Senate Select Committee on Australia's Food Processing Sector Supplementary Questions from Private Briefing on 19 August, 2011

1. Provide a summary of the SWOT analysis discussed.[1]

Strengths	Weaknesses
Product safety and quality Availability/quality of public research institutions for R,D&E Low cost producers of input materials New R&D Tax Credit will result in larger credit and all research for all sized businesses including multinationals where IP may be taken off shore – with flow on benefits. On the door step of East and South Asia – a rapidly expanding market Educated, productive, innovative, motivated and multilingual and multicultural workforce Domestic market is growing and economy is resilient Stable political system, governance and openness Open trade regime Intellectual property enforcement One of the easiest places to start a business Counter-seasonality with northern hemisphere Available energy, raw materials and land for large scale food production. Advantage in broad-acre agricultural crops with low labour – cereals, oilseeds, beef, sheep, sugar and diary Disease-free status	Small market means manufacturing economies of scale are difficult to achieve without further consolidation of the sector and/or a significant increase in exports. Lack of scale is exacerbated by penalties for gaining scale such as payroll taxes and competition law potentially blocking consolidation. Remote market (not on the radar of European or USA multinationals) Land and factories are expensive to set up and labour costs are higher than in the developing countries Freight costs to reach market are high Companies claim that margins are already low. Low levels of unemployment – competition for skilled/unskilled workers is high Due to size of country and low population, infrastructure struggles to keep pace with needs Comparative lack of R&D expertise in many SMEs to innovate Translational research, i.e. current difficulty in converting business problems/issues, especially for SMEs, into coherent, cost effective, and profitable R, D&E projects. Unlevel playing field, i.e. Australia contra overseas, e.g. tariffs; level of government subsidies The current level of regulation across all levels of government lacks strategic cogency

[1] . This represents preliminary work only and is based on input from Food Processing Industry Strategy Group individual input; a Strategy Group facilitated workshop on the 15 August 2011 plus Departmental input. It is expected that this SWOT will undergo further refinement once the industry survey and literature review – domestic and international – has been completed.

Market status – Two dominant supermarket customers can make sales and marketing easier for producers.	and direction and can inhibit efficient regulation reform Local market structures e.g. Duopolies, Coles, Woolworths Technophobia e.g. fears of GMO and nano-tech food. Training – declining numbers of food scientists and food technologists – labour availability and labour retention
Opportunities	**Threats**
32% increase in world population by 2050 (mainly in Africa and India) Increasing middle class in China and India – will desire safe/quality/quick foods Increasing demand for: livestock products e.g. meat, milk, eggs; feed grains, vegetable oils; and sugar Lifestyle trend for middle class – link between food-health Reduction in post harvest wastage	High Australian dollar impacting on competitiveness of domestic industry It is claimed that it is difficult for SMEs to get access to customers as the two big retailers are limiting variety on their shelves Expansion of private label range of the two big retailers is putting downward price pressure on manufacturers (retailers will source overseas manufacturers to meet need if not provided by local market) Possible increases in raw material/input costs that are difficult to pass on (droughts, land degradation, water supply, energy costs can impact as can slowing rate of growth of agricultural productivity, use of resources to grow biofuels with government mandates or subsidies) Barriers to export trade – protectionism from other countries Push to use regulation for other purposes beyond food safety e.g. health promotion Lack of certainty regarding Government policy/regulation inhibiting investment and innovation, e.g. Palm oil; Labelling Logic.

2. Provide, if possible, any figures on unemployment in regional areas affected by the closure of food processing related companies. This included discussion of what the committee termed a 'multiplier effect' but I think they meant economic impact.

We have not been able to obtain comprehensive national figures on unemployment in regional areas affected by recent closures of food processing related companies. However, we do have information on recent food processing job losses in Victoria, Queensland and Tasmania (see Attachment A).

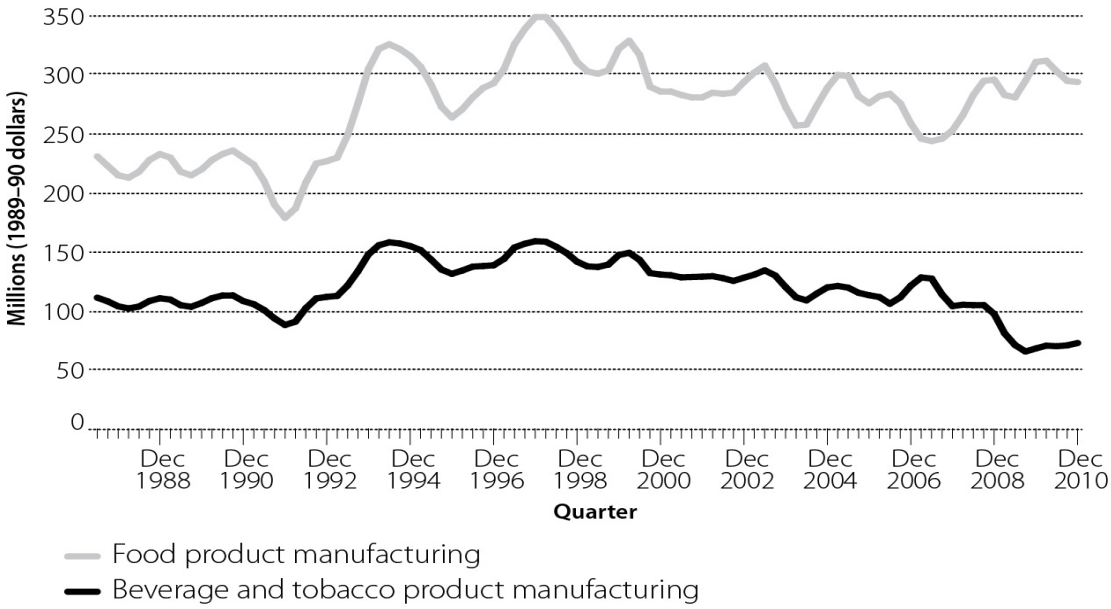
Advice received from the Victoria Department of Primary Production is that they have not undertaken any economic modelling or analysis for the forecast closures/downsizing in the food processing sector and do not have the capacity to do this at present. DIISR also does not have the capacity to undertake analysis of the potential impact of these job losses on the regions where they are located.

While there has been job losses/rationalisation in some areas of the 238 subsectors that comprise the Australian processed food sector there have been job gains and investment in others; see response to question three.

3. Provide an overview of investment in food processing sector particularly growth areas.

Total domestic investment in new capital (that is, tangible assets including equipment, plant and machinery, and building and structures) by private enterprise in the food product manufacturing sector has been decreasing slightly since 1998 (figure 1), but for the past few years has begun to trend upwards. Total investment in new capital in the beverage product manufacturing sector has also been decreasing steadily since 1994.

Figure 1: Total new capital expenditure/investment by private enterprise, 1987 to 2010



Source: ABS 2010b, *Private New Capital Expenditure and Expected Expenditure, Australia*, cat. no. 5625.0, Australian Bureau of Statistics, Canberra.

Foreign investment in Australian food production also continues to provide an important impetus to the sector/s:

Table 2: Approvals for proposed foreign investment in agriculture, forestry and fisheries in Australia, 2005-06 to 2009-10

Financial year	Agriculture, forestry and fishing proposals (no.)	Value of agriculture, forestry and fishing proposals ($b)	Percent of total proposed investment in financial year (%)
2009–10	17	2.3	1.0
2008–09	12	2.78	1.5
2007–08	11	2.49	1.3
2006–07	4	0.1	0.06
2005–06	2	0.01	0.01

Source: FIRB, *Annual Reports*, Foreign Investment Review Board, Canberra, available at http://www.firb.gov.au/content/publications.asp?NavID=5

To save on operating costs and ensure longer term sustainability, the food and beverage processing sector is investing in more energy efficient machinery and equipment (IBISWorld 2010). Australian farming and fishing enterprises continue to produce most agricultural and fisheries products consumed in Australia.

Consistent with the trend upwards in total domestic investment in new capital in the food and beverage sector in recent years are the following:

The Victorian Government has facilitated investments from a range of companies including:

- European diary company Danone and Victorian diary company Murray Goulburn Co-operative established a joint venture business to manufacture products for the yoghurt sector in the Kiewa Valley. The project is expected to create up to 80 jobs over five years and involve an investment in excess of $20 million.

- Fonterra dairy company embarked on a project to double the size of its Echuca plant to bring its "Ski" yoghurt products line in-house. The Victorian Government provided Fonterra with assistance in the form of a Community Regional Industry Skills Program grant, which offers training support to ensure the success and transition of the "Ski" yoghurt line into the Echuca plant. This investment will ensure the long term viability of the facility with the creation of 20 new jobs.

The Tasmanian Department of Economic Development, Tourism and the Arts has advised DIISR officers of planned investments in the Tasmanian processed food sector that include: National Foods planning a $150 million expansion of cheese making capacity in Burnie and a new company, Tasmanian Dairy Products, planning a new $50 million milk powder plant in Smithton.

Smallgoods and value-adding company Primo has also recently announced plans to expand its beef-based product range by building Australia's largest smallgoods facility at Wacol, in Brisbane's west. The new $130 million facility is expected to create 600 new jobs and will be a 'best-in-class' large scale manufacturing plant comprising food processing, cold storage and distribution arm.

4. Provide details on how Enterprise Connect works i.e. the sort of assistance provided how often it is accessed.

Enterprise Connect (EC) is an Australian Government initiative, and a division of the Department of Innovation, Industry, Science and Research.

EC has a network of 12 centres located across the country that provide business improvement services to small and medium businesses in wide range of industries, including manufacturing, clean technology, resources, defence and the creative sector.

EC services are available to eligible businesses whether they are located in metropolitan areas, country centres or remote Australia.

EC centres are staffed by highly skilled Business Advisers who provide access to specialist expertise and the best available technical and business resources to help businesses transform and reach their full potential.

Eligible businesses can request a comprehensive, confidential and independent Business Review at no charge. A Business Adviser will work with people at various management and operational levels of the business to develop a thorough view of:

- strengths and weaknesses of the business
- strategic issues
- potential areas for business improvement and
- potential areas of growth

EC also delivers a number of targeted support programs to address specific business and regional development needs, for example the Tailored Advisory Service (TAS) grant. The TAS grant gives businesses the opportunity to undertake a project to make the improvements that an EC Business Adviser has recommended in a Business Review. The TAS grant reimburses businesses half the cost, up to a maximum of $20,000 (excluding GST), of engaging a consultant.

Food and Beverage Industry Engagement with EC

Since its establishment, EC has engaged with over 350 food and beverage (F&B) clients. As of 31 December 2010, 102 TAS grants, with a total value of $1,107,769 had been approved.

Enterprise Connect's Food Processing Industry Support Network is a specialised national group. It brings together Business Advisers with specialist expertise and networks, and helps Australian businesses in the food processing sector who transform products for consumers and other up stream processors. It is targeted at improving operations, productivity, competitiveness and sustainability by providing professional business advice, development services and linkages. Firms are quite evenly split between urban and regional locations and approximately half (52%) of the clients' turnover is less than $5m, a further 21% reported turnover between $5m and $10m.

5. Provide details on how the Clean Technology Food and Foundries Program operates.

The Government has allocated $200 million over six years to the Clean Technology Food and Foundries Investment Program. The program will assist trade exposed food and beverage processing and metal foundries to transition to a carbon price and to embrace less emissions-intensive and more energy-efficient production processes. Businesses that invest in improving their energy efficiency will benefit from reduced energy costs.

The program targets Australian businesses in food and beverage processing and metal forging and foundries industries. The food processing sector will have a dedicated funding stream of $150 million. Competitive grants will be provided to improve the energy and/or carbon efficiency of production processes.

For grants for manufacturers with a turnover of less than $100 million requesting funding under $500,000, funding will be on a 1 to 1 basis, industry and government.

For all other grants under $10 million, applicants will be required to contribute $2 for every $1 from the Government.

For grants of $10 million and over, applicants will be expected to make a co-contribution of at least $3 for each $1 of Government support.

Examples of eligible projects could include:

- supporting the adoption and deployment of technologies to reduce energy use and/or carbon emissions at manufacturing facilities;
- process re-engineering involving the adoption of energy or carbon efficient manufacturing;
- supporting the conversion of facilities from coal to natural gas;
- investing in cogeneration plants; and
- assistance with the implementation of energy efficiency opportunities.

6. Provide a breakdown, if possible, of the $4.3bn in R and D in the food processing sector. Is it possible to identify the percentage that is industry funds?

The figure of $4.3 billion was obtained from the Department of Agriculture, Fisheries and Forestry's 'Australian Food Statistics 2009-10', Table, 3.10 and is based on Australian Bureau of Statistics (ABS) unpublished data: http://www.daff.gov.au/__data/assets/pdf_file/0011/1910819/food-stats2009-10.pdf refers. The figure of $4.3 billion investment in R&D for 2008-09 was for the whole manufacturing sector.

However, the table is open to interpretation. Subsequent analysis of published ABS data - 81040DO004_200809 Research and Experimental Development, Businesses, Australia, 2008-09 refers – indicates that food, beverage and tobacco R&D investment in 2008-09 was approximately $447 million, $441 million of which was business funded.

7. Identify what percentage of the $249m funding for CRCs is government or industry.

The Cooperative Research Centre (CRC) program provides funding to build critical mass in research ventures between end users and researchers which tackle clearly articulated, major challenges for the end users. CRCs pursue solutions to these challenges that are innovative, of high impact and capable of being effectively deployed by the end users. Agricultural and manufacturing CRCs have been conducting research for the food industry since the inception of the CRC program in 1991. As of July 2011, there are eight active CRCs in the food industry. These CRCs have been contracted to receive a total of $243 million in program funds over the period 1 July 2005 through to 30 June 2019, a slight adjustment of $6 million from the figure quoted originally to the Senate review.

Active CRCs with research in the food industry as at 1 July 2011

CRC Name	**CRC Program Funding (million)**	**Grant End Date**
CRC for National Plant Biosecurity	$33.5	30-June-2012
CRC for Beef Genetic Technologies	$30.0	30-June-2012
CRC for Sheep Industry Innovation	$35.5	30-June-2014
Australian Seafood Cooperative Research Centre (Seafood CRC)	$35.5	30-June-2014
Future Farm Industries CRC	$34.1	30-June-2014
Dairy Futures Cooperative Research Centre	$27.7	30-June-2016
Poultry CRC	$27.0	30-June-2017
CRC for High Integrity Australian Pork	$19.9	30-June-2019
Total	**$243.2**	
Resources for active CRCs with research in the food industry		
Total Participant Contributions	$691 million	
Total Program funds	$243 million	
Total Other firm cash	$18 million	
Grand total	**$952 million**	

CRCs can receive funding from industry, Commonwealth and State government agencies, the research sector and from other sources. Given the various mechanisms through which organisations contribute to CRCs the level of support from industry is likely to be higher than what is reported here. Also, historically actual contributions tend to be higher than the contracted contributions.

Of the contracted $691 million in participant contributions to food related CRCs, over $200 million comes from industry. These contributions are comprised of cash, staff in kind contributions and non staff in kind contributions.

8. Provide information about CSIRO staff numbers.

The majority of CSIRO's research into food processing and food manufacturing is within the CSIRO Food, Health and Life Science Industries Group which at 1 July 2011 consisted of 1085 FTEs. There has been no material change to these numbers to date (March 2012).

CSIRO officers are employed by Divisions (their capability "home") but are deployed to Flagships and a small number of capability "Platforms". With respect to deployment, the following is a list of FTEs deployed to Flagships and capabilities within the CSIRO Food, Health and Life Science Industries Group:

Capability	FTEs deployed to each capability as at 1 July 2011 (no material change at March 2012)
Food Futures Flagship	149
Preventative Health Flagship	94
Sustainable Agriculture Flagship	197
Plant Industry Division	289
Food and Nutritional Sciences Division	119
Livestock Industries Division	180
Transformational Capability Platform	25
Group Executive Office	32
Total	1085

With respect to employment, the following is a list of CSIRO Divisions in the CSIRO Food, Health and Life Science Industries Group and the number of CSIRO officers employed within each Division:

Division	Total number of staff (headcount)
Food and Nutritional Sciences Division	266
Livestock Industries	329
Plant Industry	577
Group Executive Office	31 (Flagship Offices, Communication staff, etc.)

9. Provide some high-level information on the 350 business reviews.

Enterprise Connect has carried out over 350 business reviews of food processing companies. The business reviews address a range of issues.

Generally, business reviews address the following:

Human Resources
Exploring New Markets
Advertising and Marketing
Strategic Business Activities
Production / Operational
Internal Systems
Financial Management Systems
Product and Service Development
Government Relationships
Environmental

EC Business Advisors who work with the food processing sector report the following key issues:

For clients who sell domestically, their biggest issue is a lack of market power. Coles and Woolworths occupy 85% of the Australian market and thereby determine prices and conditions to the SMEs who sell to them. The SMEs operate on very slim margins. There are opportunities in identifying niche markets and developing products to cater to these markets (e.g. airlines), or selling into areas with higher-profit margins (e.g. Canberra).

Very few food-processing SMEs have a strategic plan, a marketing plan, and many are poorly managed. Many are family-run, and they lack business management skills. Most firms do not know their own costs. The majority of EC Business Review recommendations for this sector fall into 'Strategic Business Activities', which reflects this finding.

Many products have a short shelf-life. Coles and Woolworths require businesses that they trade with to pay for "wastage", if the products don't sell in time. There is opportunity in extending products' shelf life. Researchers in Business grants have been used here for food technology advancements.

For clients who export their products, their biggest issue is the exchange-rate, due to the rising Australian dollar. For example, in the case of one South Australian firm, exports have fallen from 35% to 20% of business as French and Swiss competitors win contracts / tenders away from the firm, as they come up for renewal.

The biggest skill shortage in this sector is in management skills, and the skills required to manage businesses well. The sector historically has a low skill and low wage levels, and a significant percentage of the work is characterised has transient.

Companies are typically high consumers of energy, water and generators of waste.

Cost to market is a major issue, generated through high transport costs and large distances to market

There is an aging workforce in the sector, particularly on the factory floor.

In the smaller companies there is a marked lack of R&D capability and poor engagement with outside organisations which could provide this assistance

10. Provide information on ARC funding for food processing sector.

The Australian Research Council (ARC) funds research and researchers under the National Competitive Grants Program (NCGP).

The NCGP comprises two main elements - *Discovery* and *Linkage* - under which the ARC funds a range of complementary schemes to support researchers at different stages of their careers, build Australia's research capability, expand and enhance research networks and collaborations, and develop centres of research excellence. The ARC *Discovery* programs fund individual researchers and projects.

The ARC *Linkage* programs help to broker partnerships between researchers and industry, government and community organisations as well as the international community.

Administration of the NCGP is usually scheme-based and across the following inter-disciplinary groupings:

- Biological Sciences and Biotechnology
- Engineering Mathematics and Informatics
- Humanities and Creative Arts
- Physics, Chemistry and Earth Sciences
- Social, Behavioural and Economic Sciences

Funding recommendations are made to the Minister for Innovation, Industry, Science and Research – now the Department of Industry, Innovation, Science, research and Tertiary Education - by the CEO following independent and extensive competitive peer review by Australian and international experts.

ARC funding for projects relating to the food processing sector

From 2002 to 2010, $13,577,471 was provided under the *Linkage Projects Scheme* and the *Discovery Projects Scheme* to fund 54 research projects relating to the food processing sector.

Most of the research conducted was related to health/nutrition and product and processing improvements. Some projects were specifically focusing on research of interest to the dairy industry.

ATTACHMENT A

Victoria and Queensland

National Foods' Simpson and Campbellfield Facilities

- National Foods Limited is one of Australia's largest food and beverage companies, with core activities in milk, fresh dairy foods, juice, soy beverages and specialty cheese.

- National Foods is part of the Lion Nathan group, which is 100 percent owned by the Japanese brewery Kirin. Dairy Farmers was purchased by National Foods and is currently being merged into its operations. The dairy/juice entity is understood to have a turnover of in excess of A$3 billion for 2009-2010 financial year.

- On 24 August 2010, National Foods announced an extensive review of dairy operations. The sites included in the Review were Simpson and Campbellfield in Victoria, Jervois and Murray Bridge in South Australia, Kings Meadow, Burnie, King Island and Heidi Farm in Tasmania and Malanda, Queensland.

- The Review considered duplication in its network, the long-term viability and sustainability of its sites and looked at innovation, technology and current and future environmental requirements.

- On 16 March 2011 the Company announced the outcome of this review and the decision to close its Simpson and Campbellfield plants.

- Production at these plants will be phased out and closure is currently scheduled for sometime in mid 2013 with the loss of up to 133 jobs (47 in Simpson; 86 Campbellfield).

- National Foods has announced it will fully support its workers and their families through the process, offering outplacement support and free, confidential counselling through its *Employee Assistance Program*.

- In addition to National Foods' assistance, the Victorian Government will offer all those affected our *Employment Response Plan*.

- The Victorian Government is working with the company regarding future options for both sites; and is also assisting the Corangamite Shire explore potential opportunities for the Simpson facility.

Heinz Girgarre

- The H.J. Heinz Company has a world-class portfolio of brands, with approximately one hundred and fifty brands holding number-one and number-two positions across five continents. The company is one of the world's leading marketers and producers of food in their three core categories:
    - ketchup and sauces;
    - meals and snacks; and
    - infant/nutrition.

- Heinz has been processing in Australian since 1935. The company's major brands in Australia include Heinz, Farex, Greenseas, Tom Piper, Watties, Weight Watchers, Cottee's, Monbulk and Big Red.

- There will be 160 jobs lost at Golden Circle's Northgate plant in Brisbane (beetroot processing); 146 jobs at Girgarre in northern Victoria and 38 jobs at Wagga Wagga in NSW.

- Heinz is seeking to ensure the long-term future of their Australian and Victorian operations and challenging economic conditions coupled with the recent floods (50-70% tomato supply losses), influenced their decision to close the Girgarre plant. Production of sauces will be moved to New Zealand.

- A graduated close of the Girgarre will commence from September 2012.

- The Victorian Government is working closely with Heinz as they work through the closure of this facility. The Government will support all affected Heinz workers by providing them with an opportunity to retrain or build on their current skills through the Victorian Training Guarantee

- Heinz has appointed a local HR advisor who is working with the Victorian Government's Bendigo office to ensure as much support as possible is provided to those affected.

- Heinz has stated that all employees will be provided with support through their outplacement program. Support will be provided including counselling, job search services, new skills training and retirement planning.

SPC Ardmona

- SPC Ardmona Pty Ltd (SPC) was acquired by Coca-Cola Amatil (CCA) on 25 February, 2005. CCA operates SPC as a separate business unit and the company currently has processing facilities in Shepparton and Mooroopna, in Victoria's "Food Bowl".

- SPC Ardmona is one of the largest employers in the region and is Australia's premier fruit and vegetable processing company.

- In May 2011, CCA announced that a review of the SPC Ardmona operations was underway with the outcome of that review was announced on 9 August 2011.

- A total of 150 jobs across their facilities will be lost, the majority after the 2012 season but some by December 2011.

- Affected workers will receive their full entitlements and will be given the opportunity to apply for alternative positions across the broader CCA business.

- The Victorian Government will support all affected SPC Ardmona workers by providing them with an opportunity to retrain or build on their current skills through the Victorian Training Guarantee.

- This announcement will not affect growers. SPC Ardmona will require their existing quota of fruit from the Valley (approx 140,000 tonnes p.a.)

- SPC Ardmona will continue to utilise their warehousing facilities at Mooroopna.

- SPC Ardmona will still require seasonal workers.

Tasmania

McCain Foods

Background

On 20 November 2009, McCain Foods' (McCain) announced their intention to close their mixed vegetable processing operation at Smithton and transfer processing to its Hastings plant in New Zealand. This decision involved the cessation of processing in April 2010 and packaging as from November 2010. The cessation of vegetable production saw the retrenchment of 115 full time employees and 85 casual staff with around 100 farmers across north and northwest Tasmania directly affected.
The Premier, Treasurer and Bryan Greene MP met with McCain management on 27 November in Melbourne in an endeavour to convince the company to reverse this decision. However the company maintained its position. The Premier did confirm that McCains would invest $2.5 million to upgrade the chip production facility at the Smithton plant.

Facts

- April 2010 – close processing line
- November – close packaging line
- Between FTE 101 – 115 FTE staff will be affected. McCains has advised DEDTA that this applies to
  - 73 low skilled workers
  - The remaining staff: supervisors, administration, management , processing and technical staff
  - Casuals:75 – 85 ranging from seasonal and call ins
  - The average age of the workforce was 45 years of age
  - There were a large number of long term employees

Crop Processing

Peas	December to late January
Beans	February to late March
Carrots	March to April

Some potato processing in vegetable plant – quantity unknown

McCain has committed to a $2.5 m investment in potato plant equipment. The project timeline was January – April 2010

Community Impact

- Up to 200 McCain jobs
- 100 farmers (across north and north west)
- future crop uncertainty
- crop rotation choices
- reduced $ return
- on farm jobs unknown

Farm support

- irrigation, fertiliser, chemicals, harvesting crop and transport providers

McCain Supply Chain

- plumbing – R Spinks
- Sheet metal – Jensen
- Kingston Bros
- BJR/Webster
- Safety Suppliers
- Transport (Toll Transport/others?)
- Toll Shipping for all export to mainland and overseas
- Searoad Shipping for all vegetable imports
- Aurora
- Cradle Mountain Water
- Cold stores
- Britton Timbers - Sawdust provider for McCain boiler
- Other to be confirmed

Community Support

- Retail, services