



AUSTRALIAN
**FOOD &
GROCERY**
COUNCIL

AFGC SUBMISSION

AGRICULTURAL COMPETITIVENESS
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Sustaining Australia

PREFACE

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

The membership of AFGC comprises more than 178 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.

With an annual turnover in the 2013-14 financial year of \$114 billion, Australia's food and grocery manufacturing industry makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity.

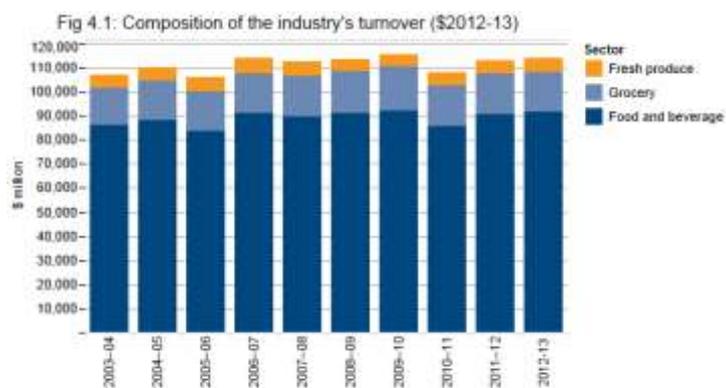
Manufacturing of food, beverages and groceries in the fast moving consumer goods sector is Australia's largest manufacturing industry. Representing 27.5 per cent of total manufacturing turnover, the sector accounts for over one quarter of the total manufacturing industry in Australia.

The diverse and sustainable industry is made up of over 27,469 businesses and accounts for over \$55.9 billion of the nation's international trade in 2013-14. These businesses range from some of the largest globally significant multinational companies to small and medium enterprises. Industry spends \$541.8 million in 2011-12 on research and development.

The food and grocery manufacturing sector employs more than 299,731 Australians, representing about 3 per cent of all employed people in Australia, paying around \$12.1 billion a year in salaries and wages.

Many food manufacturing plants are located outside the metropolitan regions. The industry makes a large contribution to rural and regional Australia economies, with almost half of the total persons employed being in rural and regional Australia. It is essential for the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

Australians and our political leaders overwhelmingly want a local, value-adding food and grocery manufacturing sector.



Source: Based on ABS, catalogue number 8221 0, 8159 0 and 8155 0
 Note: As outlined in chapter 3 of the State of the Industry 2014 report, caution should be applied when comparing data before and after the 2006 ANZSIC code changes.

SUMMARY

The AFGC welcomes the opportunity to provide a submission to the Australian Government's Agricultural Competitiveness Green Paper. This submission is made on behalf of food, beverage and grocery manufacturers, including members of the AFGC's Agribusiness Forum who are involved in the early stage processing of agricultural commodities.

The enormous opportunities for Australian agriculture, agribusiness and food industries presented by increasing food demand in Asia have been highlighted extensively¹. Increasing global population, rising incomes and greater demand for protein and high value foods presents Australian agri-food industries with a platform for growth to 2050.

Australia has a number of strengths in agriculture and food including comparative advantage in the production of specific commodities and food products; broad research, experience and business knowledge in dryland agriculture; and sophisticated food manufacturing capabilities with strong safety and quality systems. The future of agricultural production cannot be considered in isolation from the agri-food processing sector as revenue, costs and profits are determined by the actions of the entire agri-food supply chain. While costs must be removed from the entire supply chain, the greatest opportunity for all players lies in targeting premium export markets with high quality, innovative value-added products.

However, Australia is not alone in targeting premium export markets. It is therefore vital that there are coordinated in-market promotion activities from state and federal governments, with consistent messaging about the unique value of Australian agri-food.

The declining state of Australia's infrastructure is a significant contributor to Australia's falling international competitiveness, as measured by the World Economic Forum. Infrastructure planning and delivery needs to deliver supply chain efficiencies for the agri-food sector. Government attention should focus on building an evidence base for agri-food movements in Australia, integrating inland rail into supply chains, and addressing impediments to the efficient operation of road and rail transport.

A strong regulatory system underpins the safety and quality of Australia's agri-food production however constant vigilance is required to ensure regulation is focussed and proportionate, and that complexity and compliance burden is minimised. The design of regulation for labour, investment and country of origin labelling needs to be evidence based and designed to deliver specific public policy outcomes.

Agri-food exports are critical to the future of the Australian agriculture, agribusiness, and food processing industries. The Australian Government needs to: continue pursuing high quality trade agreements wherever they can be found, support collaborate approaches to promotion of agri-food products in export markets, and develop a national strategy to coordinate efforts to remove non-tariff barriers in key export markets.

¹ Including: Deloitte 'Positioning for Prosperity' Oct 2013;
ABARES 'Long-term food consumption trends in China' Oct 2013;
KPMG 'Expanding Horizons: Agribusiness in Australia' 2012;
ANZ 'Global Soft Commodity Opportunity for Australia and New Zealand' 2012;

RECOMMENDATIONS

The AFGC recommends that the Australian Government:

1. develop policies which support growth, competition and profitability across the entire agri-food value chain,
 - including a Parliamentary Secretary to the Prime Minister who has responsibility for co-ordination of food sector policy,

INFRASTRUCTURE

2. lead the development of a fact base or dataset on the movement of agri-food products within Australia which will support infrastructure planning,
3. ensure the development of the inland rail project is integrated with existing infrastructure and supports the development of efficient supply chains, through intermodal terminals for example,
4. invest in the long term development of efficient rail and road infrastructure, and addresses regulatory inconsistencies including on heavy vehicles,

REGULATION

5. expand employment programs (such as 417, 457 and SWP) to provide improved access to labour and skills for the agri-food sector where Australians are currently not available,
6. ensure that any proposed regulation is proportionate and tightly focussed on a public policy objective,
 - a practical and reasonable approach to country of origin labelling is required to ensure both consumer understanding and strong compliance of industry,
7. support a focus on agricultural land in the foreign investment register,
8. ensure the foreign investment threshold for agribusiness does not discourage investment, and that the definition of agribusiness and compliance requirements should not create burdens for new or current investors,

INTERNATIONAL TRADE

9. pursue truly liberalising trade agreements wherever they can be found, particularly with countries with demonstrated political will at the highest levels,
10. support the development of collaborative trade promotion efforts for Australian agri-food products in foreign markets, and
11. develop a national strategy to address non-tariff barriers affecting Australian agri-food exports in key markets.



VALUE CHAIN FOCUS

The future of the Australian agri-food sector is in high value added products where we have comparative advantage. This will provide the greatest economic benefit to the industry and Australia more broadly, and deliver the greatest benefit to global food security.

The future of agricultural production cannot be considered in isolation from the agri-food processing sector as revenue, costs and profits are determined by the actions of the entire agri-food supply chain. As has been seen recently, factory closures in the food processing sector have a negative impact on farm returns. The Government's aim of increasing farm profitability and strengthening rural and regional communities therefore fundamentally relies on a strong domestic agri-food processing sector.

The Deloitte research 'Positioning for Prosperity' identifies agricultural production as one of the 'fantastic' five growth engines for the Australian economy: an area where Australia's comparative advantage meets global opportunities. Food processing is identified as a 'slipstream' growth area, building on Australia's agricultural production. The future of Australia's agricultural production and food processing sectors are intertwined in realising the benefits of income growth and demand for high quality foods in Asia.

The Australian agri-food processing and manufacturing sector is a significant employer across rural, regional and metropolitan Australia, employing approximately 220,500 people, with 45 per cent outside metropolitan areas. Wherever agricultural production occurs agribusiness is in close proximity. In many rural and regional areas, individual agribusiness facilities and businesses are significant employers and underpin the economic future of towns and regions. In that sense, agribusiness is not only an enabler for the agri-food sector but also an engine room of economic growth for regions around Australia.

While we must focus on removing costs from the entire supply chain, the greatest opportunity for all players in the supply chain is providing greater value to the consumer through product innovation. New and innovative products for consumers will drive long term returns and profitability. A focus on improving value will 'grow the (economic) pie' and focus attention on generating value rather than fighting others in the supply chain for a share of a diminishing return.

Greater collaboration in the value chain and focus on consumer trends and demands is required to generate new value for consumers. A focus on consumer demands rather than commodity production will drive innovation and long term profitability. In export markets, a renewed focus on food safety and quality supported by relevant systems will provide a foundation for national, regional, company and product branding.

In a period of declining government expenditure, a decline in government regulation and pressure on industry profitability, it is vital that governments and industry collaborate on the key issues affecting the sector to find practical solutions.

RESPONSIBILITY FOR FOOD WITHIN AUSTRALIAN GOVERNMENT

Food is a critical part of every Australian's health and wellbeing. Reflecting the important role of food in society, responsibility within government is spread across multiple ministers and departments. Broadly speaking, the Department of Agriculture administers a number of the technical requirements for food production, transport and export, the Department of Industry has general policy responsibility for the sector, and the Department of Health maintains critical

engagement on the impact and contribution of food on health. There are a number of government agencies, including Food Standards Australia and New Zealand, which provide technical and policy support for the food industry.

While other sectors face operational requirements from multiple government departments (such as mining companies meeting environmental requirements administered by the Department of Environment) one is hard pressed to find a sector other than food where core business is the responsibility of so many government departments. Acknowledging the role of food in everyday lives it may be unrealistic to propose that a single minister and department be responsible for all food sector issues however a much more reasonable proposition is that a single individual in the Government Executive champions food industry policy. The AFGC recommends the creation of a role: Parliamentary Secretary to the Prime Minister with responsibility for co-ordination of food sector policy.



INFRASTRUCTURE

The declining state of Australia's infrastructure is a significant contributor to Australia's falling international competitiveness, as measured by the World Economic Forum. Infrastructure planning and delivery needs to deliver supply chain solutions for the agri-food sector. Australia's agri-food sector operations stretch the length and breadth of the continent and this creates different infrastructure requirements than single site metropolitan manufacturing facilities or even the often localised operation of mining operations which benefit from high volume infrastructure corridors.

The AFGC recently completed a survey of agribusiness priorities for infrastructure, with a focus on Victoria, however many of the issues are common across Australia. The survey revealed a set of priorities across road and rail which will drive productivity and reduce costs. The priorities are:

Rail transport

- a. Increase rail line capacity (i.e. upgrade rail to handle higher mass wagons and trains); and
- b. Continue gauge standardisation.

Road Transport

- a. Greater investment in local roads and key road networks to reduce maintenance and support efficient vehicle combinations;
- b. Regulatory change to enable higher mass/volume vehicles within and across states; and
- c. Upgrades to metropolitan road networks to support freight movements.

The rail network is a key enabler for the export of bulk grains, and a more efficient rail system has the potential to take a greater share of containerised dairy, fruit, vegetable and meat product transported for both domestic consumption and export. Ongoing efforts to standardise rail gauges are welcome and will result in efficiencies – improving returns to the entire industry.

The current axle limits on trains and wagons due to low rail line capacity creates inefficiencies most easily highlighted by grain wagons restricted to 80 per cent capacity to meet axle weight limits. This results in added costs and lower returns to agribusiness companies and farmers. Ongoing efforts are required to upgrade the rail capacity and improve the efficiency of grains and containers movements.

A modern and highly efficient rail system could provide the backbone of Australia's freight transport but road transport will always be a critical element of the supply chain. For example, agribusiness companies collect milk, fruit, vegetables, livestock, and grains from farms and transport these products to facilities for processing and storage. Greater investment in local roads and key road networks is required to reduce vehicle maintenance costs, support high productivity vehicles, and allow vehicles to operate at full capacity. While a more efficient rail freight is expected to increase rail freight volumes, certain supply chains will rely on road transport given complex supply chains and relatively short distances travelled.

There are many opportunities and challenges posed by the use of high productivity freight vehicles. The agribusiness sector is characterised by often high mass and high volume

products - more widespread use of high productivity freight vehicles has the potential to drive significant efficiencies in the agri-food supply chain. While there has been a lot of focus on the use of high productivity freight vehicles on major freeways, the collection of grains, fluid milk, fruit, vegetables and livestock from farms is a critical opportunity for the use of HPFV. Industry acknowledges the investment required to support high productivity freight vehicles, particularly in rural areas, and the regulatory change required. Indeed, national alignment of heavy vehicle regulation would result in the efficient movements of vehicles across states.

While the focus of this work was on infrastructure in Victoria, many of these issues extend to the national networks, and are often symptomatic of national issues. Infrastructure planning must include consideration of the full agri-food supply chain.

INLAND RAIL

The inland rail proposal (between Melbourne and Brisbane) is a welcome development, providing an opportunity to create an efficient supply chain through a consistent railway line between Brisbane and Melbourne, integration with port facilities at Brisbane and Melbourne, and development of intermodal and other terminals along the length of the line.

Companies report that the cost of rail freight continues to increase and that much of the cost can be attributed to the movement of containers and bulk grains at the end (and beginning) of rail journeys. The additional costs of loading and unloading trains mean that road transport between Brisbane and Melbourne can be cheaper than the total cost of rail transport. Integration with new and existing facilities will be key to the success of inland rail and minimising the costs at the first and last mile.

It is important that the project complement, not detract from, existing agricultural freight infrastructure. Branch lines for the movement of grain are a key element of the agri-food supply chain across New South Wales, Victoria and Southern Queensland. For grain companies in particular, planning needs to incorporate the use of existing infrastructure and not create stranded assets.

A FACT BASE FOR AGRIFOOD FREIGHT MOVEMENTS

The Green Paper notes the role of Infrastructure Australia in long term planning and assessment of Australia's infrastructure priorities. A critical element of any planning and assessment is accurate data – accurate and complete data on the movement of agri-food products across Australia is notable by its absence.

Recent government research mapping and modelling agri-food freight movements across Australia is a welcome development. The key is to develop a platform which can incorporate the movements of a range of commodities and food products, and the modes of transport utilised for each element. Given the commercial sensitivity of some of the information, there is a role for government to coordinate and support this work.

The AFGC strongly supports the development of a dataset on national agri-food movements which is available to the public and could be used to develop infrastructure priorities and investment proposals.

REGULATION

A strong regulatory system underpins the safety and quality of Australia's agri-food production however constant vigilance is required to ensure regulation is tightly focussed, and that complexity and compliance burden is minimised.

LABOUR ARRANGEMENTS

Incentives for job creation are an important consideration for employment in the agri-food sector however the national employment framework is the primary factor influencing sector employment. A review of Australia's international position provides useful insights on Australia's labour market trends.

The World Economic Forum's Competitiveness Ranking for Australia's overall labour market efficiency fell from 42nd place in 2012 to 54th place in 2013 (out of 148 countries). Similarly, Australia fell from 25th place to 37th place (out of 60 countries) in the IMD Competitiveness Center rankings. The falls in Australia's labour market competitiveness leaves us lagging our key competitors. There is a long term policy imperative to establish a labour market framework in Australia which allows us to compete internationally, and maintain business operations and employment in Australia.

The food and grocery manufacturing sector employs more than 299,731 Australians, representing about 3 per cent of all employed people in Australia, paying around \$12.1 billion a year in salaries and wages. Many food manufacturing plants are located outside the metropolitan regions. The industry makes a large contribution to rural and regional Australia economies, with almost half of the total persons employed being in rural and regional Australia.

The sector employs large numbers of Australians, and a number of overseas workers where there are gaps in the local workforce due to a range of factors including the demand of peak operations and a lack of sufficiently skilled or trained staff. Improved access to overseas workers where suitably qualified staff, or an insufficient numbers of locals, are not available is critical to the competitiveness of the agribusiness, food and grocery manufacturing sector in Australia.

Agribusiness companies are beginning to work with agricultural producers to address the lack of available on-farm labour. Similarly, agribusiness, food, beverage and grocery companies often have significant labour requirements and often have difficulty attracting workers. Consideration of changes to the Working Holiday Maker (417), the Temporary Work (Skilled) visa (subclass 457), and the Seasonal Worker Program (SWP) should include consultations with agribusiness, food and grocery manufacturers, particularly those in rural and regional areas. The administration of such schemes should be as streamlined as possible to reduce regulatory burden.

COUNTRY OF ORIGIN LABELLING

The AFGC strongly supports Australian production and manufacture of food and grocery products, both for the domestic market and for export. The sector is Australia's largest manufacturer and a significant employer. The AFGC has convened a series of stakeholder discussions with broad representation from the food value chain – from primary production, processors to retailers, in order to find common ground on this issue.

Origin labelling is an important means of providing product information to consumers, who see origin as a cypher for many things, including food safety, jobs, profits and community, in addition to a simple expression of ingredient provenance. However, it is a secondary consideration in purchasing decisions, which are driven principally by factors including price, habit, quality and availability. Moreover, consumer surveys suggest that place of manufacture is frequently as important to consumers as the origin of the ingredients. Consequently, changing country of origin labelling regulations is highly unlikely to significantly change consumer behaviour. In this regard, it should be noted that only a shift in consumer purchasing habits will drive industry sourcing and marketing decisions, as food manufacturers are highly responsive to consumer preferences in this highly competitive sector.

The AFGC does not consider there is currently sufficient evidence to warrant radical change to existing labelling regulations, although there is scope for improvements, for instance, in relation to the ACL safe harbours to clarify origin terms, reduce consumer confusion and decrease complexity and compliance costs. It is imperative that any changes to origin labelling requirements must be grounded in facts, not perceptions, and undergo a robust and thorough RIS process to ensure reduced complexity and minimum effective regulation. The AFGC supports clear consumer labelling including with regard to origin: however, a practical and reasonable approach is required to ensure both consumer understanding and strong industry compliance, and where possible, alignment with existing and widely recognised symbols such as Australian Made, Australian Grown.

INVESTMENT

As previously highlighted, there are tremendous growth opportunities for the Australian agricultural and agri-food processing sectors as a result of a growing global middle class. In order to capitalise on these export opportunities and compete against imports, there is a need for a step change in investment in the Australian agri-food processing sector. However, the sectors' ability to invest for growth is hamstrung by the dual impacts of short term domestic and global economic conditions, and a tough domestic retail environment, which have eroded profitability and constrain the ability and confidence to invest.

The AFGC supports the focus of the foreign investment register on agricultural land in order to address community concerns about the flow, and stock, of foreign investment in agricultural land. Concerns about foreign investment in agribusiness appear to be focussed on competition issues: the inclusion of agribusiness in a foreign investment register designed for measurement of stock and flow of foreign investment would appear to be a poor regulatory outcome and could not be expected to address competition concerns. In a global context, an increase in compliance burden and administrative cost resulting from an investment register will create a disincentive for investment in agribusiness.

The foreign investment threshold for agribusiness needs to support the government policy of improving the transparency of agri-food investment but not be so burdensome as to undermine the government objective of attracting greater investment. The definition of investment should not limit reinvestment by foreign companies operating in Australia for many years, or discourage new investors. Similarly, the definition of agribusiness should not create questions and uncertainty on what constitutes agribusiness: the definition should only be as wide as required to meet the public policy objective. Finally, the threshold value for Foreign Investment

Review Board consideration should not become a handbrake on investment in agri-food at precisely the time Australia needs significant capital injections to meet opportunities in Asia.

To stimulate growth in the agri-food processing sector, at a time when economic and retail market conditions risk losing opportunities, requires policies that improve Australia's cost competitiveness and encourage a significant step change investment in agri-food processing sectors. In terms of taxation reform, the AFGC considers there is a need for a package of measures that encourages investment:

- R&D tax incentive to promote innovation in products, packaging etc. (e.g. to meet needs of foreign markets, to differentiate from private label products);
- investment incentive – to encourage investment in plant and equipment, i.e. to commercialise on the R & D, to increase scale to meet export demand; and
- reduced input costs, such as reduced taxes on input costs (payroll) etc. – to improve Australia's competitive position compared to our trading partners.

The AFGC recommends consideration of these issues in the Governments review of the R&D tax incentive and the Taxation White paper.

INTERNATIONAL TRADE

Agri-food exports are critical to the future of the Australian agriculture, agribusiness, and food processing industries. Approximately 60 per cent of Australia's agri-food production is exported and the increasing global trend for processed and protein-rich foods will require greater collaboration and value adding in Australia's food supply chain.

EXPORT MARKETS

The conclusion of Australia's trade negotiations with Japan, Korea and China in the last 12 months is a welcome development. It is clear that where there is strong political will, trade agreements can be finalised quickly. It is noteworthy that the Korea Australia Free Trade Agreement (KAFTA) comes into force the day that submissions to the green paper are due (12 Dec 2014). Once implemented, the three North Asia FTAs will provide Australian agri-food exporters with a range of new opportunities.

The recent commitments by Prime Minister Abbott and Prime Minister Modhi to conclude Australia India trade negotiations in 2015 are welcome. While there has been some scepticism that an agreement could be reached in 2015, it might be expected that after 3 and a half years of talks (since May 2011) the key will be finding solutions to difficult political issues.

Finalising a trade agreement with one of our nearest neighbours, Indonesia, should also be within reach. Australia has been negotiating with Indonesia for more than 2 years (since September 2012). Like the situation with India, it is expected that Australia's negotiations with Indonesia require solutions to difficult political issues.

As a nation Australia should continue to pursue truly liberalising trade agreements wherever they can be found.

BRAND

The Green paper acknowledges calls for a more coordinated approach to promoting Australia's agriculture and food brand internationally and suggests that a brand position for agri-food should be driven primarily by industry. There are various aspects to a food brand, the most important of which is the development and promotion of clear, consistent messages about the value proposition of the Australian agri-food industry.

While this could be done through the development of a new national food brand, the AFGC is of the view that if there are limited Government funds available for this task, then they should be focussed on the highest priority activity – that is, the development of collaborative trade promotion efforts for Australian agri-food products in foreign markets.

There are already several food brands for various industry sectors and states, but what is lacking is a message and joint promotion activities that tie all of these separate elements together. The AFGC therefore recommends that the Australian Government's efforts should be focussed on coordinating jurisdictional and industry promotion efforts, and developing an underpinning set of messages and branding guidelines that can be used by all parties.

NON-TARIFF BARRIERS

With the gradual reduction in tariffs around the world, non-tariff barriers have become a policy response to address domestic sensitivities in some countries. A recent report² by the World Trade Organization (WTO) highlights the increase in trade restrictiveness globally: since 2008 more than 1,600 new trade restricting measures have been introduced across all sectors of the global economy. The report notes that measures affecting agri-food products have been increasing and resulted in an increase level of notifications to the WTO.

The impact of non-tariff barriers has been hard to quantify however recent research is beginning to build evidence of the effect on Australia's agri-food sector. A recent report commissioned by Dairy Australia titled, *Comparative evaluation of technical barriers to trade for Australian dairy products*, and prepared by D.N Harris, shows that minimising non-tariff barriers would reward the dairy industry with long term economic savings and increase its competitiveness on the global market.

The report finds that the total annual impact of non-tariff barriers is estimated at \$1.57 billion. This represents significant lost revenue for the entire dairy sector. A parallel project undertaken by Meat and Livestock Australia for the meat sector shows comparable opportunities from addressing non-tariff barriers for meat. The meat sector report estimates that the total annual impact of non-tariff barriers on the Australia meat industry is \$1.25 billion.

While more research is required to determine the impact of non-tariff barriers on the entire agri-food sector, the combined annual cost of nearly \$3 billion for the meat and dairy sectors highlights the importance of addressing non-tariff barriers. Current efforts to address non-tariff issues in export markets include:

- Department of Foreign Affairs and Trade engagement in the WTO committees for Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) issues,
 - o and broader diplomatic engagement with trading partners,
- Department of Agriculture engagement in the United Nations Food and Agriculture Organisation (FAO), more specifically CODEX and IPPC,
- Department of Agriculture formal technical market access requests for specific products into foreign markets, and working with individual companies and products to address barriers informally,
- international engagement by Austrade, Customs, Food Standards Australia New Zealand (FSANZ), state food regulators, and other government agencies, and
- ongoing industry efforts to identify issues and priorities, provide information to governments, and work with all parties to seek removal of specific barriers.

While there is currently much effort expended in seeking to address barriers to trade, there is a lack of coordination, focus and strategy. The continued rise of non-tariff barriers in Australia's export markets requires a national strategy on agri-food led by the Australian Government. A coordinated effort from the federal and state governments, regulators and industry is needed to address both specific trade issues and regulatory coherence with trading partners.

² WTO 2014, "Overview of Developments in the International Trading Environment" http://www.wto.org/english/news_e/spra_e/spra44_e.htm

Removing non-tariff barriers and improving regulatory coherence is particularly important to maximise the long term benefits of the recently signed agreements with China, Japan and Korea.

The recent commitments in the WTO to implement the Trade Facilitation Agreement provide an opportunity to develop a whole of Australian Government strategy to address non-tariff barriers and improve regulatory coherence with our international trading partners. Ongoing developments in our export markets to develop regulatory systems and approaches means that now is the opportunity to engage. For example, the agri-food industry within ASEAN is currently calling for technical trade arrangements which allow trade to flow³.

³ AFBA 2014 "ASEAN Harmonisation in the Food Sector" <http://afba.co/news/afba-white-paper/>

