division	Focus Information Logistics Pty Ltd
Douwe Egberts	Nestlé Foods Division	Food Liaison Pty Ltd
Dragoco Australia Pty Ltd	Friskies Pet Care Division	Foodsense
DSM Food Specialties Australia Pty Ltd	Foodservice & Industrial Division	Forstaff Australia Pty Ltd
Effem Foods Pty Ltd	Novartis Consumer Health Australasia Pty Ltd	Huhtamaki Van Leer (Oceania) Ltd
Mars Confectionery of Australia	Nutricia Australia Pty Ltd	IBM Australia Ltd
Master Foods of Australia	Nutrinova (Australasia) Pty Ltd	Korn Ferry International
Uncle Ben's of Australia	Ocean Spray International, Inc	KPMG Chartered Accountants
Farm Pride Products	OSI International Foods Australia Pty Ltd	Maddock Lonie & Chisholm
Faulding Healthcare Pty Ltd	P B Foods Ltd	Manassen Foods Australia Pty Ltd
Fibrisol Services Australia Pty Ltd	Paper Converting Co Pty Ltd	Meat and Livestock Australia Ltd
Firmenich Limited	Peanut Company of Australia Ltd	Michels Warren
Fletchers Foods Pty Ltd	Pfizer Warner Lambert Consumer Group	Monsanto Australia Ltd
George Weston Foods Ltd	Pillsbury Australia Pty Ltd	MPG Logistics Pty Ltd
Allied Foods Co Ltd	Procter & Gamble Australia Pty Ltd	Nationwide Food Brokers Pty Ltd
Biscuit & Cake Division	Quality Ingredients Ltd	Novozymes Australia
Tip Top Bakeries	Quest International Australasia Ltd	Peter Arentz & Associates
Watsons Foods	Reckitt Benckiser	PricewaterhouseCoopers
Weston Bioproducts	Regal Cream Products Pty Ltd	Protein Technologies International Aust Pty Ltd
Weston Cereal Industries	Ridley Corporation Ltd	Queensland Sugar
Gillette Australia Pty Ltd	Cheetham Salt Limited	Ronald L Cossen & Associates Pty Ltd
Golden Circle Ltd	Roche Vitamins Australia Pty Ltd	SGS Australia Pty Ltd
Goodman Fielder Ltd	S C Johnson & Son Pty Ltd	Strategic Horizons Pty Ltd
Germantown International		viaLink
GF Food Services		Visy Board Pty Ltd
		Weekes Preston