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Dear Committee Members

Letter to House Standing Committee on Economics - *Kraft Foods Submission Regarding the Food Standards Amendment (Truth in Labelling – Palm Oil) Bill 2011*

Kraft Foods Australia wishes to note our objection to this Bill as it is currently framed. We are pleased that it has been referred to the Standing Committee on Economics, as it is the uncosted elements of the proposed legislation which are of greatest concern, and which present a significant cost impact to our Australian manufacturing base.

We would welcome an invitation to appear before the Committee during its hearings, and would be pleased to confidentially provide further information which the Committee might reasonably seek to support the arguments in this submission.

Cost Implications

Currently, Kraft Foods uses trace amounts of palm oil across a broad range of its products, predominantly in its Cadbury confectionary range. In these products, palm oil would be challenging to replace while maintaining the taste, structure and stability of our products.

From our perspective, the passage of this Bill would present costs in four areas;

1. It would have the direct (and intended) cost of requiring us to change each of our labels. While some may imagine that this is a minor expense, the reality is that it represents a minimum cost per product of A$5,000-$8000, across a current range of 1200 product types.

2. Given our expectation that Kraft Foods key regional export markets of Singapore, Malaysia and Indonesia would be unlikely to pass legislation matching this Bill – or would be friendly to the emphasis on palm oil – we would also require a duplicate set of labels for our exports. This is not only an additional direct cost, but requires new factory systems and logistics management programs to deal with alternative labelling. Kraft has invested substantially in the development of multi-market compliant labelling over recent years, and this would require us to completely revise our current arrangements;

3. We expect that there may be some effect on consumer demand for products which contain even negligible amounts of palm oil, which would require us to refocus our

research and development team toward reformulation of current products. Kraft Foods is the largest food R&D investor in Australia, and this Bill would divert precious R&D investment away from both new product developments and "better for you" consumer choices.

While we appreciate that the motives of Senator Xenophon in proposing this Bill are well-meaning, they present significant expenses to private sector operators, at whatever time such legislation might come into effect.

Sustainable Palm Oil

Kraft Foods supports the Round Table on Sustainable Palm Oil and is a substantial sponsor of sustainable palm oil production, through our sourcing of the product. This sits in parallel with other commitments to environmental and economic justice, such as our commitment to the use Fairtrade cocoa, and Rainforest Alliance coffee.

We acknowledge that the capacity to obtain 100% sustainable palm oil is a few years away, but this is the goal of the RSPO initiative, and one which we are confident of reaching.

This Bill places a pejorative cast on all palm oil production and use, which will be the rallying cry of extreme anti-agriculture campaigners. This devalues the importance of sustainable palm oil, which will have economic effects for its producers.

The RSPO is a prime example of food producers, in concert with processors, retailers and NGOs such as the World Wildlife Fund, finding and financing a solution to an environmental issue. The very presence of the WWF – one of the oldest, most scientific and most authentically effective environment groups – should be evidence of the quality of this initiative.

The introduction of capricious legislation to address the same issue critically undermines and crowds out such initiatives. While we acknowledge the authority of the Australian Parliament to make such legislation, we would suggest that some consideration might be given to the responsibility of industry, and the investment it has already made in this challenge.

Operating Environment and Uncertainty

Currently, Australia is an increasingly difficult country in which to invest for food production. The Australian dollar makes capital expenditure for a multinational challenging, and cheaper offshore production of generic products is making inroads into our markets – again assisted by currency differentials.

Added to this, Kraft faces two significant corporate challenges. First, we operate a significant part of our manufacturing operations in Tasmania, which is expensive, particularly given the recent loss of international shipping to the Island.

And second, our Australian operations compete – for both the Australian and our regional export markets – with Kraft/Cadbury plants elsewhere in the world. This Bill (and others proposed) present Australia as a high-risk operating environment, facing a multitude of unquantified costs via proposed advertising restrictions, ingredient restrictions and broader marketing threats such as the Blewett Inquiry recommendations.

We would urge the Committee and the Parliament to focus on the real costs of this type of legislative gesture, including the attractiveness of Australia as a continuing manufacturing destination.

Further, while there is a prospect that the Blewett Inquiry may lead to a broader set of mandatory changes to food product labelling, we hope the Committee will consider the implications of two out-of-phase legislative imposts.

Requests
Kraft would make three requests to the Committee for recommendation:

1. That it seek to accurately and comprehensively cost the impact of this Bill, both directly and in terms of Australia as an investment target;

2. That if – as we expect – it recognises that the costs of this Bill are radical, and detrimental to future Australian production/reputation, it recommend rejection of the Bill; and,

3. If the Committee feels that the Bill might pass in some form, that it permits a threshold for trace ingredients of palm oil. Kraft would suggest that this threshold might reasonably be 5% of palm oil by volume of vegetable oil in any given product.

While we would strongly prefer that Bill such as this are rejected as inconsistent with good industry policy, we note that the cost impact of the Bill for Kraft Foods would be substantially ameliorated via the inclusion of a threshold figure as noted above.

This would in no way compromise the broader goal of the Bill to require the primary use of palm oil to be listed as such, rather than under the generic 'vegetable oil'. However, where it is a small minority component within an oil blend, we would argue that there is little benefit in singling it out.

Thank you for the opportunity to make this submission.

Sincerely,

Simon Talbot
Director - Kraft Foods Corporate Affairs Australia/New Zealand