Submission to:

SENATE SELECT COMMITTEE

On

AUSTRALIA'S FOOD PROCESSING SECTOR

Submitted by:

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18 October 2011

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1. Introduction

The Australian food and grocery manufacturing industry has an annual turnover of some $102 billion and accounts for 28% of the manufacturing sector.

Campbell Arnott's operates four Australian manufacturing centres in four States. Approximately 99% of all Campbell Arnott's products are made in Australia.

However in recent years, media reports have covered the closure and off-shoring of a number of other companies' significant food processing and manufacturing operations.

There are a range of pressures faced by the Australian food processing sector, including relatively high cost of inputs (ingredients and labour), the high Australian dollar, complexity of the regulatory regime, taxation imposts and the ongoing investment required for innovation.

There are also some important benefits to manufacturing in Australia. We have access to high quality, locally-produced raw ingredients; quarantine protections and strong safety regulation for food supply; strong controls on intellectual property; a skilled workforce; and, with the increasing number of free trade agreements, new opportunities for exports.

Campbell Arnott's welcomes the opportunity to provide input to the Senate Select Committee on Australia's Food Processing Sector in an effort to ensure a strong, competitive and sustainable food processing sector into the future.

Campbell Arnott's is a member of the Australian Food and Grocery Council ("AFGC") and supports the comprehensive AFGC submission which has been provided to the Committee.

This submission highlights the areas of greatest significance to Campbell Arnott's and its operations.

2. About Campbell Arnott's

Campbell Arnott's has a strong tradition of local manufacturing and is one of the largest food manufacturers in the region, employing more than 2,500 staff across Australia. The company manufactures a broad range of products across the baked snacks, simple meals and healthy beverages categories. Icon brands within its portfolio include *Country Ladle*, *V8*, *Real Stock, Tim Tam*, *Tiny Teddy*, *Shapes* and *Vita Weat.*

Campbell Arnott's has four manufacturing sites around Australia – in New South Wales, Queensland, Victoria and South Australia – and its Asia Pacific headquarters are located in Sydney.

In addition to manufacturing for Australian consumers, Campbell Arnott's exports Australian-made products to more than 40 countries.

Campbell Arnott's spends around $300 million each year purchasing raw ingredients and services from local farmers and businesses.

3. Food Labelling

With the recent release of the Blewett Review of Food Labelling Law and Policy (2011) the role of the food label has been debated in detail. The Review makes 61 recommendations many of which have the capacity to add significant governance and hence cost to the food processing sector.

Campbell Arnott's believes that an overarching food labelling policy should;

- Apply a level of regulation proportionate to consumer health and safety risks
- Ensure consumers are able to make an informed choice, by promoting consistency in labelling and preventing misleading and deceptive conduct
- Ensure clarity and certainty for implementation and enforcement; and
- Recognise the commercial nature of the label and the rights of manufacturers to communicate with their consumers in a variety of ways.

The principal purpose of food labelling must be to protect public health and safety. The primacy of public safety dictates clear regulation and mandatory labelling requirements where direct risks to health exist including storage and use, allergen and ingredients labelling.

Secondary public health objectives, while still valid, require a different level of regulatory response – one which ensures consumers are provided with clear, consistent and relevant information from which they can make informed decisions about their individual health needs. Labelling can and should play a role in helping consumers to construct sound diets. However, it should not be used to simplistically categorise foods as good and bad.

Beyond mandated labelling requirements for food safety and the consumer protection provisions of the Competition and Consumer Act 2010, choice between like products comes as a result of market forces and individual requirements. Codes of practice have proven broadly effective in managing consumer driven issues, allowing industry the flexibility to react quickly and responsibly to consumers' changing demands while maintaining a safe, secure and efficient food industry.

In considering the implication of labelling the Senate Select Committee should ensure the minimisation of burden on the food processing sector in line with the Council of Australian Governments ("COAG") principles of minimum effective regulation.

4. Cross-jurisdictional regulations

While food policy is generally determined nationally, it can be implemented or interpreted differently in each State. Overlaid with specific State-based legislation, this leads to significant duplication, discrepancies and inconsistencies of effort across many aspects of commercial, food and safety law. The Blair Review in 1998 and the Bethwaite Review in 2008 sought to review and make recommendations on ways to minimise these burdens. These are in keeping with the regulation reform agenda of COAG, which seeks to:

"deliver more consistent regulation across jurisdictions and address unnecessary or poorly designed regulation, to reduce excessive compliance costs on business, restrictions on competition and distortions in the allocation of resources in the economy."

The primacy of public safety dictates clear regulation. Beyond this, Campbell Arnott's supports the principle of minimal and consistent regulation.

When considering regulation, the Select Committee must also consider enforcement and the application of a level playing field for both domestic and imported product. In the current market there are a significant number of examples of imported product, especially prevalent in small independent retailers that at best are only partially compliant with Australian food regulations.

Campbell Arnott's supports a uniform approach to enforcement and would draw the Committee's attention to recommendation 57 of the recently published Blewett Review of Food Law and Policy (2010):

"Recommendation 57: That monitoring and enforcement of food labelling requirements of the Food Standards Code (accuracy as well as the presence of labelling information) be considered equally important as other aspects of the Food Standards Code and the responsible agencies be given the appropriate level of resources to meet their obligations."

5. Research and Development

Innovation is critical to maintaining a strong and vibrant food sector. The consumer environment and, therefore, consumers' tastes and needs are constantly changing. Consumers are driven by foods providing wellness (physical or mental wellbeing), taste, convenience, value and, more recently, sustainability. Industry must innovate to deliver on these "benefits" but it also needs to innovate to minimise costs and remain competitive in an increasingly global market.

Over the years, the Australian Government, through a series of incentives has supported innovation across the food supply. Such schemes as the AIR&D grants, Tax Concessions for R&D, Food Industry Innovation Grants (FIG) and Co-operative research centres (CRCs) have all assisted in the development of

strong and ongoing innovation. Encouraging local research and innovation draws business to Australia and keeps manufacturing local.

Campbell Arnott's continues to manufacture and innovate locally. Over the years, we have invested substantially in innovation and new technologies, as well as participating in government incentive programs to support an innovative local environment. For example, through the Co-operative Research Centres program, Campbell Arnott's, working with Universities and the Department of Primary Industries, has seen the development of a number of new high yielding and disease resistant soft wheat varieties, which will provide certainty of supply of this critical raw material for many years to come. Similarly, through grants received under the AIR&D scheme, Campbell Arnott's developed an innovative cracker fermentation process resulting in improved quality, efficiency and reduced waste.

We invest continually in research and development to create new products and improve the nutrition footprint of existing favourites. For example, Arnott's recently reduced the level of saturated fat in *Shapes* by increasing the proportion of canola oil used. This has resulted in saturated fat reductions on average of 51% across the entire *Shapes* range. Arnott's wholegrain research team has also developed a range of *Vita-Weat* wholegrain products. Each serve of *Vita-Weat* crispbread provides more than 40% of the daily wholegrain target recommended by Go Grains Health & Nutrition. Using the Heart Foundation guidelines as a benchmark, by 2010 all Campbell's ready-to-serve canned soups met the Tick criteria for sodium of ≤300mg/100g.

Campbell Arnott's supports ongoing incentives for innovation in the market at all levels from small to medium enterprises up to larger national and multinational organisations. Options such as additional funding for collaborative research through FIG or CRC-type schemes or an improved R&D Tax Concession scheme to encourage local investment should be considered. The FIG and CRC models are particularly useful because of the co-ordination provided by secretariats to bring stakeholders together in a unified cause; the synergistic relationship with tertiary institutions; and because ownership of intellectual property can be shared equitably.

The nation has a significant innovation asset in the CSIRO. The model of assembling a multidisciplinary science organisation to work on blue sky innovation provides the opportunity to consider previously unrelated aspects of science in novel ways that provide new technical insights and innovation. Industry is generally unable to offer this breadth of scientific acumen. Yet the increasing requirement for CSIRO to be more self-funded can impact on its relationship with its clients. Campbell Arnott's supports the CSIRO's provision of fundamental research into the areas of manufacturing process, efficiency, health, safety and sustainability. These insights may be taken up by industry to generate broader value – through innovation and economic growth for the Australian food industry and improved health for the consumer.

6. Export arrangements

While the Australian market is healthy, the size of the market on its own is too small for large-scale investment. That is why local and multinational operators must look to export markets to gain sufficient return on investment. Access to markets is also predicated on an efficient and robust transport infrastructure.

Ongoing reduction in government services has had a detrimental impact on export. As an example, many countries require the provision of Health Certificates. These were previously issued by AQIS. Recent changes to the mandate of AQIS have meant they are no longer provided. This creates additional issues for the industry in accessing export markets. Such impediments to trade must be addressed to maximise the opportunities for further exports of processed food from Australia.

7. Impact of Australia's competition regime and the effectiveness of the Competition and Consumer Act 2010

Campbell Arnott's supports the need for a fair and robust retail environment where overarching consumer protection laws play an important part in maintaining a level playing field across industry sectors.

Campbell Arnott's also recognises that different industry sectors have specific requirements to ensure consumer protection and confidence is maintained. The food industry's provision of information relating to food safety is regulated through State and Territory Health Departments and FSANZ.

The recent implementation of "Mandatory Reporting" provisions under the Competition and Consumer Act has delivered considerable burden and cost to manufacturers and is an example of unnecessary additional regulation where the cost far exceeds any benefit.

Such reporting is unlikely to achieve its intended outcomes when applied to food, and may be counterproductive as it drives smaller businesses to report less and potentially ignore food safety issues as being "too hard" to manage. Current provisions for food Withdrawals and Recalls have proven to be adequate in addressing the needs of consumers and the food industry. The process is managed effectively through the industry sectors and through FSANZ as required.

Creating additional bureaucratic administration arguably has not resulted in a safer food supply and has added significant cost to industry. Based on figures released by the ACCC, Campbell Arnott's estimate the cost for the time taken to manage these new requirements across the processed food industry could be in excess of $4.3 million (annualised), which will increase as more of the small to medium enterprises become aware of their reporting obligations. This is in addition to regulatory agencies' costs.

Campbell Arnott's is aware of only one food recall that was a direct result of the Mandatory Reporting regulation. However, such action would have been taken with or without the Mandatory Reporting requirement.

We strongly question whether the cost benefit ratio warrants such additional regulation.

8. Access to skilled labour and skills training

With relatively low levels of unemployment, all industries are competing for a limited skilled workforce. By increasing the total number of skilled workers through vocational and apprentice programs and encouraging an increase in participation rates, this issue can be addressed.

Support for specific food industry training programs, whether in primary production, manufacturing or food service, will create additional interest in the sector and ensure a sustainable sector moving forwards. Rewards schemes such as the apprenticeship bonus scheme have been successful in drawing more workers into the market place and Campbell Arnott's supports the use of similarly structured incentive-based schemes for apprentices and graduates across the food processing industry and associated sectors.

Campbell Arnott's has found Research & Development and Technical Food Science roles particularly difficult to fill as a result of insufficient skilled professionals in the market place. This is driven by a lack of knowledge of the food sector at the "grass roots" and by a slow erosion of Food Science courses at many tertiary institutions. This is being addressed, in part, through the appointment of an AFGC Chair in Food Science at the University of Queensland, however, a national approach promoting the benefits of a career in food and additional funding for tertiary education and support would help ensure a sustainable food processing sector into the future.

There has been much debate about the importance of attracting high school graduates to science-related courses. We would like to see more promotion of food industry career options and greater encouragement of high school graduates to study university courses that provide a pathway to the food industry.

9. Conclusion

Campbell Arnott's is a proud member of the Australian food processing industry and welcomes the Senate Select Committee's Inquiry into this sector.

A competitive, efficient processed food industry in Australia will ensure a reliable, affordable food supply for all Australians, support Australia's primary producers and provide opportunities for economic development into the future.

Consistent and well-designed regulation, together with ongoing investment in innovation, research and skills development, can ensure sustainability and growth of the Australian food processing sector.