

9 June 1999
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I have attached a brief submission by Goodman Fielder Limited to the 'Inquiry into increasing value adding to Australia's raw materials' convened by Minister for Industry, Science and Resources, Senator Nick Minchin.

Goodman Fielder would be pleased to provide any further information in support of its submission or to participate in public hearings on this matter by the House of Representatives Standing Committee on Industry, Science and Resources.

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Attachment 1

Submission to the Productivity Commission Inquiry into the
Impact of Competition Policy Reforms on Rural and Regional Australia r

Attachment 2 [not reproduced]

Flow Chart- Integrated Supply Chain

Attachment 3 [not reproduced]

Speech - Agribusiness and the Consumer

Attachment 4 [not reproduced]

Presentation - Strategies for Product Innovation

1. INTRODUCTION

As the largest Australasian food company, Goodman Fielder Limited buys, processes and value adds significant quantities of Australian agricultural commodities into finished consumer products.

Goodman Fielder therefore has a direct interest in the proceedings of the Inquiry into increasing value adding to Australia's raw materials by the House of Representatives Standing Committee on Industry, Science and Resources.

The following submission to the Inquiry provides background on Goodman Fielder and its involvement in the processing and value adding of Australia's agricultural commodities, and its contribution to product innovation in the food industry.

The submission also touches on some of the broader terms of reference of the Inquiry.

2. BACKGROUND

Goodman Fielder Limited is Australasia's largest food company. It is one of the top 50 Australian listed companies ranked in terms of market capitalisation, with sales of just over \$3 billion worldwide in 1998.

The core businesses of Goodman Fielder include: milling & baking, edible oils and cereals & snacks. Other businesses include poultry production and food ingredients. The company exports over \$100 million of food products each year, mainly within the Asian Pacific region.

Well known brands within the Goodman Fielder stable include: Wonderwhite, Buttercup, Molenberg, Vogel's, Sunicrust, Country Bake and Helgals bread, Uncle Tobys cereals and snack food bars, Meadow Lea, GoldIn Canola and Praise margarines and dressings, White Wings cakes, Vetta pasta, and Pampas pastry products.

Goodman Fielder is the biggest domestic buyer and processor of Australian grains and oil seeds. In all, the company processes 1.9 million tonnes of grain and 350,000 tonnes of edible oil each year - valued at over \$600 million a year. Of this total, it acquires 1.6 million tonnes of wheat and other grains and about 240,000 tonnes of edible oil in Australia and New Zealand each year.

Goodman Fielder buys raw materials from farmers, their representative bodies or agribusiness companies but is vertically integrated between the farm paddock and the supermarket in that it mills or refine raw materials and then transforms that material into finished product.

The company has 87 manufacturing sites in Australia and a further 30 manufacturing sites in New Zealand. It has manufacturing operations in every State and significant regional operations in towns such as Newcastle, Tamworth and Wagga Wagga in NSW, Wahgunyah in Victoria and Beaudesert in Queensland.

The agrifood industry in Australia is a major income and export earner. In '1995-96, the agrifood industry generated over \$63.3 billion in turnover and exports of nearly \$15 billion. Processed food represented 20 per cent of both turnover and exports.

3. COMPETITIVENESS

In a low inflation environment, mature industries such as raw materials processing, must be cost competitive if they are to compete against imports and successfully export finished products into international markets.

This means that processing companies must have access to low cost raw materials and other inputs into the production and distribution process, including power and water, -packaging, labour and transport.

Food manufacturers are dependent on a healthy and competitive grains industry in Australia. As such, we strongly support submissions by the National Farmers Federation and the Grains Council of Australia to the Federal Government seeking ongoing economic and taxation reforms.

In this context, Goodman Fielder has supported the privatisation of the Australian Wheat Board and liberalisation of statutory grain marketing arrangements. However, we believe that further liberalisation of grain marketing arrangements is required.

Peter Flottmann, National Agribusiness Manager at Goodman Fielder Shared Services, which is responsible for our commodity purchasing, lodged a submission with the Productivity Commission Inquiry into the Impact of Competition Policy Reforms on Rural and Regional Australia in December 1998 supporting further reforms (copy attached).

The submission highlights ongoing distortions in marketing arrangements which result in inefficiencies and higher costs for domestic food manufacturers and consumers, including:

- statutory marketing arrangements, including the single desk and grain pooling activities, and the translation effects of foreign exchange dealings, create price lags which distort market signals to domestic food manufacturers;
- while there is increasing horizontal competition in the supply chain, manufacturers are still largely captive buyers from State-based bulk handlers, who seek to extract monopoly rents;
- grain handling infrastructure (storage, rail and port facilities) is over-capitalised and in many cases redundant. This results in cross subsidies that are largely paid for by rural users, domestic food manufacturers and ultimately consumers;
- the ongoing dominance of grain stock holding by statutory grain handling authorities artificially tightens supply, increasing supply risk and prices to domestic food manufacturers and consumers.

Goodman Fielder also spends over \$200 million each year on logistics (transport and warehousing). It owns or operates over 650 vehicles and moves 127,000 tonnes in freight each month. It also stores about 125,000 pallets in 70 warehouses around the country.

Internal company moves to reform our supply chain and improve supplier and customer relationships will result in increased synergies and lower costs. Collaborative supply chain management is critical in reducing costs (chart prepared by Ingilby Dickson, the Logistics Director at Goodman Fielder Shared Services, highlights the essential linkages in the food industry supply chain). Chart not reproduced.

Goodman Fielder also strongly supports Government initiatives to remove supply chain impediments and reduce transport and infrastructure costs through such projects as Supermarket to Asia.

However, significant cost penalties remain, particularly at a State level, where road transport weight restrictions do not allow efficient transport of raw materials or finished product. Federal-State collaboration is required to resolve this problem.

Industrial relations reform and reduction of on-costs remains important. For example, workers compensation premiums in State-based insurance schemes, particularly in Queensland and NSW, are imposing increasing

costs on employers despite significant improvements in workplace safety. It is also disappointing that the New Tax System (ANTs) for Australia did not include moves to abolish payroll tax.

2. QUALITY ASSURANCE

Quality assurance is critical for the successful growth of the domestic food processing industry. A speech by the Supply Director of Goodman Fielder Shared Services, Mr Rodney Hit], to the Agribusiness Association in July last year which touches on this important issue is attached.

Consumers are increasingly concerned about the source of their food. Recent food safety scares has made it a top of mind issue for consumers, who now demand reassurance that their food is safe. It is an issue that the entire agribusiness chain must come to grips with.

Quality assurance programs have become a fact of life. Where just a few years ago they may have provided a competitive edge and an advantage, they are now non-negotiable. Further they are now recognised as an on going part of the process of improvement.

Goodman Fielder is involved in a number of initiatives both at industry and company level to ensure we have the appropriate linkages and audit trails on all the inputs we use, from farm gate right through our production processes to delivery of a finished product.

For example, our flour mills and bakeries have already implemented HACCP procedures at plant level. As a participant of the Quality Wheat CRC, we are also working to develop HACCP programmes for on farm storage.

This is an area which will be critical for the industry as we ask growers to adopt processes on farm that are consistent with and complementary to the rest of the supply chain. It will be those growers who take the initiative in this area that will benefit most, as we expect to see an expansion and increasing maturity in this part of the market place.

Other initiatives include ACAS (the Australian Crop Accreditation System), looking at providing accredited information on new grain varieties and the recently established Quality Farms Australia programme.

The whole issue of quality assurance and food safety is one of the main reasons that Goodman Fielder recently introduced a Trust Mark, which is already on a number of our products and will eventually appear on the consumer panel of every product we produce.

Our Trust Mark supports our promise of Good Food Guaranteed and is a tangible sign to our customers that we are committed to producing food of the highest quality - nutritious, good tasting and safe.

These and many other programmes are helping to position the industry to deal with the increasing focus on food safety levels as well as taking the marketing initiative. Government support for such initiatives, particularly amongst small and medium sized enterprises is critical to ensuring supply chain integrity.

3. RESEARCH & DEVELOPMENT

Product innovation in mature industries such as food processing is as important as innovation in high technology or telecommunications industries. Indeed it can create sustainable competitive advantages and new industries.

Successful product innovation however requires a strong commitment to long term research and development. The attached speech by the Managing Director of the Goodman Fielder Commercial Group, Mr Doug McKay, highlights some of the Goodman Fielder achievements.

Goodman Fielder spends over \$27 million a year on research and development and operates 25 research centres around the world. These centres have a number of different specialities, ranging from the development of baking and ingredient products to the sensory attributes of food.

The company also has a research advisory board, which meets twice a year. This board has six members, two internal and four external. The external members include two CSIRO representatives, as well as a Director General of a food research body in the UK and a former general foods executive from the US. This board allows us to tap into external knowledge, as well as provide a reality check on our own operations.

Universities and government bodies are an extremely important link. Goodman Fielder works closely with the CSIRO and we participate in a number of Co-operative Research Centres which bring together researchers from universities, the public sector and business to develop new technologies.

The success of Meadow Lea's Gold'n Canola range highlights the importance of research and development of upstream raw material industries in Australia.

In the mid 1980s, it was becoming increasingly apparent that consumers were starting to perceive the difference between "good" fats and "bad" fats. Consumption was starting to decline after years of steady growth.

In response to this trend, Meadow Lea initiated a research program with the CSIRO to understand the role of fat in health and nutrition. It became apparent that a number of oilseeds, particularly canola, offered health properties that could be beneficial to consumers. Research showed that consumers would respond to this healthy fats innovation, and would be prepared to pay for a value-added product.

Goodman Fielder encouraged consumers to use canola, which in turn encouraged farmers to grow it and with the Grains Research Development Corporation, we matched research funds dollar for dollar.

The result has been a very successful product range for the company, and a brand new oil seeds industry for Australia. The canola industry has grown from virtually nothing 15 years ago to 1.5 million tonnes per annum. Meadow Lea also effectively created a whole new category with sales of canola based oils and spreads of more than \$35 million per annum. Gold'n Canola is now the third largest selling margarine brand.

Successful product innovation such as this would not have been possible without Government assistance, both through taxation incentives for company expenditure on R&D, and Government support for organisations such as CSIRO and the CRCs.

Goodman Fielder therefore strongly supports recent Government initiatives to promote research and development in the May Budget. However, survey figures by the Australian Bureau of Statistics show that company R&D has fallen following the decision to reduce the taxation incentive for corporate R&D from 150 per cent to 125 per cent.

Mature industries such as food processing do not qualify or benefit from many of the new R&D programs announced by the Federal Government which are targeted at the high technology sector. Goodman Fielder therefore strongly urges the Federal Government to reconsider its decision to reduce taxation incentive for corporate R&D expenditure.

4. CONCLUSIONS & RECOMMENDATIONS

This submission highlights the important role that value adding of Australia's agricultural commodities plays in the Australian economy, and the benefits for industry and consumers of a successful, highly competitive food processing industry.

Goodman Fielder has focussed on three critical areas which will affect future development of value adding industries, such as food processing, in Australia:

- improved competitiveness through economic and taxation reform;
- consumer certainty and marketing through improved quality assurance; and
- product innovation through continued reliance on long term research & development

There are impediments to growth in each of these areas that Governments, both Federal and State, need to address through collaborative action.

There are also opportunities for Governments to provide targeted assistance, such as research and development incentives, for food processing industries.

Goodman Fielder would be pleased to provide further information to the Committee to assist in its inquiry into value adding Australia's raw materials.

Reforms on Rural and regional Australia Submission to the Productivity Commission/ Impact of Competition Policy Reforms on Rural and Regional Australia.

Scope of this Submission:

Our area of interest is the impact of national competition policy relating to grain marketing functions both for export and domestic markets and supporting industries, particularly with reference to contestability of markets and cost efficiencies in infrastructure.

1) Summary:

Goodman Fielder (GF) supports the National Competition review process

GF has supported the privatisation of the AWB (now AWB Ltd) and the further liberalisation of statutory marketing arrangements consistent with Australia's participation in WTO negotiations for further international trade liberalisation

GF believes that a number of benefits can be achieved for both consumers and producers through the promotion of open markets and therefore competition in rural Australia in the grains sector including:

- a) improved price transparency/price signals to growers (allows for greater responsiveness to the market)
- b) improved opportunities to manage price risk
- c) a reduction in the cost base of infrastructure and services off farm (storage and freight) with a consequent increased incentive for investment
- d) greater opportunities for value adding and flow on effects into the broader economy.

2)Overview of Goodman Fielder:

Goodman Fielder is an Australian owned food company and the largest user and processor of cereal grains in the country. Our consumption of wheat alone across our milling and baking, starch, cereals and snacks and poultry divisions exceeds 850,000 tonnes per annum in Australia. With the recent acquisition of Bunge/Defiance Milling and Baking Division this demand will now exceed 1.25 million tonnes annually. Importantly GI? is also an exporter of bulk wheat to our offshore operations in PNG, Solomon Islands, Fiji, Noumea and New Zealand accounting for a further 350,000 tonnes p.a. The management of commodity costs and risk associated with commodity inputs is clearly a major area of focus. As part of the process of positioning ourselves to participate in the global economy Goodman Fielder has undergone significant change over the past 2years including a rationalisation of operations in all business units and a refocussing on our core businesses within Australasia. We have also proactively sought out group synergies to leverage market opportunities for our business. Against that background Goodman Fielder clearly has a major role to play and has a significant relationship with one of the key rural industries in Australia.

3)Current Operating Environment:

The current structure of the Australian grain markets and the lack of contestability in a number of areas not only impacts on market behaviour (and our response to it) but the opportunity for future growth and international competitiveness for all participants..

GF's position is one of a large commodity consumer in a relatively small domestic market. This raises issues of management of price risk/transfer, supply and quality assurance.

These issues albeit on a smaller scale are the same ones faced by grain growers across Australia as suppliers to the market.

The grain marketing environment can be summarised as follows:

- a range of statutory marketing arrangements by state and national arrangements for the AWB impacting on the market with price "lags" through pooling activities and translation effects of foreign exchange.
- State based service providers who have limited incentives to provide differentiation of service to users (captive markets).
- Infrastructure (storage, rail, port facilities) that is over capitalised in most states and in many cases redundant to market needs. This results directly in many rural areas subsidising a higher cost base than is necessary.

A lack of vertical integration through supply chains

Market continues to maintain an adversarial relationship in many cases between supplier and consumer.

Increasing level of activity /competition within horizontal levels of the supply chain but a market behaviour which still seeks to extract monopoly rents eg state based bulk handlers.

Significant price and supply risk exposure for consumers and producers through stockholding of grain by statutory authorities artificially tightening supply.

4)Issues of competition and contestability:

From a commercial standpoint a restriction on competition within the grains industry has major impacts along the supply chain right back to farm gate.

In terms of contestability we believe that it is erroneous for statutory marketing authorities to seek a retention of single desk grain marketing arrangements based on a "community welfare" benefit from export activities This argument largely ignores the implications of regulation on value adding industries within

Australia (regional and urban). Further, a true assessment of contestability becomes subjective in the absence of the opportunity to have any effective competition against such marketing arrangements.

In this case we would contend the definition of community value has been confined to grain producers rather than the broader economy.

5) Conclusion

Competition must be encouraged within all sectors of the community but particularly in rural and regional Australia to allow appropriate rationalisation and reinvestment to occur to support a grains industry into the next millenium. .

Grain producers will increasingly need to be proactive marketers of their product as differentiation and market sophistication increases. They will need to seek out alliances and negotiate their place in relevant supply chains to ensure future profitability.

Consumers will need to have a commodity cost base that is understood/ well managed and efficient to maintain competitiveness both locally and internationally.

Peter Flottmann
Group Manager Agribusiness
Goodman Fielder
8th December 1998