

Submission to the Senate Select Committee Inquiry into Australia's Food Processing Sector

Department of Economic Development, Tourism and the Arts

September 2011

Executive Summary

The Tasmanian Department of Economic Development, Tourism and the Arts (DEDTA) makes this submission to the Senate Select Committee on Australia's Food Processing Sector.

For the purposes of this document, 'food processing' will be taken to include not only the transformation of raw ingredients into food for human consumption, but also the washing, grading and packing of food. More broadly, it could be considered as 'value adding to food products'. Also for the purposes of this document, 'food processing' will be taken to include beverages.

Food and agriculture is an important industry in Tasmania and the State Government has a vision for the state to substantially increase its food and agriculture production and become a major supplier of the nation's premium food products.

The food processing sector in Tasmania is characterised by the presence of several large national or international companies producing bulk volumes of food items such as milk powder, cheese, frozen vegetable and potato products, salmon, red meat, confectionery and beer and wine. A number of smaller local processors are mostly focussed on premium or niche products. Being an island state with a small local market, and a product range different to the major commodities of much of the rest of Australia, the challenges facing the Tasmanian food processing sector are slightly different to those facing processors in other states.

Consultation with the Tasmanian food processing sector has revealed the following issues affecting the sector's contribution to the economy and its future viability:

- The cost and availability of freight continues to be an area of concern. It is seen as crucial that the Tasmanian Freight Equalisation Scheme is maintained
- The level of government funding and support for research and development impacts on the productivity and viability of the food production and processing sectors and should be maintained at the current levels or increased
- Increasing costs for labour, energy, water and raw materials continue to put pressure on the sector
- The strong value of the Australian dollar reduces the competitiveness of Australian products in export markets and means that imported products are cheaper
- Uncertainty around the possible impacts of a price on carbon
- The influence that food retailers have on pricing and the trend for major retailers to increase the number of own-label products stocked.

Introduction

The Tasmanian Department of Economic Development, Tourism and the Arts (DEDTA) makes this submission to the Senate Select Committee on Australia's Food Processing Sector.

DEDTA invited input from the Department of Primary Industries, Parks, Water and Environment (DPIPWE), several large individual processing businesses and several industry organisations in preparing this submission, including the Tasmanian Agricultural Productivity Group (TAPG), the Tasmanian Farmers and Graziers Association (TFGA), and the Tasmanian Food Industry Advisory Committee (FIAC).

Primarily, industry input was obtained and analysed with the assistance of TAPG. TAPG addresses issues that are of common concern to primary, secondary and service levels of Tasmanian agriculture and brings together primary producers, the agricultural manufacturing sector, agribusiness (services to agriculture) and government. Its Board includes representatives from McCain Foods, Gunns, Tas Alkaloids, Harvest Moon, Rabobank, Nufarm, Simplot, Serve-Ag, Bonlac, TFGA, Poppy Growers Tasmania and the Tasmanian Institute of Agriculture (TIAR).

The food production and processing sector is a major component of the Tasmanian economy. In particular, the sector makes a large economic contribution to rural areas throughout the state.

The state has clear potential in terms of food production and processing and it is crucial that it maintains an adequate base of food processing businesses to achieve this potential. Any reduction in the number or size of businesses processing food in the state is likely to have an impact on rural employment and economic activity. The impact would be felt in areas of the state that are highly reliant on agriculture and may already be facing difficulties due to previous business closures and a downturn in the forestry industry. The high Australian dollar, relatively high production costs, challenging freight environment and increased competition from imports has created a difficult environment for some of the state's food processors.

The Tasmanian Government has identified food and agriculture as a priority sector under the recently released Economic Development Plan (the Plan). Released in August 2011, the Plan charts a clear direction for the state's economic development priorities over the next ten years, taking a whole-of-government approach that aligns strategies on skills, infrastructure, environment, energy and other elements critical to the state's economic development.

The Plan is underpinned by substantial research undertaken over the last 18 months. This has been a comprehensive process to identify and understand fully our state's key advantages, constraints, and opportunities for growth.

The Plan establishes four goals to guide whole-of-government effort and provides a holistic framework for the government to deploy resources across agencies so that actions can be coordinated and better outcomes achieved.

The four goals are:

- 1) To support and grow businesses in Tasmania
- 2) To maximise Tasmania's economic potential in key sectors
- 3) To improve the social and environmental sustainability of the economy
- 4) To support and grow communities within regions

The government has a vision for Tasmania to substantially increase its food and agriculture production and become a major supplier of the nation's premium food products.

Food and Agriculture in Tasmania

The Tasmanian food processing sector is small by national standards. Nonetheless, it is an important sector of the Tasmanian economy. Products produced by the farming sector, fish from wild fisheries and aquaculture, and all related downstream processing accounted for \$1 820 million or 8.2 per cent of the state's GSP in 2009-10. The sector is also a significant employer, representing 8.7 per cent of total employment in Tasmania.¹

Tasmania's food processing sector includes dairy products, meat, seafood, potatoes and other vegetables, confectionery, beer and wine. The sector is underpinned by the Tasmanian operations of a few large national or multi-national companies, which account for a large proportion of production and employment in Tasmanian food processing. As the head offices for most of these businesses are located outside of the state, decisions regarding strategy, investment, research and development, product development and marketing are made remotely.

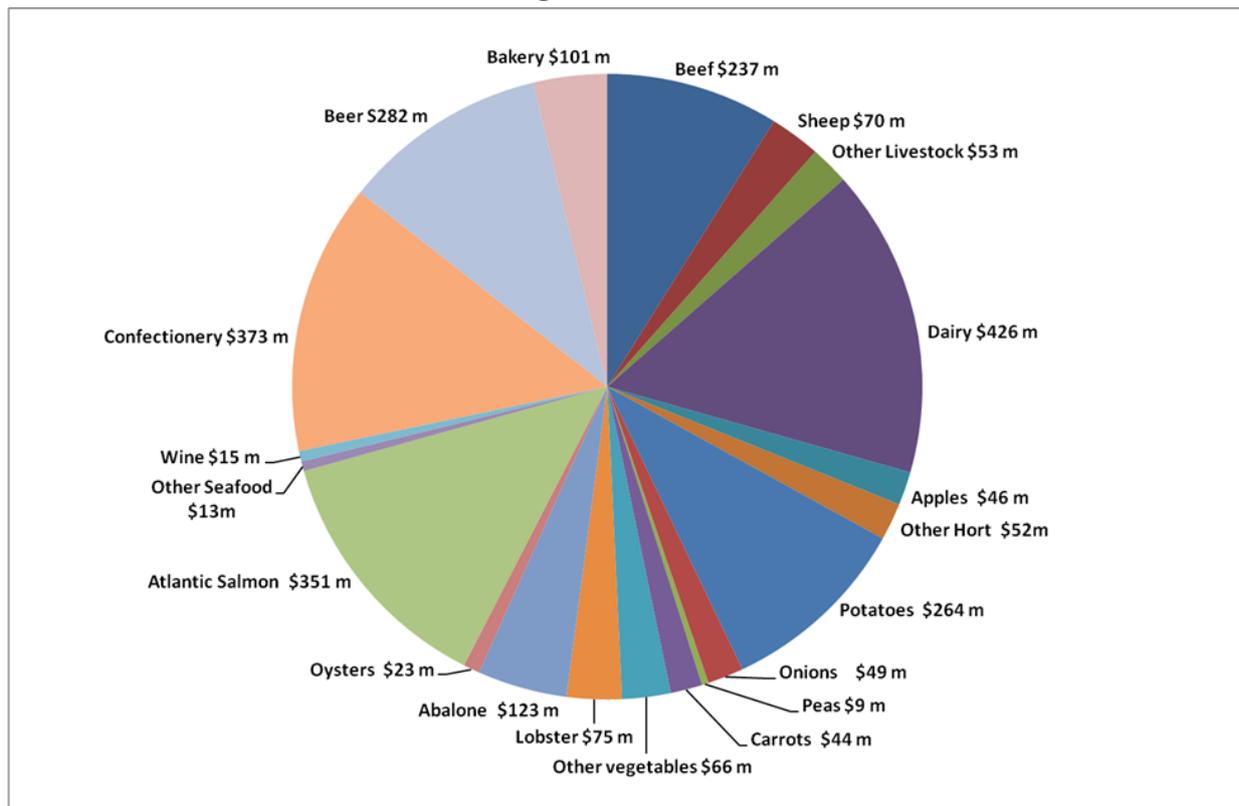
Tasmania is a net exporter of food products. The State relies on sea and air freight to access markets and it has the capacity to supply fresh product into the Northern Hemisphere in its off-season. The industry services many different market segments from commodity through to premium and niche, and it supplies the local, national domestic and international markets.

Tasmania also has a number of smaller producers of boutique products such as smallgoods, condiments, artisan cheeses, confectionery and craft beers.

The chart below indicates the relative contribution of each food and beverage category in terms of wholesale value.

¹ Data sourced from the DEDTA's customised REMPLAN model, developed by Compelling Economics. For more information on the REMPLAN model please see the Approach to Developing the Economic Development Plan, available at www.development.tas.gov.au/edp

Food – Wholesale Value of Food & Beverage Production = \$2 673 million



Source: DPI/PWE: 2008-09 Food & Beverage Industry ScoreCard

Tasmania enjoys excellent growing conditions, affordable land, relative pest and disease freedom, abundant water resources and has proven research and development capability. However, issues including production costs, market access challenges stemming from distance to market and the rural community dependence on primary production highlight the importance of considering food processing as a link in the supply chain rather than in isolation.²

It is understood that demand for food products must increase as the world's population continues to grow. A common estimate is that global population will grow from the current level of seven billion to approximately nine billion by 2070.³ It is likely that as the economies of countries such as Indonesia, China and India continue to develop, the proportion of protein consumed per head of population will also grow.

Australia, and specifically Tasmania, is well-positioned to continue to increase production and meet some of this growing demand for food products in the longer term. However, segments of the food processing sector are under extreme pressure in the short to medium term from price pressures, increased competition, the high Australian dollar, high input costs (including labour costs) and changes to retailer practices.

² TFGA correspondence, 23 September 2011

³ Bernard Salt, From Family Farm to Corporate Operation? How Demographic and Generational Change is Shaping the Outlook for Australian Farming, presentation to TFGA Policy Forum, 2 June 2011

Addressing the Terms of Reference

(a) The competitiveness and future viability of Australia's food processing sector in global markets

The Australian food processing sector is facing a challenging time. A number of adverse factors are impacting its competitiveness and future viability. There is already evidence that a number of major food processors are closing or relocating their operations internationally. Heinz, McCain Foods and SPC Ardmona have made announcements to this effect in the last two years.

In particular, there seems to be a trend for food processors to relocate to New Zealand. Labour costs may be a key driver in this regard, with claims that labour costs in New Zealand are 30 per cent below those in Australia.⁴

One example of this was the 2010 decision by McCain Foods to close its vegetable manufacturing facility in Smithton. The closure led to the loss of up to 190 jobs and \$20 million in payments to local growers. The company has retained its potato manufacturing plant, also located in Smithton, but now processes vegetables at a new facility in New Zealand.⁵

It should also be noted though that under the right circumstances, Tasmania presents a viable location for investment in food processing. For example, Tasmanian Dairy Products and Murray Goulburn have recently announced a \$70 million investment in a new milk processing facility at Smithton. The factory will turn up to 150 million of litres of milk into powder for the Asian and Middle Eastern export markets each year and will create 150 jobs during construction and 75 ongoing jobs, with significant flow-on benefits for the largely agriculturally-based region.⁶ Similarly, Tassal, Huon Aquaculture and Petuna Seafoods have recently announced plans for salmon production and processing developments in Tasmania worth up to \$30 million.⁷

Major issues effecting the competitiveness and future viability of Tasmania's food processing sector include:

- The regulatory environment of the food processing sector impacts on the cost of production, food safety and sustainability of the industry. Food Regulation Reform continues to feature on the COAG agenda and was the subject of a performance

⁴ Weekly Times Now, Home Brands Hurting Farmers, 1 June 2011, available at: http://www.weeklytimesnow.com.au/article/2011/06/01/339181_print_friendly_article.html, accessed 24 August 2011

⁵ DEDTA, McCains Taskforce Study: An assessment of the relative cost competitiveness of process vegetable production in Tasmania and New Zealand, November 2010

⁶ ABC Rural, Murray Goulburn joins Tasmanian milk powder venture, 6 September 2011, available at: <http://www.abc.net.au/rural/news/content/201109/s3311356.htm>, accessed 23 September 2011

⁷ The Mercury, Tassal's \$30m expansion, 23 August 2011. Available at: http://www.themercury.com.au/article/2011/08/23/255611_food-wine.html, accessed: 25 September 2011

benchmarking report published by the Productivity Commission in December 2009. The regulatory environment is discussed in greater detail below in section (b).

- The rapid appreciation of the Australian dollar means that Australian products and exports are relatively expensive and cheaper imports are more readily available.⁸
- While significant attention has been placed on competition driven by exchange rate pressures as the Australian currency has rapidly appreciated compared to that of the USA and China, Australia has also become significantly disadvantaged in competing in Japan, due to cross rate shifts – this is a major competitiveness factor for industry.
- Low world commodity prices are being experienced for many of Tasmania’s key food items such as beef and processed vegetables. While there may be the perception of premium pricing for many Tasmanian products, actual export prices achieved provide guidance on how Tasmanian produce has to compete in global markets where customers prefer quality products, but commonly select a lower priced item.
- A great deal of the processing infrastructure in Tasmania is relatively old. The capital costs of upgrading are a significant barrier to new investment and plant renewal, especially in the context of the increased input costs (for energy, labour, water and raw materials) being reported in Tasmania and throughout Australia. As a result there is a threat of plant closure and relocation to lower cost of production countries.
- The majority of businesses in the Tasmanian food processing sector are either subsidiaries of multinational companies (e.g. McCain Foods, Simplot, Swift Australia, Fonterra, Kraft, Kirin) or are national companies (e.g. Fosters Australia, Greenhams). Major business decisions are often made outside Australia or Tasmania and local threats and opportunities may not be fully evaluated. Such businesses could view their Tasmanian operations as cost centres rather than as profit centres.
- Tasmanian farmers have been forced to respond to growing price pressures by accepting lower farm gate prices and attempting to increase productivity. The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) has reported falling terms of trade for farm business in response to declining product prices and rising input prices.
- Freight costs, rising input costs, and uncertainty around the possible impact of the price on carbon also have an effect and are discussed further throughout this submission.

⁸ The Australian Food and Grocery Council, Job Fears Echoed by Food and Grocery Sector, media release 23 August 2011, available at: <http://www.afgc.org.au/media-releases/940-job-fears-echoed-by-food-and-grocery-sector.html>, accessed 22 September 2011

(b) the regulatory environment for Australia's food processing and manufacturing companies

The regulatory environment for food production and processing in Australia covers land and water management, chemical use, food preparation and transport and general business activities. While the regulatory environment achieves high levels of food safety and quality it can be costly and confusing to implement and administer and can impact on local processor competitiveness in the market place.

While the safety and sustainability of food production is paramount, industry has noted that there are a number of opportunities to improve the efficiency of the regulatory environment. In particular, opportunities exist for reducing and better streamlining regulations throughout the supply chain to avoid costly duplication of effort, recognition of equivalency when measuring compliance and cross jurisdiction consistency. In this context export regulations and compliance and increasing AQIS fees greatly reduce the capacity for smaller producers to see value in export markets.

The Tasmanian Government is committed to improving the regulatory environment for all business in Tasmania. As outlined in the Economic Development Plan, the Tasmanian Government will conduct a systematic sector-by-sector review of the administrative burden of applying and complying with business regulations. The intent of this review is to streamline existing administrative processes before automating them to improve efficiency.

(i) taxation

The Tasmanian taxation system is relatively competitive in the national context. The Commonwealth Grants Commission has rated Tasmania as the second lowest taxing state. However, opportunities exist to streamline the system, achieve better linkages with federal tax arrangements and to more effectively support businesses.

Industry stakeholders have stated that better coordination between state and federal governments and improved harmonisation of tax systems would simplify and streamline the administrative burden of the tax system and reduce costs for business.⁹

The Tasmanian Government announced a review of the state's tax system in June 2010. The purpose of the review is to consider how each state tax impacts the Tasmanian community within the context of the national tax system and public services, and Commonwealth tax transfers. The review will also examine the benefits and opportunities associated with tax harmonisation across state and federal jurisdictions. Findings from the review are due to be published by 31 December 2011.

Industry consultation has found that many larger businesses believe that payroll tax penalises large employers and restricts business. Payroll tax will be examined in the state government's tax review.

⁹ Tasmanian Agricultural Productivity Group Board meeting June 2011

Clean Energy Future Plan

The Clean Energy Future plan and the associated carbon price will have an impact on food processors in Tasmania. The TAPG Board, which represents a number of large food processors in Tasmania, expects that processors will have to absorb the additional costs of the scheme rather than pass them on to consumers.¹⁰ The Tasmanian Farmers and Graziers Association has stated that it believes that primary producers will be affected by the carbon price through increased operating costs.

Key areas of concern in relation to the carbon price are the impact of the scheme on freight and business costs, and how the structure will allow for management of carbon through the production chain. Processors also want detailed explanations of the operation of the scheme on exporters and whether there will be a mechanism to require imported products to account for their emissions impacts. If there is no system for imported products then local processors competing with imported products from nations without a price on carbon will be disadvantaged. Alternatively there may be some advantages available by promoting Tasmania's already high reliance on renewable energy (hydro-electric power) for its power needs.¹¹

While a large amount of information about the Clean Energy Future plan has now been released, food processors have indicated that their immediate priority is to have certainty and clarity about how the plan will operate in practice.

(ii) research and development (R&D)

Australia has a strong history in food R&D, but continued investment is required by government and industry to ensure that productivity gains continue to be made and Australia is able to compete in the global food market.

Public sector R&D funding and activities are especially important in Tasmania, as the private sector tends to leverage off public sector research. This occurs across a range of disciplines—taking the pure research and applying it to a business setting, sector or region.¹² Most (but not all¹³) food processing businesses in Tasmania are either small scale niche producers, or are subsidiaries of large companies with head offices and R&D activities located outside of Tasmania.

Within Tasmania there is a very strong program of research, development and extension (RD&E) and education within the Tasmanian Institute of Agriculture (TIAR) and the Tasmanian Aquaculture and Fisheries Institute (TAFI). However, with the exception of TIAR's Food Safety Centre; some collaborative work with the Australian Wine Research

¹⁰ Tasmanian Agricultural Productivity Group Board meeting June 2011

¹¹ Tasmanian Agricultural Productivity Group Board meeting June 2011

¹² Tasmanian Agricultural Productivity Group Board meeting June 2011

¹³ For example, Tasmanian salmon producer Tassal has made a substantial investment in R&D through the development of its Innovation Centre where product, packaging and recipe ideas are taken from concept through to pilot production.

Institute and some limited process related work with essential oils and plant extracts, these organisations are generally focussed on primary production RD&E rather than research relevant to food processing. Such research can benefit processors through the possible cost reductions and improved quality, safety and reliability of raw inputs. Currently, opportunities to expand RD&E activities in processed foods in Tasmania are constrained by limited public and private resources.

CSIRO is the lead R&D organisation in food processing development work in Australia, but does not have a food R&D facility in Tasmania and it should be noted that, in the past five years, CSIRO capacity in food safety and quality research has reduced. A recently agreed tripartite relationship between CSIRO, University of Tasmania and Defence Science and Technology Organisation is looking to create a centre for food innovation in the state which may provide local R&D leadership in food processing although the degree to which businesses will be able to access the resources and expertise of the centre is unknown at this stage.

At a national level, the Productivity Commission (the commission) handed down a report into the rural Research and Development Corporation (RDC) model in June 2011. The commission examined the rationale, effectiveness and structures of Commonwealth support for rural R&D and options for improvement.

The commission called for a halving of the current cap on dollar for dollar funding over a ten year period and a new uncapped subsidy of 20 cents in the dollar for industry contributions above the level that attracts dollar for dollar funding.

In its 'Preliminary response to the Productivity Commission report on the rural Research and Development Corporations' the Australian Government indicated that it will not adopt the commission's recommendation to reduce funding to RDCs.

The Tasmanian food processing industry strongly supports the Australian Government's position. Industry views the maintenance of R&D funding and activities as crucial to the viability and productivity of the food production and processing sectors.¹⁴ Industry representatives consistently argue that more resources should be applied to research, development and product development if Australia is to achieve increased productivity and remain competitive.

¹⁴ Tasmanian Agricultural Productivity Group Board meeting June 2011

(iii) food labelling

The labelling of processed foods has been an issue for industry and consumers for many years.¹⁵ Labelling has an important role in informing consumers about the nutritional profile, origin and characteristics (such as the presence of allergens) of each product. However, the costs of compliance on food processors, limited space on a label and efficacy of the information shown on the labels must also be taken into account.

Australian consumers consistently express their desire to buy Australian product where it is of similar quality and price to the alternative.¹⁶ They are interested in ethical and local food choices and food integrity¹⁷ and increasing attention is being paid to the health benefits or otherwise of processed food. Current food labelling practices and standards do not always provide the level or type of information needed to make these purchasing decisions.

Tasmanian industry representatives raised the following labelling concerns:

1. Country of Origin Labelling (CoOL) remains unclear despite the development of a new “Australian Grown” standard. Consumers remain confused about ‘made in’ or ‘product of’ messages on labels. The origin or composition of many products remains unclear, particularly those containing a mix of local and imported ingredients.
2. Consumers may be under the impression that produce imported into New Zealand for packing and processing is New Zealand grown, despite the main ingredients originating from another country.
3. Misleading or inadequate information about the nutritional value of food being sold.
4. The proposed changes to the labelling regime in Australia from the Blewett Review creating some uncertainty in the industry.¹⁸

TAPG has recommended that the Australian Government undertake a risk or gap analysis of the practice of accessing the Australian market through countries with which Australia has free trade agreements. It also recommended that improved traceability systems be introduced for consumers.¹⁹

The Blewett Review (the Review) examined food labelling laws and in January 2011 made 61 recommendations across the food labelling spectrum, including policy parameters, resource

¹⁵ An extensive review of food labelling issues was recently completed (Labelling Logic or known as the Blewett report into food labelling).

<http://www.foodlabellingreview.gov.au/internet/foodlabelling/publishing.nsf/Content/labelling-logic>

¹⁶ Thinkingaustralia, ‘Aussie Food Trends in 2010’, available at:

http://www.thinkingaustralia.com/news/brief_view.asp?id=1646, accessed 10 September 2011

¹⁷ Martin Kneebone, Fresh Logic, ‘Market Trends Relevant to the SEIS Development’, presentation to the South East Irrigation Scheme Information Day, 28 June 2011

¹⁸ Tasmanian Agricultural Productivity Group Board meeting June 2011

¹⁹ Tasmanian Agricultural Productivity Group Board meeting June 2011

allocation, consumer protection, health and safety, regulation (including compliance), consumer values, new technologies and presentation. It also considered CoOL.

Some industry members have expressed concern that the proposed changes will result in increased regulation making labelling more costly and complex for food processors.²⁰

The Australia and New Zealand Food Regulation Ministerial Council is currently considering its response to the Review and the Tasmanian Government is engaged in this process.

Some consumers are clearly confused about the current CoOL framework and there may be a role for government to work with industry to educate consumers on the meaning of the various terms used, such as 'made in', 'product of' and 'grown in'. TAPG strongly supports any efforts to simplify this framework and assist consumers to understand CoOL requirements.

Another area of interest to industry is the introduction of front of pack labelling intended to help consumers interpret nutritional information. The Review recommended using the Multiple Traffic Light front of pack labelling system to facilitate healthy eating choices. While the purpose of this type of labelling is to improve the diets and therefore health of consumers, some food processors are concerned that the system does not recognise the difference between energy dense foods that are also nutrient rich and high energy foods with no or limited nutritional value.²¹

While the cost and size of food labels restricts the amount and type of information included on labels, technology has developed to a point where consumers could track food origins and content throughout the supply chain with the use of a bar code and a smart phone where producers make this information available.

(iv) cross-jurisdictional regulations

Unnecessary regulatory duplication and variance across jurisdictions adds to operational costs and complexity for food businesses. Industry consultation has shown that food processing businesses believe there are real benefits to improving consistency and cooperation across regulations in Australia.

As an initiative under the Economic Development Plan the Tasmanian Government will undertake a systematic sector-by-sector review of the administrative burden of applying and complying with business regulations. Where appropriate, the government will engage with other jurisdictions in addressing areas of concern.

²⁰ Issues Paper to Inform the Development of a National Food Plan, Fonterra, 1 September 2011

²¹ Correspondence – 'Re: Response to Labelling Logic', Dairy Australia, 25 July 2011

(v) bio-security

Tasmania has relative freedom from a number of pests and diseases found in the rest of Australia and other parts of the world. This has provided the state with market and production advantages. However, the burden on industry of complying with some regulations is high.

While it is vital to maintain disease freedom for as long as possible the regulatory burden of maintaining biosecurity standards must be recognised. Industry representatives advocate for a review of the Australian Quarantine and Inspection Service processes to streamline its systems and to remove duplication and inefficiencies.

A further concern of industry is that it will have to pay for AQIS' functions as it moves to a cost recovery approach. TAPG Board members believe that many QA functions achieve the same results as AQIS and that the government should explore systems to reduce duplication and adopt an outcome approach to compliance (for example, where a QA requirement and AQIS regulation are the same, then AQIS recognises that and accept its standards as met).

Conversely, the Tasmanian food industry is also aware of the risks to its sector of imported goods that may carry pests and diseases. For example, the recent ruling by the World Trade Organization that New Zealand apples be allowed to be sold in Australia is of major concern to government and industry due to the risk of transfer of fire blight.

(vi) export arrangements

Australia is a relatively high cost producer of processed foods when compared to other exporting nations. With the high value of the Australian dollar, relatively high labour, energy and other input costs, some food processing businesses struggle to compete in export markets. Depending on the product segment they are operating in, some processors have stopped exporting altogether and/or have increased their marketing focus in national markets.

Industry frequently identify the high costs in meeting export accreditation and rigorous certification processes as a major barrier to trade, especially when competing with product originating in countries where certification standards are minimal.

A worrying trend is that a number of Asian countries, Thailand and Vietnam for example, now have their own requirements regarding registration and certification of packing and processing facilities. They will not automatically accept AQIS certification as do countries like USA, Japan and those in the EU. It is understood that the Department of Agriculture, Fisheries and Forestry is actively seeking to address this issue.

Capacity to export is also affected by availability of suitable freight arrangements for food products into export markets. This can lead to increased transport costs, time delays and additional handling of goods. A priority initiative of the Tasmanian Government is the

implementation of the Freight Strategy. This strategy will provide a clear direction for Tasmania's future freight system.

The Tasmanian Government will continue to work closely with Austrade and its international network for international trade opportunities in food markets.

(c) The impact of Australia's competition regime and the food retail sector, on the food processing sector, including the effectiveness of the Competition and Consumer Act 2010

The Australian food market is open to competition from a range of imports. Retailers are able to access products from low cost producers around the globe and may use this availability to place pressure on local processors to reduce prices. Industry consultation has found that the Competition and Consumer Act 2010 offers little protection to processors.

Food Retail Sector

It is broadly recognised that large food retailers have enormous influence on the food industry in Australia. They substantially influence prices for food products and also the range of products available to consumers in their stores. Food processors in Tasmania are, in many cases, reliant on these retailers for much of their business.

Changing retailer practices, increasing competition between Coles and Woolworths and the introduction of new supermarket businesses such as Aldi is changing the shape of the retailing sector. Pressure on processors to absorb increased production and compliance costs and reduce retail prices is having an impact on the profitability and viability on some businesses, particularly those supplying staples and products with an extended shelf life which allows for import replacement.

For example, frozen processed vegetables are experiencing increasing competition from imported frozen product. The value of imported frozen vegetables has grown substantially over the last decade and local industry has found that it is often not possible to compete for market share with cheaper imported products.

Large retailers are also changing their business strategies with a growing focus on own-label products. The major supermarkets in Australia are following a global trend of building their own branded product lines in competition with established brands and limiting the number of brands available across individual product lines. By limiting shelf space and opportunities for branded products supermarkets are creating a space premium which is adding to existing price pressures and further squeezing processor margins. Prices are not rising but supermarkets are requiring greater margins, generally at the expense of food producers and processors.²²

²² Industry and TIAR consultation, May 2010

Australia's private label share of the market is so far relatively small. But with Coles modelling its private label strategy on retailers like Asda and Tesco in the UK, which stock high levels of private label products, it is likely to increase.

As a net exporter of food the Tasmanian processed food industry relies on sales interstate and overseas to maintain profitability and support the scale of production of many products. The small Tasmanian population means that local processors are not able to offset possible loss of sales in other, larger markets. Therefore loss of market share in large national retailers has a significant impact on many local processors.

On a positive note, the major supermarkets have recently expressed increased interest in stocking more Australian products. This shift in focus may open up new opportunities for food processors in Australia, however industry has reported that the prices at which the major supermarkets are looking to source local products are often difficult to meet.

Competition Regime

Australia has relatively low market entry barriers for imported goods. This has increased competition in the market place and encouraged greater activity with trading partners. This approach has benefited consumers in many cases but can also place pressure on local processors trying to compete with cheap imported product.

The purpose of the *Competition Consumer Act 2010* is to encourage competition and fair trade for the benefit of consumers, business and the community. Industry consultation suggests that the Australian Competition and Consumer Commission (ACCC) is largely seen as ineffective in practice due to limited powers and perceived hesitance to use its powers.

(d) The effectiveness of anti-dumping rules

Tasmanian industry welcomed the announcement by the Australian Government in June 2011 that it planned to make improvements to Australia's anti-dumping regime by assigning an extra 14 Customs staff to anti-dumping issues, involving more trade and industry experts in investigations and by streamlining the appeals process.

However, industry is anxious to see how the changes work in practice. Prior to this recent announcement the Tasmanian food processing industry had indicated that it believed the anti-dumping rules were largely ineffective due to the difficulty associated with proving product dumping and the time and cost associated with the application and appeal processes.²³

²³ Industry Consultation June 2011

(e) The costs of production inputs including raw materials, labour, energy and water

The cost of production inputs is a key concern of the food processing sector. The cost of raw materials is relatively high when compared to other producer nations. Labour costs (and on costs) throughout the supply chain are higher in Australia than in competing nations.²⁴ Similarly, energy and water costs are increasing and this combination of rising input costs has been identified as a key national issue, presenting the food processing sector with a 'perfect storm' of pressures.²⁵

The seasonal impacts of input availability (for vegetables, dairy and red meat in particular) means that there is often an incomplete or irregular use of factory facilities, which again increases costs. Ageing processing facilities also affect productivity and cost of production.²⁶

Food processors will operate in Tasmania where they are able to source key inputs (such as milk, vegetables or salmon) locally. Due to Tasmania being an island which is some distance to and from major markets, along with having a low population base; it is generally not economic for processors to be based in the state if they need to import major inputs. For example, it is believed that some larger wine producers are now moving bottling operations off-island as the cost of bringing in empty bottles for filling and re-distribution has proven prohibitive.

Raw Materials

With regard to raw material pricing, it has been argued that commodity inputs, such as sugar, dairy products, cocoa and wheat, are at record or near-record high prices, presenting processors with an unprecedented and unavoidable cost burden.

It is important for growers to understand that raw material cost is the largest component of processor costs of production.²⁷ In Tasmania, it is understood that raw material costs account for approximately 65 per cent of production costs. This compares to approximately 40 per cent in China and approximately 35 per cent in the USA.²⁸ In this context it is crucial that growers and processors work cooperatively to address issues and ensure that the production and processing environment reaches its optimum potential.

Energy

Energy costs in Tasmania have historically been a comparative advantage when attracting large energy users to the state. However, electricity prices have steadily risen with processors experiencing a large jump in prices since around 2007.

²⁴ Tasmanian Agricultural Productivity Group Board meeting June 2011

²⁵ The Weekly Times, Opinion: A food Plan is Essential for Industry to Weather a 'Perfect Storm', Kate Carnell, 8 June 2011

²⁶ Tasmanian Agricultural Productivity Group Board meeting June 2011

²⁷ TFGA correspondence, 23 September 2011

²⁸ Terry O'Brien, Simplot, presentation to the PMA Forum, 22 September 2011

The 2007-08 Tasmanian Competition Index shows that New Zealand had lower overall energy costs than Tasmania for all forms of energy other than fuel.

Prices are expected to continue to increase in the next few years. As significant power users, vegetable processors in Tasmania report that they have been adversely affected by these price increases.²⁹

Access to energy can also be an issue in some instances. Tasmania's electricity generation is dominated by hydroelectricity, which accounts for 81 per cent of the installed capacity in the State. Natural gas has only been available in the state for a relatively short time and the gas reticulation network runs past a limited number of properties.³⁰ As such, many food processors do not have ready access to natural gas and this lack of competition can impact on costs.

For example, extension of the natural gas network to Smithton could facilitate further development of dairy and other food processing in the region.

Labour

It has been suggested that Australian farmers and workers have higher expectations of prices, wages and conditions than other producing nations.³¹ Labour costs are high and employers view conditions as inflexible, adding costs throughout the supply chain. Research has shown that some New Zealand growers operate with lower margins than Tasmanian producers. On average, Tasmania is seen as a higher cost and lower yielding producer than New Zealand and other importing countries.³² While there has been specific research into comparing Tasmanian agricultural production costs with those experienced in other countries (specifically New Zealand), limited publicly available research has been done into comparing the processing costs of Australia and importing countries.

Water

The cost of accessing town water and managing waste water in Tasmania is considered relatively high by processors. Water costs for processing have increased in Tasmania and this has had a significant impact on competitiveness. For example, a multi-national food processor with facilities in both Tasmania and the USA has reported that water and waste water costs in Ulverstone, Tasmania are more than twice that of cost of similar services in the USA. Industry expects that water costs will continue to rise.³³

²⁹ DEDTA, McCains Taskforce Study: An assessment of the relative cost competitiveness of process vegetable production in Tasmania and New Zealand, November 2010

³⁰ Electricity Supply Industry Expert Panel, Tasmania's Energy Sector – an Overview, April 2011, available at: http://www.electricity.tas.gov.au/issues_paper, accessed 12 September 2011

³¹ Tasmanian Agricultural Productivity Group Board meeting June 2011

³² Davey and Maynard, Process Vegetable Cost of Production Comparison: Tasmania and New Zealand, A report prepared for the Department of Economic Development, Tourism and the Arts, February 2011

³³ DEDTA, McCains Taskforce Study: An assessment of the relative cost competitiveness of process vegetable production in Tasmania and New Zealand, November 2010

(f) The effect of international anti-free trade measures

Australia has a relatively free market and allows products to enter Australia to compete with Australian product. Australia's relative size means that it has less scope to protect its own markets or to influence larger markets to be more open.

International free trade measures may lead to opportunities for Australian processors to enter new markets. However, accessing some markets with protectionist measures still in place, such as large markets like the USA and Japan, can be difficult.

In many of the bilateral and multilateral Free Trade Agreements favourable treatment is negotiated for major Australian commodities such as beef and wheat, while Australian grown horticultural produce tends to receive little to no improvement in its trading position. This makes it difficult for processed horticultural products to be competitive in international markets.³⁴

Tasmanian industry has indicated that it believes that Australia tends to focus on multi-lateral trade agreements which take longer to be developed than bi-lateral agreements. Australia could be at risk of falling behind its competitors if they have achieved bi-lateral arrangements with important export markets and Australia has not.

(g) The access to efficient and quality infrastructure, investment capital and skilled labour and skills training

Freight

Transport infrastructure is a significant area of concern and interest to most Tasmanian businesses selling interstate and overseas.

Tasmania previously had a direct shipping link from Bell Bay in the state's north to Singapore, however this service was discontinued and there are now no overseas links operating from the state. There are now less shipping options available to Tasmanian food processors and shipping costs have risen.

Industry has reported that delivering product by sea to the Australian mainland costs an extra \$30 per cubic metre, compared to equivalent land freight.³⁵ Given this, the Tasmanian Freight Equalisation Scheme is viewed as vital to Tasmanian food processors and producers. If the scheme was ever to be reduced or removed it would severely affect the viability of a large number of food businesses that already suffer a freight cost disadvantage.

The Freight Equalisation Scheme does not cover international exports, but does apply to product being sold on the mainland.

The Tasmanian food processing industry has indicated that that the annual review of the key assistance parameters of the Freight Equalisation Scheme create a business risk for

³⁴ TAPG correspondence, 22 September 2011

³⁵ TFGA correspondence, 23 September 2011

Tasmanian businesses selling interstate. Certainty over the future of the scheme is important to retaining existing operations and the future investment plans of industry.

The introduction of the Fair Work Act 2009, associated regulations and a new industry specific Award system has brought about significant changes to labour arrangements for foreign ships that operate within the exclusive economic zone of Australian waters and move freight under cabotage arrangements.

Part B of the Seagoing Industry Award commenced in 2011. Foreign ships operating under permits within Australian waters, regardless of their country of origin, are now required to provide at least the minimum entitlements stated in the award. Industry has stated that this change could result in lost services, which will in turn affect transport costs.³⁶ Indeed, Tasmania's direct international cargo shipping links have been terminated in the past year.

The Tasmanian Government, through the Department of Infrastructure, Energy and Resources, is committed to the implementation of the Infrastructure Strategy and its alignment with the Economic Development Plan. A priority initiative is the implementation of the Freight Strategy. This strategy will provide a clear direction for Tasmania's future freight system.

The strategy will identify opportunities to maximise the use of existing infrastructure and make strategic infrastructure investments to expand capacity where it is needed most.

Skilled Labour and Skills Training

Some producers and processors have experienced problems in accessing 'work ready' staff for lower skilled positions. Finding people able and willing to undertake hard physical labour can be difficult and industry increasingly relies on students and backpackers to meet their needs.

Similarly, some sections of industry have reported problems in attracting and keeping technical skills for maintenance and electrical repairs. It is challenging to attract and retain skilled engineers as the food production and processing sector must compete with the higher-paying mining industry.

Some processors have an ageing workforce and they find it difficult to attract young people to the industry. Some businesses are implementing succession plans to address this issue.

The Tasmanian Government is addressing skills issues predominantly through Skills Tasmania, which is responsible for implementing the Tasmanian Skills Strategy. The implementation of the Skills Strategy will align with the sectoral and regional economic development strategies of the Economic Development Plan. Subsequent collaboration will identify industry skills needs and streamline consultation with industry.

³⁶ DEDTA, McCains Taskforce Study: An assessment of the relative cost competitiveness of process vegetable production in Tasmania and New Zealand, November 2010

TAPG would like to see benchmarking done to demonstrate where Australia sits in training and skill development in the food production and processing sectors when compared with competing countries.

(h) Other related matters

Genetically Modified Organisms

The Tasmanian Government has maintained a policy on gene technology and primary industries since 2001, including a moratorium on commercial release of genetically modified organisms (GMOs) to the Tasmanian environment. This position was adopted because a Parliamentary committee found there was potential for use of gene technology to impact negatively upon Tasmania's ability to market Tasmanian produce locally, nationally and internationally, under a clean, green banner. The policy was reviewed in 2003 and again in 2007-08 extending the moratorium until November 2014.

TAPG has indicated it would welcome a proactive discussion on GMOs, based on strong science, before further policy decisions are made.³⁷

³⁷ TAPG correspondence, 22 September 2011

Conclusion

As outlined throughout this report, the food production and processing sector is a vital component of the Tasmanian economy. However, while Tasmania, and all other regions of Australia, produce high quality, safe food products, there is a very real fear within industry that the viability of the food processing sector is under threat and there is evidence that Australian processors are finding it extremely difficult to remain competitive.

A key issue is the strength of Australian dollar, which has meant that Australian products and exports are relatively expensive and cheaper imports are more attractive.

The cost of key inputs such as raw materials, labour, energy and water have risen in Tasmania and throughout Australia and the expectation from industry is that these costs will continue to rise.

Increasing retailer power, decreasing infrastructure availability, increasing costs and issues related to food labelling all add to the challenges facing the food processing sector.

Tasmania is exposed to and suffers from these factors. In addition, Tasmania's distance to market forces an additional expense on the supply chain. The distance from major commerce centres also means Tasmania does not house the 'decision bases' for the major food processors within the state. Given this, reinvestment decisions are often made remotely and may be beyond the control of local management. This can lead to ageing infrastructure becoming unviable, which influences decisions to locate to cheaper production centres.

It is crucial that all levels of government continue to support industry and work collaboratively with industry to reduce costs, improve productivity and increase competitiveness.

Despite the challenges facing the sector, rising global demand for food products is likely to generate opportunities for food producers and processors. Tasmania has a substantial base of food processing businesses and, as outlined in this report, several of these businesses are making significant investments in the state. There is therefore reason to believe that food processing will remain an important industry in Tasmania into the future.