



AUSTRALIAN
FOOD AND GROCERY
COUNCIL

SUBMISSION

TO THE SENATE SELECT COMMITTEE ON FUEL AND ENERGY

23 July 2009

PREFACE

Australian Food and Grocery Council (AFGC) is the peak national organisation representing Australia's food, drink and grocery manufacturing industry.

The membership of AFGC comprises more than 150 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the processed food, beverage and grocery products sectors (a list of members is included as Appendix A). AFGC represents the nation's largest manufacturing sector. By any measure our members are substantial contributors to the economic and social welfare of all Australians. Effectively, the products of AFGC's member companies reach every Australian household.

The industry has annual sales and service income in excess of \$70 billion and employs more than 200 000 people – almost one in five of the nation's manufacturing workforce. Of all Australians working in the industry, half are based in rural and regional Australia, and the food manufacturing sector sources more than 90 per cent of its ingredients from Australian agriculture.

AFGC's agenda for business growth centres on public and industry policy for a socioeconomic environment conducive to international competitiveness, investment, innovation, employment growth and profitability.

AFGC's mandate in representing member companies is to ensure a cohesive and credible voice for the industry, to advance policies and manage issues relevant to the industry enabling member companies to grow their businesses in a socially responsible manner.

The Council advocates business matters, public policy and consumer-related issues on behalf of a dynamic and rapidly changing industry operating in an increasing globalised economy. As global economic and trade developments continue to test the competitiveness of Australian industry, transnational businesses are under increasing pressure to justify Australia as a strategic location for corporate production, irrespective of whether they are Australian or foreign owned. In an increasingly globalised economy, the ability of companies to internationalise their operations is as significant as their ability to trade globally.

Increased trade, rationalisation and consolidation of businesses, increased concentration of ownership among both manufacturers and retailers, intensified competition and dynamic, increasingly complex and demanding consumers are features of the industry across the globe. Moreover, the growing global middle class of consumers is more sophisticated and discerning, driving innovation and differentiation of products and services.

AFGC is working with governments in taking a proactive approach to public policy to enable businesses to tackle the threats and grasp the dual opportunities of globalisation and changing consumer demands.

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1 EXECUTIVE SUMMARY

AFGC supports the objective of the Carbon Pollution Reduction Scheme (CPRS) and agrees Australia should become more energy efficient and reduce emissions. The issue for the industry is by how much, by what means and at what cost to the economy. Current Government modelling has not sufficiently considered the impacts of the CPRS on the food and grocery sector and its products. Specifically, the industry is not necessarily emissions intensive but is trade exposed and there is a real potential for negative consequences of the food and grocery industry becoming less globally competitive in terms of jobs and investment.

While there is to date insufficient data to determine the specific rise of fuel and energy prices within the supply chain, it is clear there will be an increase. The question is how much and to what extent the increases can be minimised by any assistance measures. Due to the range of sectors and the varying commercial arrangements within the food and grocery sector, it is also unclear whether and to what extent the increase in costs will be able to be passed on through the supply chain and how this will be represented in an increase in retail prices. The increase in costs will mean manufacturing products in Australia become more expensive. As costs of domestic production rise and the cost of imports does not, the pressure on local manufacturers to keep innovating and investing locally diminishes. The end result of this is undoubtedly a reduction in employment in sites, many of which are in rural and regional Australia.

There are a multitude of commercial arrangements that exist between retailers and manufacturers and their individual suppliers. AFGC's view is that as a result of the proposed CPRS there will be a mix of absorbing emission costs and passing them through to consumers but that prices will increase to the consumer by a tangible amount.

AFGC believes the greatest reduction in carbon emissions is to be found along the supply chain by working directly with partners using innovative technology and improving efficiencies. The industry recognises the importance of a collaborative approach across the extended supply chain, with manufacturers and retailers taking a leadership role to educate and influence upstream and downstream supply chain constituents.

Notwithstanding the clear success of the industry, it is facing significant challenges threatening its competitiveness and profitability *viz*: the real impacts of climate change; volatile input costs (energy, transport and raw materials); costly regulatory interventions and the economic downturn. All have the potential to undermine Australia as a manufacturing base, leading companies to consider alternative locations overseas. The additional impost of an increase in energy prices, when our key competitors will not have such a cost placed on them, will compound the already difficult challenge of maintaining a viable food and grocery manufacturing industry in Australia.

2 INDUSTRY ENERGY USE AND IMPACT ON PRICES

Australian Food and Grocery Council (AFGC) welcomes the opportunity to make a submission to the Senate Select Committee on Fuel and Energy into the impact of higher energy and fuel prices.

The membership of AFGC comprises more than 150 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the processed food, beverage and grocery products sectors. By any measure, AFGC members are substantial contributors to the economic and social welfare of all Australians.

The industry has annual sales and service income in excess of \$70 billion and employs more than 200 000 people – almost one in five of the nation's manufacturing workforce. Of all Australians working in the industry, half are based in rural and regional Australia, and the food manufacturing sector sources more than 90 per cent of its ingredients from Australian agriculture.

The approximate annual energy consumed by AFGC members throughout 2007/08 totalled approximately 360 million kw/h. Assuming an increase in energy prices of approximately 20 per cent, AFGC member companies alone could incur additional costs of up \$12 million annually.

The energy used by AFGC members resulted in a total annual greenhouse gas emissions profile of approximately 12,000 kilo-tonnes CO₂-e. This is equivalent to approximately 2.4 per cent of Australia's total greenhouse gas emissions in 2007. To provide an indicative insight into the additional costs that industry may have to incur, if a flat carbon price of \$10 per tonne was applied through the supply chain, it would cost AFGC members alone approximately \$120 million in the first year. This does not include the additional pass through costs that are expected to flow on from individual components of the supply chain; including farmers, transport providers, packaging manufacturers and retailers.

In the absence of a similar cost in other producing countries, the ability of Australian food and grocery companies to competitively supply both the domestic and exports markets would be significantly diminished.

To provide a level of scope of the operations of Australian food and beverage manufacturers, AFGC members are represented in over twenty of the Australian and New Zealand Standard Industrial Classification System (ANZSIC) sector definitions. Every one of these sectors and the companies that operate in them will be affected by the rise of energy prices to varying degrees. Although it is clear there will be an increase in both energy costs and other input costs, the actual increase will largely depend on individual supply arrangements in place. Notwithstanding this, as the above indicative data suggests, the proposed CPRS will impact on the competitiveness of Australian manufactured goods and on the prices of Australian goods on supermarket shelves. It is estimated that the cost of the proposed CPRS will translate to increases to the price of Australian food and groceries of approximately 5%.

The government White Paper suggests costs to the community will increase by approximately 1% based on household energy consumption for heating/cooling etc. It does not take into consideration the flow of costs through the supply chain, where increased prices will be incurred at every stage and ultimately born by the consumer on everyday essential items like bread, milk and sugar. The government White Paper suggests households will incur an average increase in spending of \$6 per week on household fuels,

but provides little detail on the increase in spending on community staples such as food and beverages. This is of some concern as Australian Bureau of Statistics figures indicate food and beverage spend represents approximately 20% of the averages weekly spend, whereas energy represents only approximately 3% of household expenditure.

2.1 IMPACT OF RETAILERS ON FOOD PRICES

Developments in the Australian food and grocery retail sector have placed continuous and high level pressure on food and grocery manufacturers to improve efficiencies and maintain the profitability of their businesses. Undoubtedly in a market among the most concentrated in the world, the market power of the retailers and wholesalers has increased. Suppliers seeking to have competitive economies of scale have been required to expand business relationship with all major retailers and wholesalers in order to achieve efficiencies. The impact of an emissions cost is expected to result in increased costs to retailers as well as manufacturers. There is a level of expectation that retailers will look to pass some of the carbon costs down the supply chain to suppliers possibly further exacerbating the impact for the sector.

Given the nature of the Australian retail market where prices are highly visible, consumers remain well placed to take advantage of final price differences and alternative product sources.

2.2 ADOPTION OF NEW TECHNOLOGY

AFGC's aim is that Australia is globally recognised as being at the forefront of food and product innovation. To reach this goal investment needs to be made in new technology for highly efficient, socially responsible and sustainable supply chains. The food and grocery manufacturing sector in Australia receives very little sector specific collaborative assistance for these investments. The sole example is the four-year, \$35 million *Regional Food Producers Innovation and Productivity Program* announced in late 2008, which aims to boost the productivity and competitiveness of Australia's regional food and seafood industries through innovation and technology improvementsⁱ. Despite the lack of specific investment in the industry capacity to adopt new technology by government, Australian consumers still enjoy high quality products at affordable prices further demonstrating the extent to which the industry has achieved operating efficiencies.

Whilst AFGC acknowledges that the food industry companies can access existing innovation support schemes offered by Commonwealth, State and Territory Governments, it is the case that relative to other manufacturing industries (e.g. the automotive industry, pharmaceutical industry, textile and footwear) specific government assistance for the food, beverages and grocery industry is low. Given the size of the food and grocery sector, and the contribution it makes to the economy, it is incumbent on the Government to create the best possible business environment for the sector to remain competitive and to ensure Australian industry has the capacity to adopt new energy efficient technologies.

Inquires relating to this submission should be directed to:

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ⁱ www.daff.gov.au

AFGC MEMBERS LIST AS AT 4 JUNE 2009

Arnett's Biscuits Limited	Specialty Cereals Pty Ltd	Australian Dietetic Services
Snack Foods Limited	Kikkoman	ACI Operations Pty Ltd
The Kettle Chip Company Pty Ltd	Kimberly-Clark Australia Pty Ltd	Ancor Fibre Packaging
Asia-Pacific Blending Corporation Pty Ltd	Kerry Ingredients Australia Pty Ltd	CAS Systems of Australia
Barilla Australia Pty Ltd	Kraft Foods Asia Pacific	CHEP Asia-Pacific
Beak & Johnston Pty Ltd	Lion Nathan Limited	Concurrent Activities
BOC Gases Australia Limited	Madura Tea Estates	Dairy Australia
Bronte Industries Pty Ltd	Manildra Harwood Sugars	Exel (Aust) Logistics Pty Ltd
Bulla Dairy Foods	Mars Australia	Focus Information Logistics Pty Ltd
Bundaberg Brewed Drinks Pty Ltd	Mars Food	Food Liaison Pty Ltd
Bundaberg Sugar Limited	Mars Petcare	FoodLegal
Cadbury Schweppes Asia Pacific	Mars Snackfood	Food Science Australia
Campbell's Soup Australia	McCain Foods (Aust) Pty Ltd	Foodbank Australia Limited
Cantarella Bros Pty Ltd	McCormick Foods Aust. Pty Ltd	IBM Business Cons Svcs
Cerebos (Australia) Limited	Merisant Manufacturing Aust. Pty Ltd	innovations & solutions
Christie Tea Pty Ltd	National Foods Limited	KPMG
Clorox Australia Pty Ltd	Nerada Tea Pty Ltd	Leadership Solutions
Coca-Cola Amatil (Aust) Limited	Nestlé Australia Limited	Legal Finesse
SPC Ardmona Operations Limited	Nestlé Foods & Beverages	Linfox Australia Pty Ltd
Coca-Cola South Pacific Pty Ltd	Nestlé Confectionery	Meat and Livestock Australia Limited
Colgate-Palmolive Pty Ltd	Nestlé Ice Cream	Monsanto Australia Limited
Coopers Brewery Limited	Nestlé Nutrition	New Zealand Trade and Enterprise
Dairy Farmers Group	Foodservice & Industrial Division	Promax Applications Group Pty Ltd
Danisco Australia Pty Ltd	Novartis Consumer Health Australasia	Sue Akeroyd & Associates
Devro Pty Ltd	Nutricia Australia Pty Ltd	Swisslog Australia Pty Ltd
DSM Food Specialties Australia Pty Ltd	Ocean Spray International Inc	The Nielsen Company
DSM Nutritional Products	Parmalat Australia Limited	Touchstone Cons. Australia Pty Ltd
Earlee Products	Patties Foods Pty Ltd	Visy Pak
Ferrero Australia	Peanut Company of Aust. Limited	Wiley & Co Pty Ltd
Fibrisol Services Australia Pty Ltd	Procter & Gamble Australia Pty Ltd	
Fonterra Brands (Australia) Pty Ltd	Gillette Australia	PSF Members
Foster's Group Limited	PZ Cussons Australia Pty Ltd	Ancor Fibre Packaging
Frucor Beverages (Australia)	Queen Fine Foods Pty Ltd	Bundaberg Brewed Drinks Pty Ltd
General Mills Australia Pty Ltd	Reckitt Benckiser (Aust) Pty Ltd	Cadbury Schweppes Asia Pacific
George Weston Foods Limited	Ridley Corporation Limited	Coca-Cola Amatil (Aust) Limited
AB Food and Beverages Australia	Cheetham Salt Limited	Foster's Group Limited
AB Mauri	Sanitarium Health Food Company	Golden Circle Limited
Cereform/Serrol	Sara Lee Australia	Lion Nathan Limited
Don	Sara Lee Foodservice	Owens Illinois
GWF Baking Division	Sara Lee Food and Beverage	Visy Pak
George Weston Technologies	SCA Hygiene Australasia	
Jasol	Sensient Technologies	
Weston Cereal Industries	Simplot Australia Pty Ltd	
GlaxoSmithKline Consumer Healthcare	Spicemasters of Australia Pty Ltd	
Golden Circle Limited	Stuart Alexander & Co Pty Ltd	
Goodman Fielder Limited	Sugar Australia Pty Ltd	
Meadow Lea Australia	SunRice	
Quality Bakers Aust Pty Ltd	Swift Australia Pty Ltd	
H J Heinz Company Australia Limited	Symrise Pty Ltd	
Hans Continental Smallgoods Pty Ltd	Tate & Lyle ANZ	
Harvest FreshCuts Pty Ltd	The Smith's Snackfood Co.	
Hoyt Food Manufacturing Industries Pty Ltd	The Wrigley Company	
Johnson & Johnson Pacific Pty Ltd	Unilever Australasia	
Pfizer Consumer Health	Wyeth Australia Pty Ltd	
Kellogg (Australia) Pty Ltd	Yakult Australia Pty Ltd	
Day Dawn Pty Ltd		
	Associate Members	
	Accenture	
	Australia Pork Limited	

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