



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON INDUSTRY, SCIENCE AND
RESOURCES

Reference: Increasing value-adding to Australian raw materials

THURSDAY, 29 MARCH 2001

CANBERRA

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to: **<http://search.aph.gov.au>**

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON INDUSTRY, SCIENCE AND RESOURCES
Thursday, 29 March 2001

Members: Mr Prosser (*Chair*), Mr Cadman, Mr Hatton, Mr Lloyd, Mr Morris, Mr Nairn, Ms Roxon, Mr Cameron Thompson, Dr Washer and Mr Zahra

Members in attendance: Mr Lloyd, Mr Morris, Mr Nairn, Mr Prosser, Ms Roxon and Mr Cameron Thompson

Terms of reference for the inquiry:

To inquire into and report on the prospects of increasing value-adding to Australian raw materials. The Committee will start with an evaluation of the current state of value adding in Australia, and how that compares internationally. This will provide a base from which 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.

WITNESSES

CLARKE, Ms Bev, Executive Manager, Food Business Group, Department of Agriculture, Fisheries and Forestry337

MACNAMARA, Mr Mike, General Manager, Horticulture and Wine, Industry Development, Department of Agriculture, Fisheries and Forestry.....337

PEARSON, Mr Andrew, Acting General Manager, Science and Economic Policy, Department of Agriculture, Fisheries and Forestry337

SAMSON, Dr Cliff, General Manager, Field Crops, Department of Agriculture, Fisheries and Forestry337

WILLIAMSON, Mr Greg, Section Manager, Dairy, Agricultural Industries Division, Department of Agriculture, Fisheries and Forestry.....337

Committee met at 11.32 a.m.

CLARKE, Ms Bev, Executive Manager, Food Business Group, Department of Agriculture, Fisheries and Forestry

MACNAMARA, Mr Mike, General Manager, Horticulture and Wine, Industry Development, Department of Agriculture, Fisheries and Forestry

PEARSON, Mr Andrew, Acting General Manager, Science and Economic Policy, Department of Agriculture, Fisheries and Forestry

SAMSON, Dr Cliff, General Manager, Field Crops, Department of Agriculture, Fisheries and Forestry

WILLIAMSON, Mr Greg, Manager, Dairy, Agricultural Industries Division, Department of Agriculture, Fisheries and Forestry

CHAIR—I declare open this inquiry into value adding to raw materials in Australia. I thank the officers from AFFA for their attendance. I am obliged to remind you that the proceedings here today are legal proceedings of the parliament and warrant the same respect as proceedings in the House. The deliberate misleading of the committee may be regarded as a contempt of the parliament. The committee prefers that all evidence be given in public, but if at any stage you wish to give evidence in private, you may ask to do so and the committee will consider your request. I now invite you to make some introductory comments.

Ms Clarke—The committee would be aware that AFFA has responsibility for the food, forestry, fisheries and agricultural industries. Facilitating additional value adding in our portfolio of industries is obviously one of our key areas of activity. It is worth noting that, since the last election, AFFA picked up responsibility for the processed food industry. I think this has increased the focus on value adding and building linkages along the food production chain in particular. It is important to make a distinction between value adding through further processing and adding value.

What we find in many of our industries, particularly food, is that further processing does not necessarily equate with additional value and our competitiveness tends to decline for a number of reasons as we increase the level of processing in Australia. I think the reasons for this relate to the size of our domestic market and the lack of scale that some of our companies are able to achieve. Market access issues become more problematic as the level of processing increases, particularly into our region where we see tariff escalation. The business environment in which our industries operate is extremely important in terms of their capacity to competitively value add.

I think when looking at adding value, it is important to look at market opportunities and some of the major trends that we are now seeing in the global market. We are seeing lifestyle changes starting to impact on the opportunities for adding value. Consumers are becoming more demanding in terms of safety and quality. Attributes like nutrition, freshness and convenience in foods are becoming particular market opportunities and the opportunities for many highly processed foods are declining in that environment.

The other issue that is important is globalisation of food processing and food retailing. This is going to impact on our agricultural industries and our processing industries. Innovation will become critically important as we explore opportunities for adding value through addressing the characteristics that consumers want to see in products: functionality, nutrition, issues like safety and quality, organics and those sorts of opportunities that consumers are looking for. We will be looking to add value through the way we distribute and package our products and are responsive to consumers and customers whether they be global retailers or global food processors in terms of the quality and level of service that we provide.

I might also mention that the Prime Minister has asked for a national food industry strategy to be developed by September 2001 and this is an opportunity to examine some of these issues that the committee is looking at in depth. It will be a whole of government approach and we will be specifically addressing many of the issues that we have raised in our submission. It will also be a national approach and we will be working very closely with state governments. I would be happy to take any questions.

CHAIR—Thank you for that. In your submission on pages 17 and 18 you refer to the introduction of the Wine Equalisation Tax to replace the WST. I note the Winemakers' Federation of Australia claims that, thanks to the WET, Australian wine producers are now the most heavily taxed in the world. Is AFFA doing any studies on the domestic wine sales before and after the introduction of the WET, given that the wine industry is a very important industry to my electorate? And it is premium too, by the way.

Mr Macnamara—The Winemakers' Federation of Australia as you well know is currently in the process of mounting a political campaign in relation to tax levels. In my area we are certainly looking at this issue but the prime responsibility for taxation matters rests with the Treasurer. There are certain, as you would understand, political sensitivities related to this issue. What I can say is that the benefits of the taxation regime remain to be analysed but the fact is that the Winemakers' Federation is identifying the regime that applies to the smaller wine producers as being the sensitive area.

What they have not acknowledged loudly and clearly is that the government has provided a taxation rebate regime, which is available to the smaller wine producers, and that rebates are provided by both the state and Commonwealth governments that result in WET being exempt, effectively, up to \$300,000 and thereafter tapering off up to \$580,000. The other issue that is relevant to this taxation matter is that exports of wine are GST and WET exempt, but it is very early days at the moment in terms of analysing the Winemakers Federation's position.

Mr NAIRN—Who would be responsible for fisheries? It probably falls into a few categories.

Ms Clarke—We do not have any specific person with direct responsibility.

Mr NAIRN—In relation to value adding, which is what this inquiry is all about, is there any move, particularly within Fisheries, to look at how, for instance, quotas in some fisheries are allocated with respect to value adding within those fisheries? If I can give you an example, currently the mackerel fishery is not quoted, but there are certain restrictions on the total catches that are available. Until recently, about 99.9 per cent of the mackerel caught were used for fishmeal, which is very low-grade value adding, but there are developing markets for a higher

value-added product. The difference could go from the product being worth about \$100 a tonne to a couple of thousand dollars a tonne—it is that sort of difference between the fishmeal and a better value added product. It brings into question the access to that fishery.

There is a current review, so in some respects I am pre-empting it, but I wondered how it might work in other fisheries as well. It seems to me that there has never been any real focus on what happens to that particular product after it is caught. All the rules, regulations and policy abound around the history of catch and various things rather than the investment that might be taking place on land-based operations to come up with a much higher value added product, which is obviously good. I am wondering whether there is anything happening, from a policy development point of view, within AFFA to look towards where that higher value adding can actually be rewarded by easier or greater access to the resource.

Ms Clarke—Given that we do not have anyone from Fisheries here, I will have to get someone to come back to you on that. However, I do understand that it has always been more of a regulatory focus within AFFA around Fisheries, and it is certainly starting to look very seriously at the industry development issues. I will get a response back to you on that.

Mr CAMERON THOMPSON—You were talking about the problems of scale and size caused by the size of the domestic market. Can you indicate what types of industries or areas within the AFFA purview really bite? We do have some large-scale operations; for example Dinmore abattoir, which is near my electorate. Are there some industries in which that bites more than others?

Ms Clarke—Yes, if you look at highly processed foods, branded products and many of the multinationals that are operating in Australia—it also flows through to some of the large to medium Australian-owned companies, and you will see some of these issues emerging in the dairy industry at the moment—if we are going to be world competitive, we need to put world-scale plants in place.

There has been a bit of a history of poor food regulation in Australia which goes back 20 years or so. You will find a lot of the investments were in response to state-based regulation, so often some companies have a multiplicity of plants and there is a need to rationalise. But also if you look at what is happening in the global food market, we are seeing consolidation and mergers of many of the major food companies. They are focusing to reduce their costs, because supermarkets have got so much power over food processors now that they really need to look at every opportunity to maintain their margins. So global scale plants are becoming a real issue, and we represent about two per cent of the world's food market. In food processing it certainly is an issue.

I would think in horticulture it is increasingly becoming an issue as well, because we have many small-scale producers. Retailers—and we are seeing this in both the domestic market and the export market—are requiring year long supply and a critical mass of supply because, to reduce their costs, they want to deal with fewer and fewer suppliers. That means we need to be able to meet all their demands over a longer period of the year, so it will increasingly impact on many of our food and agricultural industries.

Mr CAMERON THOMPSON—Can I just follow up on that. I wanted to get specifics because some industries are more export orientated, some are locked into the domestic market, some are getting into the organic look—the clean, green kind of look—and there is still value to be added to them, although you are not talking about a world scale production; it is sort of the anthesis of that. Can you give me some specifics of where those sorts of things come into play?

Mr Macnamara—A good example of that would be the wine industry. In fact, it is dominated by four or five very large companies that are world scale. For example, Southcorp, now that it has joined up with Rosemount, would be rated as the world's No. 1 premium wine producer. I use the word 'premium' deliberately because it is not the world's biggest wine company but the world's biggest producer of premium wine. These companies produce, give or take, 80 per cent of Australia's wine, but there is a very significant tail. If you take the fact that there are roughly 1,100 to 1,200 wine producers, a very large number of them are much, much smaller and they cannot generate the scale of production that is necessary to meet the requirements, for example, of Sainsburys in the UK that requires a very significant supply to maintain its marketing effort. So that is a very real issue for the wine industry. It is also related to the taxation issue that you raised earlier, Mr Chairman, in that it is much more difficult for the smaller tail to make money in that context, except perhaps on the domestic market which is a much tighter economic arena, in the context of wine anyway.

Ms Clarke—I think it manifests itself in a couple of ways. Firstly, you need scale to actually meet what global customers are now demanding—that is, a critical mass of supply so that they do not have to deal with a myriad suppliers. That impacts on the branded products industries. So there is the scale issue. It is also the financial capacity to be able to be a major player in the global market. So, again, scale becomes an important issue. In relation to the dairy industry, I guess if you read the newspapers now, you can see there are a lot of moves going on to consolidate because they need the scale if they are going to be a global player, because the companies that they are competing against in the global market place tend to be very much larger.

Ms ROXON—My question follows on from that and it concerns the comments that you make in your submission about Goodman Fielder. I should tell you that Bunge, Defiance and Meadow Lea all have a presence in my electorate. I am interested in the bind we seem to be in, in that we want to protect consumers against monopolies and promote cheaper prices in the domestic market, but by doing that we seem to risk making sure that we have companies that are going to have the scale and the domestic market that would allow them to then promote their brand and be a real player internationally. Are you suggesting that one of the things that we should look at is changing the Trade Practices Act and having some other test that applies when you are looking at mergers and acquisitions, if there is going to be some benefit internationally from doing that? If you are suggesting that, how would you see that being structured in a way that was useful?

Ms Clarke—It is an issue that requires a lot more investigation because in administering the trade practices legislation there are issues of administrative process and how companies feel about that process. Is it too costly? Is it too difficult? Or do they have perceptions about the process and how it might work which actually prevent them following a course? So that is one side of it. The other issue which industry has put on the table is that in a number of industries we are now looking at a global market. There simply is not a distinction between the domestic

market and the international market. If you have a single company in a particular industry, they would argue, you need to look at the power of the retailers, for example, and you also need to look at the capacity for other players to import food into Australia. So there are other checks and balances that would need to be taken into account in assessing the level of competition in a particular market. It is very important to protect the interests of consumers, but I think globalisation is raising some other questions which may warrant looking at.

Ms ROXON—Are we potentially protecting the interests of consumers at the cost of the interests of employees, because you do not grow to a size that means we produce more that we can sell overseas? If we look at some of the European countries, the name of their country is synonymous with the name of particular products. Are we putting ourselves in a position where we cannot do that? From my point of view, it would be interesting for us to have a little more detail on what you think would be workable or how you would make a judgment that there are certain areas where slightly different rules should apply or other factors should be taken into account. I do not know whether there is someone in your group who would do that.

Ms Clarke—We have done some thinking about the issue because the industry has raised it. We need to understand it much more closely before we come to a conclusion about whether it involves administrative process or perceptions. Companies may not be putting the best case to the ACCC because they leave it too late. Certainly, there is an issue worth thinking about in terms of whether the legislation and the definition of market are appropriate when we are talking about globalised markets. It will vary between industry sectors, so I think we also need to take that into account. There are certainly some trade-offs there and we may not always be getting the best outcome.

Mr ALLAN MORRIS—I will ask first about dairy. In your report you have got the figures for 1999 in terms of the stats and so on. I note the decline in farm numbers from 29,000 to 13,000 between 1976 and 1999. The anecdotal evidence is that in the last year it has declined much further. Do you have any projections on what it will be in a couple of years time?

Mr Williamson—There was a report released recently by the Australian Bureau of Agricultural and Resource Economics that looked at the numbers of farmers that have exited the industry in very recent times, in the last six months. They looked at another 400 farms on top of what was the normal trend.

Mr ALLAN MORRIS—So it is down to somewhere between 12,000 and 13,000?

Mr Williamson—Yes. It does not involve huge numbers at this point.

Mr ALLAN MORRIS—We were looking at this with dairy farmers up in Sydney, and we were talking to them about the respective products. What they were informally saying to us was that the price of the milk by-product—UHF milk and the various other things that they were making—was actually very low. With deregulation there has been a substantial price drop to farmers. Given that a lot of exporters export milk products rather than milk and so on at the lower price, what I am interested in trying to establish is whether something has been done on the profitability or the long-term viability of the end result to this process. Because it seems that, if you push the price down so far, we end up stopping investment because the farmers cannot make anything on it.

Mr Williamson—Broadly we have talked about two different sectors within the dairy market—the fluid milk market and the manufacturing milk market. Certainly prices have fallen in the fluid milk market. The manufacturing milk market takes up, I think, three-quarters of the volume of milk. I think it is a bit more than that now. Prices for milk in that sector of the market have actually risen in the last six months or so.

Mr ALLAN MORRIS—What are those prices at the moment, though?

Mr Williamson—They have gone up about 15 per cent—that is my understanding—for an average milk price.

Mr ALLAN MORRIS—What I thought we were told was that the liquid milk was the high priced one, and it allowed people to sell their other milk at lower prices because they were, in effect, cross-subsidising. With the drop in liquid milk being so substantial, the overall return on the total product was maybe then below viable levels. So there was that overall shift. What I am getting at is that a long-term export strategy on milk and milk products relies on a viable industry commercially. So that if, in terms of this restructuring process happening, the focus has been on the farmers to some degree—and I suppose rightly so from the point of view of community interest—it may well be that what has been happening is that the prices have been pushed around by supermarkets and other issues that may destroy our export base in the long term. In a way, it has been partly subsidised by the whole milk sales at the farm price level. Are you with me?

Mr Williamson—I think what has happened is that we have had essentially two different industries. One industry has been focused on that fluid milk market and any residual product has gone into low value market manufactured milk products.

Mr ALLAN MORRIS—And therefore subsidised milk products.

Mr Williamson—Yes, the industry would dispute that—certainly the industries in New South Wales, Queensland and Western Australia.

Mr ALLAN MORRIS—Someone told me this, so not all industry would dispute it.

Mr Williamson—That is a very contentious point as to whether or not it was subsidised. In fact, that was one of the arguments the Victorian industry used for deregulation. They were saying that these higher market milk prices were actually subsidising the manufactured milk component of production in Queensland and New South Wales and therefore reducing their market returns. That was in fact one of their arguments. The industry in New South Wales and Queensland argued that that was not the case, that there was no cross-subsidisation. In fact, the manufactured milk that they were producing was in itself viable.

Mr ALLAN MORRIS—The comments recently made at Gloucester, for example, when the plant up there was closed seemed to imply that the by-product industry is no longer viable. It is important that we are very positive about the long-term prospects for export, but it all seems to be written before the impacts of these things are being felt.

Mr Williamson—I think what you are seeing there, with factories like Gloucester, is that you are getting a shrinking of supply in some of these states. What is happening is that farmers are directing these lower supplies at the higher value market, which is still the fluid milk market, albeit at a reduced price. It is still the higher value product. So the residual market—which I would still argue is not subsidised—is getting less supply and factories like Gloucester are essentially wearing the result of that. So what you are seeing is a shrinking of supply more so than—

Mr ALLAN MORRIS—What I am trying to say is that, as much as this was current before, it is probably out of date now. That is what I am trying to get at. I suspect that we are basing our predictions on information which is probably six or eight months out of date in terms of its impact. I am a bit nervous about taking this and projecting it forward, because we might get figures coming out in a few weeks time that have shifted quite substantially. I want to put that on the record and perhaps give the department a chance to think about whether they want to go through it again to see if anything might need to be queried or at least flagged as possible soft figures—either way, up or down.

The next point I want to raise is to do with the situation in Europe at the moment. The effect of that situation is still unconcluded, but it is going to be a long-term effect—particularly if England, for example, is forced to use vaccination for foot-and-mouth disease, which means its exports are going to be questionable from then on. What is the range of impacts on the world market and the world exporters of the European foot-and-mouth problem, since Europe exports 30 per cent of the world market?

Mr Williamson—On dairy markets?

Mr ALLAN MORRIS—On dairy products.

Mr Williamson—The effect is going to be mixed, depending on how consumers react to the scare.

Mr ALLAN MORRIS—It is not just consumers; it is a drop in production.

Mr Williamson—Yes, sure. That is one side of the equation.

Mr ALLAN MORRIS—We are going to be putting a report out in a situation which is very volatile. This has happened very recently—so this is not a criticism of the department, because you could not have known that this was coming—but we probably need some idea of the scope of the effect. The whole world is changing very dramatically right now, under our feet, and I am just curious about how the department sees the possible implications of that and, therefore, what we should be doing or what we should be understanding as a country.

Ms Clarke—It is probably worth noting that dairy exports are going up quite dramatically at the moment—in fact, they are going up very dramatically; they are up to about \$3 billion a year. It is very difficult to pick what is actually driving that. Part of it is the value of our dollar, obviously, which has been very beneficial. If you talk to companies in the industry, they find it a little difficult to pick what is driving that export growth most. We are the lowest cost producer, but they also have a sense that some of the disease issues in Europe—BSE, for example—are

influencing consumer thinking. Australia is seen as a clean environment. So, in that sense, it could well be an opportunity.

Mr NAIRN—New access to markets, as well, has occurred in the last 12 months. Quite a number of countries into which, 12 months ago, we could not get our dairy products have now opened up.

Ms Clarke—Yes.

Mr ALLAN MORRIS—That is going to get even stronger now. It is not just the perception; it is also the actual lack of supply. I am looking for an update, even if it is just a guesstimate. We need to have a better understanding of that, given that we will be writing a report over the next few months. We are likely to suddenly find that we quote you and you are totally wrong, and you are going to ask, ‘Why didn’t you check with us?’

Ms Clarke—We can follow that up.

Mr ALLAN MORRIS—The third point I want to raise on the dairy industry goes to that question of clean green. In the report, you almost imply that these regulations are an impediment. Someone put to me the other day a very interesting interpretation, pointing out that when foot-and-mouth disease was in England back in the sixties—in 1967, from recollection—the industry was much more disaggregated and much more isolated and, therefore, the disease was much more containable. What is occurring now is the transfer of animals of all kinds across country, state and all kinds of borders, from farm to farm, as agribusiness moves its resources around. That is the first part.

The second part is the issue of very large volumes. If one big dairy goes out in Victoria, it could suddenly have a huge effect on the milk production for the whole country. So, because of both the trend of agribusiness to large organisations becoming more vulnerable to disease and the constant pressure, particularly by some economists, to cut regulations vis-a-vis quarantine, vis-a-vis health regulations, vis-a-vis testing and vis-a-vis veterinary and all those other issues, to try and make them more efficient, we have a big advantage right now because we are clean and green. But if it keeps going the way it has been going in the last five years, in my view, we are going to end up being brown and dirty, just like Europe. I would have liked to have seen that argument in here as a marketing exercise and in terms of our long-term exports. The investment in some of those regulations has been incredibly valuable to us to date, and thank God we did that. We should be thinking again about what that means in the future, given the events of the last couple of years.

Ms Clarke—It is an area which the department is very strongly involved in; we are doing an enormous amount of work on safety and quality assurance. We see it as a real source of competitive advantage. I agree with you that it is absolutely imperative that we have regulatory and co-regulatory systems that underpin the integrity of the food that we are sending into the global market. Food scares, as we see in Europe, are enormously damaging and we have seen some in Australia with the orange juice issue and Garibaldi. I think the industries have responded well to those and they have put extremely stringent systems in place.

I do not think food regulation has lessened; I think we have tightened up. With the recent changes to food regulation, some of the issues that have been addressed around food safety have actually been tightened up and now some of the states are moving to mandatory food safety programs to be in place along most of the food chain. We have not moved into the primary production section yet, but if you looked at dairy and meat, for example, they would be ahead of where most of our competitors are anyway.

I agree with you that it is absolutely critical that we have that right. It is not just a question of regulation. The industry needs to take responsibility for making sure that they have got coherent and well-managed systems in place, and that is one of the challenges. They need to move right along the food chain. You cannot do it for one end and rely on end point inspection. We are doing a lot of work to encourage industry sectors to take a through chain approach to food safety.

Mr ALLAN MORRIS—The other example on the other side, of course, was the herbicide issue in Australian beef exports, which did us incredible damage—

Ms Clarke—Yes.

Mr ALLAN MORRIS—not only in terms of value but also in terms of reputation. You said before that the states are putting regimes into place. So are the states alone doing it? What is the Commonwealth's role?

Ms Clarke—The Commonwealth has an overview role. If you look at our food legislation, we have what is now called ANZFA. This is going to become Food Safety Australia New Zealand—FSANZ is the acronym—it is going to change its name. It sets the framework and the standards for food regulation and that will be food standards plus food safety standards. The push has been very much towards getting the states to take a uniform approach to the implementation of food standards established at a national level. In most states now, we see some sort of food safety body which is working very closely with industry to ensure that food safety programs are being put in place. So it is a federal system, I suppose. Standards are set at the national level and then they are implemented at the state level.

CHAIR—On the question of standards, in their evidence to us the Winemakers Federation expressed concern about the attempt by European dominated OIV in Paris to be recognised as the competent international body for wine standards. Does AFFA have a comment on that matter?

Ms Clarke—It is a bit out of my area, but what we want to see is international standards and to have them being driven out of some particular market like the European market is an issue of concern. AFFA is taking an increasing role in terms of CODEX and making sure that we have internationally harmonised standards across all our industry sectors, and that same principle would apply to wine. To see it being driven out of a particular market is an issue.

Mr Macnamara—I would like to add to that. I was trying to remember the name CODEX and when it was mentioned that clarified my thoughts. In relation to OIV, the position of the Winemakers Federation has to be seen against a view that OIV is Eurocentric, in the context of Europe being the predominant world wine force—they dominate the world wine trade. What the

Europeans are seen to have done over many years is influence outcomes within OIV that favour their view of the world, which is highly regulatory and contrary to the new world way of doing things with a non-regulatory approach to, for example, wine making practices. Certainly we would agree with the Winemakers Federation that it is far more appropriate for a world body such as CODEX to regulate those matters in contrast to OIV, which can be seen as a sectoral body as well.

Mr CAMERON THOMPSON—I am still grappling with this scale issue. You made a statement at the start about value adding or adding value—there is a differentiation there that I still have not got my head around. If scale is the issue in value adding, then we wind up with the two concepts competing against one another. The small operators you referred to in the wine industry do support a lot of small communities in a decentralised way across the landscape and they bring in tourism and all those sorts of things; whereas a Southcorp or other large operation has its resources more focussed and does not provide flow-on benefits to the same degree in the more general community because it is not so decentralised. They can also be foreign owned, which is a big issue these days among many of my constituents. So those sorts of things emerge.

Have you done any work on the relative value of these things? I talked before about Dinmore, the big abattoir in my electorate; but there are lots of small abattoirs around the place that see that as an effort to just wipe them out, and those smaller abattoirs are supporting small communities like Kilcoy, Murgon and Coominya. So in terms of adding value—because the small wineries are both producing wine and taking the process as far down the track as it can go—has there been some kind of assessment of these competing interests? You seem to be plumping for the large-scale ones.

Ms Clarke—No, I think what we will see is a mixed picture emerging. I will deal with the issue of value adding and adding value. You could consider continuing to process a grain product into cereal, but horticultural products offer a good example. There can often be a lot more value in a cleverly packaged packet of fresh peas you might buy, which are quite expensive, rather than canned peas. The margin that producers and everybody gets here is much higher on those products, but it does not necessarily mean more processing. More processing does not necessarily equate with higher value. More processing can sometimes mean a commodity product, which means less return for producers and people down the line.

When you look at what is happening in the global marketplace for food, some of the opportunities that are now emerging are in fresh product, where there is a service or additional value attached. The big margins do not necessarily lie in the canned or packaged products. In those packaged products, scale is very important because they tend to be a commodity product, so if you are going to be competitive you need to make them in large volumes in order to cover your base costs. But because consumers are now looking for all sorts of different things—whether it be organics or ethnic type foods or a whole range of things—there are niche opportunities emerging. If you look at the food industry here, companies and producers need to make decisions on what markets they are going to play into: are they going to be a niche, high value player, or are they going to be cost competitive? And when you look at cost competitiveness, scale becomes important. But there are niche opportunities we can move into that are based on being clever in the way we provide service to customers and on the qualities the product might have, such as freshness, nutrition and those sorts of issues.

Mr CAMERON THOMPSON—Yet if I return to your analogy of the peas, the bulk commodity may be the can of peas. The one that is done in a little operation is going to be the package.

Ms Clarke—For the niche, yes.

Mr CAMERON THOMPSON—I am still confused. Are you saying that the scale is ultimately going to be the important thing for the way we do things in Australia? Are you pushing that way?

Ms Clarke—No, I think you get a mixed picture. If we are going to be competitive in some of the large volume products we need to work very hard at getting our costs down and the environment needs to be favourable for companies reducing their costs. On the other hand, there are opportunities in niche markets. I think it is going to be a mixed picture in terms of what the opportunities are. There will be opportunities for smaller niche players, as long as they focus very much on innovation and meeting consumer requirements. It is not one or the other; it is a mix. When you look at niche opportunities, issues like skills, innovation and R&D infrastructure become extremely important.

Mr Williamson—It depends on the market you are targeting.

Mr CAMERON THOMPSON—But this is why I asked if there had been some kind of relative value study done on this. When you talk about the fresh peas and all that sort of stuff and that there are spin-offs in all kinds of directions from the way that it is packaged and marketed, it does in general involve a smaller enterprise that is more focused on the niche market. There is value all the way compared with a can of peas.

Ms Clarke—There is value in the can of peas too, because cans are made by other companies which have a whole range of skills which are of benefit to the community.

Mr CAMERON THOMPSON—But if I talk then about the guy with the small abattoir, he sells one container a week of knuckles that are a very small size to a particular market over there, but he still needs a large abattoir, in bulk terms, to keep that going. That is a good little earner but we lose the flexibility of being able to meet those niche markets when we are investing and tailoring our operations towards the bulk end user. I am trying to get a sense of where AFFA is coming from on this. Is there going to be a policy that ensures we maintain a balance rather than goes one way or another or just follows which way people want to go? There will be investments that will go all sorts of directions but we have to have a strategy for ourselves.

Ms Clarke—This is certainly one of the issues that we will be addressing in putting the national food industry strategy together. Scale is going to be important in a number of sectors and we need to make sure that our business environment is as lean and mean to support those sorts of opportunities as possible because, even though they might be commodity products, they still support regional communities because there are peas in a can of peas. But on the other hand you need to make sure of your soft infrastructure, if you like, of education, training, research and development skills to develop the markets and build networks of suppliers. Another way to get around the scale issue is to build networks of suppliers into particular markets so you can

deal with some of the demands of customers. The customers are becoming bigger and wanting fewer suppliers, but suppliers will also be looking for niche opportunities to meet the needs of particular customers. We need to make sure that we are addressing both opportunities and I do not think they are incompatible. It is going to be difficult for some of the smaller suppliers in some sectors if they are not moving down the value route and they are not thinking about what the customer wants.

You might see some examples of that in horticulture—for instance, people have continued to produce the same old product, the same old apple when consumers are now saying that they want Pink Lady apples or some of the niche apples that are out in the marketplace. So unless they are recognising those opportunities, they are not going to survive.

CHAIR—In the Winemakers' Federation submission to us, I note that they track the per head consumption, and in Australia it went from 8.9 litres in 1970 to 19.3 litres in 2000. When you compare that to Canada—I am sure these are on your projections—eight litres in 2000 to only 10 litres in 2010 without going into what Japan is expected to do, what do you think drove basically the lift in consumption in wine in Australia? If it is a global trend of changing tastes, why haven't we seen those sorts of increases in countries with cultures comparable with ours a la Canada?

Mr Macnamara—I do not think there are any really hard and fast answers that I can give you, but I would suggest that—

CHAIR—They are fascinating figures when you look at them.

Mr Macnamara—It is a very good question. Firstly, in Australia's case, it would be largely due to an increasing—if I can put it this way—sophistication of our society. Secondly, since the Second World War with migration from Europe and a very significant wine culture in Europe, migrants here are looking for wine and a gradual assimilation of that approach to drinking liquor has developed a great interest in the Australian community in wine drinking. The 6 o'clock swill syndrome changed to a much more sophisticated approach to eating a meal, to put it very bluntly.

In Canada, the lower consumption rates there would relate to the fact that really Canada is not a wine producing country and the availability of it in normal day-to-day affairs is not equivalent to Australia's. Wine has become very much a part of our culture and approach to life.

Ms Clarke—I think there are some cultural differences with Canada too. I understand that their liquor laws are much more regulated. You have to buy it through government stores, or whatever. They are obviously much more abstemious than we are. So cultural differences would explain it.

Ms ROXON—I just wanted to ask a question and I am hoping someone might be able to make a comparison between the industries. You can correct me if my perceptions are wrong. The success of the dairy industry has been for a lot of reasons, but they do seem to have been prepared, well in advance of other industries, to invest in research and development, and that has actually driven a lot of the product growth. I know a lot of what we sell overseas is still a lot of bulk items rather than some of the niche ones.

In Victoria, there is a research organisation in my electorate that is a cooperative of all the major dairy companies, some state government money and a bit of federal government money. As well they are actively going out, finding the markets and developing the products. For instance, they have got the right sort of milk additive to go into Korean steamed buns and all sorts of things which are really being very creative and which seem to be driving some of the growth. Compared to other industries have they been able to see ahead of time that it is worthwhile investing in research and development and that it will lead to improving the markets? My sense of the research driving some of the boost in dairy products might be quite wrong, but it does seem, compared to other industries, that they have been ahead. Is that right and why is it that that they have been able to see that before some of the others have?

Ms Clarke—There are probably a couple of issues. I guess the fact that dairy was deregulated in Victoria some time ago is why we have seen that move so well. If you look at the cooperative structure, we have some reasonably large companies there. It then comes down to some individual issues about some of the company management being very astute. The other thing with dairy is that we are the world's best producer, in terms of price. We are very competitive, and that does not necessarily apply across the board. Where we had single marketing authorities producers were often disconnected from market signals. It is worth noting that all the agricultural industries have rural research and development corporations that sit over the top, so they all have similar arrangements in place where levies are collected, and that then goes into research and development. There is a number of reasons why dairy is the way it is.

Ms ROXON—I have a follow-up question on that. Do you think that the cooperative structure of some of the big producers in Victoria has meant that they have also been more prepared to enter into cooperative research than some of the other industries where they are a little less used to that?

Ms Clarke—They are all researching cooperatively, but I certainly think that probably does help. There is a limited number of major players. If you look at the rural research and development corporation infrastructure, they are all doing research cooperatively.

Ms ROXON—Some of their funding is through that, but they are actually a private organisation that the company separately invests in.

Ms Clarke—Yes. I think they have particularly well identified what some of their collective issues. It is probably because dairy has a strong market orientation in Victoria. There is a greater connect with the market, which then feeds back into their business strategy.

Ms ROXON—There must be something that is the catalyst if you say that, because it is a successful industry, they have been more successful at identifying their opportunities into the future, and it just keeps going. We are looking for whatever trigger there might be that you might be able to use in other areas.

Ms Clarke—I think it is connection to the market signals. Wine would be another example. There is some regulation but it underpins the quality systems of our wine production and the quality of the brands. Otherwise, it is that dealing direct with the customer.

Mr Macnamara—You referred to the catalyst a moment ago in relation to the wine industry. Industry across the spectrum, at a certain point, developed a strategic 2025 plan, for example, and that identified for each sector of the industry the value in cooperating right through the chain, at research and development levels and pre-competitive levels. There is very much a collaborative approach, even at very large company levels, to strategies down the track that will help Wine Australia. It was that acknowledgment that you needed to look at into the future—in this case 25 years—that produced that consolidation of approach to a whole raft of issues affecting our wine industry.

Ms Clarke—I think it is fair to say that, where some sectors may not have done so well, it is often because the producers are not receiving the market signals. The product goes on to a truck and they do not know where it goes. They are not understanding what the customer might want, or even who the customer is. That is not the case in dairy in the Victorian industry, and it is not the case in the wine industry.

Mr ALLAN MORRIS—But it is the case in wheat though.

Dr Samson—It may be a bit of a false view to think that the grains industry lags too far behind some of the other industries. In fact, over the last 10 years, in terms of productivity increases, the grains industry has averaged about 3.6 per cent per annum.

Mr ALLAN MORRIS—It is about value adding and not productivity.

Ms Clarke—It is.

Mr NAIRN—One of the ways in which the wine industry coped with the rush of export opportunities and various things was that there were huge plantings that went on a few years ago, and that was probably assisted through the accelerated depreciation, which you comment on in your paper. I guess there is some debate at the moment as to whether that has gone overboard or not. Three years ago I think people were saying that it had, but maybe there is a little bit of a reassessment on that because I think the export growth has been a lot faster than was predicted five years ago. However, do you think that that tax aspect now should be shifted away from the production end of it to the value adding end of it with regard to other infrastructure for the wine industry? Is that what you are suggesting in the paper?

CHAIR—You imply, in fact, that the accelerated depreciation provisions are now unhelpful.

Mr Macnamara—In the context of the very significant plantings in Australia, I think it would not be an unreasonable view that anything that assists the continuing planting of vines would aggravate the problem, if indeed there is a problem. That is just plain common sense. The wine grape growers sector is of the view that that concession should be removed. The wine producers are of the view that it should not be removed.

CHAIR—The people with the vines already in the ground want it taken away so that nobody else can—

Mr Macnamara—Basically that is the case. So at some point perhaps there has to be an impartial decision made in relation to that question.

Mr ALLAN MORRIS—I want to switch to grains now. I think wine has probably been covered. Your report deals with only bulk grain. We still sell the world's cheapest wheat. I know we have had a variety of changes to durum and some other things and that has been useful, but what about actually value adding? Exporting wheat as other products is not mentioned much in your report at all. Is there anything actually happening in that field? Are we looking at downstream processing of any kind that may allow our grain growers a wider market range than the bulk wheat market?

Dr Samson—There is quite a lot that is going on in that regard. I think perhaps the first point to make is that, as you would appreciate, wheat is not wheat is wheat. There are already quite considerable differentiations in the marketplace of the different grades, different qualities of wheat. In terms of value adding, quite a considerable amount of work has been done in using as a marketing tool the fact that Australia can guarantee regular supply of very precisely specified grains, and there is quite a powerful feedback loop with customers overseas. A lot of work is done. AWB International and the Grains Research and Development Corporation are increasingly going overseas, talking to customers, getting a very clear idea of what their precise specifications are and feeding that back into the system at one level into the wheat breeding program. So we now actually have in place wheat breeding programs that are specifically targeted at producing a wheat variety with a range of qualities that we know customers are looking for. As another example, the Grains Research and Development Corporation is working quite closely with food producers in Japan, as an example, talking about an end processed food product and what would be the best wheats with what properties to produce that.

Mr ALLAN MORRIS—Could you perhaps tell us some figures then. From recollection, in the old days according to the measurement FAQ, for average quality, the majority of our wheat used to be very moderate wheat in both price and quality. In the last 10 years, has there been a significant shift to specific types of wheat and to higher grades of wheat? Is that measured? Do you have any figures on that?

Dr Samson—I do not have those figures with me, but we could certainly get them for you.

Mr ALLAN MORRIS—It would be useful in the context of this report. Looking at your submission, that whole grain area does not have any of that material at all and it would be useful to have that. If I can perhaps go further. I take the point that, if you improve the quality, it is adding value. I am not denying that that varietal thing is important, but one can argue that there is grape juice and wine—the same as there is wheat and then wheat products. Wine is simply a grape juice product.

We were doing these case studies deliberately and we chose the areas deliberately in terms of perceived success and failure. We generally had perceived that grain had been a failure in terms of value adding whereas wine was a success and dairy was a bit of a mixed one at the time of our discussion a year or more ago. That perception of failure in grain is reinforced by your report not going into those kinds of areas. Can you give us some ideas, leaving aside the varietal thing—as I have said, we have seen some stuff on that—of wheat products that may add value. Using our green and clean advantage and using our quality potential, what aspects of grain are there that we can pick up on? I am unfamiliar with the potential. I mentioned chicken earlier, because that is one obvious one, but there must be grain products. I suppose muesli bars are another. We are seeing that happening a bit.

Ms Clarke—I think the grains market will mirror what has happened in some other markets. They will tend to fragment over time because customers will be looking for attributes that will make it more attractive to their own consumers. It is worth thinking about issues like nutrition and increasing the nutritional value of the range of grains that we grow. You can think about functionality, like the processability of particular grains.

Mr ALLAN MORRIS—You are talking about exporting the whole grain; I am talking about exporting the grain as something else such as muesli bars so we actually use the grain to add value so we generate the economic value here rather than offshore.

Ms Clarke—We are seeing some examples. Pasta would be a good example.

Mr ALLAN MORRIS—Pasta is one example—the durum wheat stuff. We are exporting some sweets, I think we are now exporting muesli bars that are designed for the market taste in the target countries. Is there a rundown available on what other things are being looked at, because we have not had much about that at all?

Ms Clarke—Some of the statutory marketing arrangements for grains have been a little bit problematic in terms of limiting the market signals back. Trade barriers are going to be a problem as well. You can see what the Australian Wheat Board has done in terms of purchasing flour mills offshore—

Mr ALLAN MORRIS—We are trying to find out what those issues are to see whether or not the perceived failure of grain is a structural failure or a failure on our part as a country in not understanding it well enough. We have succeeded with grapes and we have succeeded in other areas. What is the problem with grain? Is it that there are external factors or is it that our grain industry has not been as innovative, perceptive or whatever? We are trying to understand why. The lessons we learnt from other areas may be applied to grain. At the moment I am certainly not well equipped to make comments on that in terms of forward projections or suggestions.

Ms Clarke—No. I presume that is something on which we can provide some further information. There are a couple of issues there. Some of them will be market access barriers in the region where we have simply had to do the further processing behind the barrier just to secure the market. That will be one of the issues. I think some of the marketing arrangements that have been in place in the grains industry have meant that the market signals have not flowed as well as they might.

Dr Samson—I think the point you make is right. As Ms Clarke said, you have a 60-year history of grain being marketed in a certain way as a bulk commodity. I think inevitably that will produce a lag in perhaps developing some of these more innovative value adding elements.

Mr ALLAN MORRIS—We understand that. I guess we are trying to understand it better so we can advise the parliament of ways we might move forward.

Dr Samson—We will certainly provide as much as we can.

Mr ALLAN MORRIS—Thank you.

Mr CAMERON THOMPSON—I also read a comment in there about the potential the Internet would have. By way of example, an amazing thing is occurring at the flower auctions in Brisbane. They use a Dutch auction system at the flower auctions in Brisbane, and a group there now has that on the Internet. So people are bidding not only from the floor but also from Townsville and the Gold Coast, and soon they are going to have it from overseas as well. It is great, because they widen the flower markets and those sorts of things, but the advantage for the people who sell their flowers is that, unlike any other process, this gives them all this feedback about the bidders. They know everyone who bid, at what prices, on what varieties and they can get a report back on this after every sale. The potential for them is just massive.

You are talking about a bunch of computer nerds—that is being a bit rude to them. They have come around to see me and I would not call them great marketers, but it is hard to get these sorts of points across. So what is being done to promote this sort of thing? This is something that could go on. The fish market in Sydney and other places like that have this kind of thing, but they do not have that tail of the feedback that you get. What is being done by AFFA to get this kind of point across?

Ms Clarke—The use of the Internet is an interesting issue. I went to the Netherlands last year, and the Dutch fruit and flower auction system is actually dying.

Mr CAMERON THOMPSON—It is dodgy, compared with this. They have been and studied those ones, and the feedback is all so slow. It takes forever.

Ms Clarke—You see this in fruit markets as well as flower markets; and a lot of flowers are sold through supermarkets, for example, in Europe. The major customers are now wanting to deal directly with the growers, so the auction systems are actually being cut out. You can see a similar situation with fruit and vegetable markets, and there is an interesting issue about what their place in the market will be down the track. The signals from the customer back to the grower are not often there. You take your stuff to an auction system and it is sold, and you are often not in direct contact.

There has been a lot of emphasis on e-commerce as a selling platform but we would question—given the shifts in the market, the importance of strategic relationships and the networks between growers or processors and the actual customer, that link being a very strategic and a partnership approach—whether the e-commerce selling platform is going to be a real opportunity. It is going to be more in business to business relationships and creating the information flows between the customer and the producer. So if you are selling fruit and vegetables into supermarkets, the supermarkets can tell you exactly how your products are moving and that is going straight back to the growers, so you get instant replenishment, you get instant signals about which lines are dying and you can address those sorts of issues. That has not been the trend, but that is where we really need to make the push.

Through our food and fibre supply chain program and our new industries development program, we have funded a large number of projects where we are really pushing that issue about the direct relationship with the customer. You need to be in a true partnership and the information needs to be shared backwards and forwards, and then you get the innovation moving along the chain and there is a commitment to that relationship so you get a much more long-term relationship. That is where many of these markets are moving, whether grains,

horticulture or processed food. So that kind of auction concept may have a small place, but whether it remains the major sort of selling platform is highly questionable.

Mr CAMERON THOMPSON—I was really on about the Internet, as well. What is being done within AFFA to get people across to the idea of using the Net?

Ms Clarke—It is the same issue. It is using the Internet as a selling platform or using the technology to manage your relationships along the chain. The Internet as the selling platform, I suppose, is the business to consumer link. We think the biggest opportunities are in the business to business link.

Mr ALLAN MORRIS—A grower can walk around his fields showing a buyer the actual product.

Ms Clarke—The instant transmission of pictures and information and when products are ripe for picking and those sorts of things—that sort of technology will be extremely important. The National Office for the Information Economy does a lot of case studies. They have done some food case studies on how the Internet, or e-commerce more broadly, can be used to promote your market position. It will be one of the issues that we address in our national food industry strategy. What do we need to do in terms of e-commerce and access to the Internet to get information for people in regional areas? Do they have the skills? All those sorts of issues need to be addressed.

Mr ALLAN MORRIS—The question I want to ask you is probably the most difficult one that we face as a committee, and it deals with genetic modification, GMOs. On one hand we have got the clean, green image running very powerfully—even more powerfully in recent months, having regard to what is happening in Europe. I think more of that will come, to be honest. Looking across the world at the disease scene, whether it be in human disease or in animal or plant disease—there is the use of antibiotics and other issues—there seem to be mutating bacterial viruses all over the place. On one hand we are being told by the scientists that unless we get into genetic modification we are going to be left behind in the world, and on the other hand we are being told by a lot of marketers that if we touch that stuff at all we destroy the credibility of our clean, green image. Both have validity, to some degree, but you cannot have a bit of it. If you go into GMOs at all, you are going to be seen as going into it fully; you cannot touch a bit of it and not have it spread. Is there an official departmental position on this? Where are you up to in your evaluations of it? It may vary from section to section. If you do it in one area, in grains, it is going to affect wines. It is not something you can contain in a particular part. Is there a departmental response at the moment?

Mr Pearson—The line at the moment is that, in many cases, the jury is still out. The department is trying to position the information and the understanding to give people the choice with respect to that information—whether they go GM or not. As of the last budget, we are embarking on a three-year program to look at the costs and benefits associated with product identification and product segregation, GM, non-GM—all of the different possibilities that are there. What would be the costs in terms of markets, the segregation requirements and all of these elements, and also what would be the benefits? We have just started on that. The first scoping part of that consultancy is due to report at the end of April.

I think it is going to take us a couple of years to really try and understand, because at the moment many other countries, both in terms of their consumption of GM and non-GM product and in terms of the production of GM and non-GM product provide a very mixed picture. If you look at Europe, there is a great deal of resistance there. Supermarkets such as Sainsburys have said they are not going to touch it. In the United States there is a massive amount of GM product being grown. It is not, in a formal sense, highly segregated from the non-GM. We had the incident of the Starlink corn earlier this year in the United States. That was a move across from non-human consumption to the human consumption chain. It was not a problem within the non-human consumption chain, but it highlights some of the potential issues surrounding product identification and segregation.

In Latin America, vast amounts of soya beans are being grown that are GM. Argentina is a major producer of GM canola. It is very difficult to say that we should definitely go one way or the other. What we are trying to do is to facilitate the capacity for Australia to go one way or the other, as things become clearer. In the meantime, we are trying to do this balance of not imposing, for example, a moratorium nationally on GM field trials and research because of the problems that may come five years down the track. If we have had this moratorium in and it comes out that this is really the way to go, we are five years behind the rest of the world. Europe may not be doing lots of production, but there is an awful lot of investment. We are aware of an awful lot of investment in Germany, for example, in the big agricultural producers there.

There is that side of it. What the department has therefore been focusing on individually is support of the national biotechnology strategy, which has a number of elements, to try to manage and understand biotechnology, including genetic modification. We have this large-scale project that we are embarking on. We have been very much involved in the new regulatory regime; the national regulatory regime for dealing with genetically modified organisms. It was just passed at the end of last year. That is about to come on stream.

There will be continuing debate about the place of genetically modified as opposed to non-GM product. At the moment, Australia already has a number of GM crops. Cotton is the main GM crop and there are also carnations. The area of cereals is going to be something that we are very aware that we need to look at. How we finally treat that we have not taken a position on yet, but we are trying to make sure we assemble the information so that any decisions are well informed.

Mr ALLAN MORRIS—And well thought through.

CHAIR—Thank you for that.

Resolved (on motion by **Mr Morris**):

That, pursuant to the power conferred by paragraph (o) of sessional order 28B, this committee authorises publication of the evidence given before it at public hearing this day including the publication of the proof transcript on the electronic parliamentary database.

Committee adjourned at 12.53 p.m.