



Australian Government

**Department of Innovation
Industry, Science and Research**

SUBMISSION

**SENATE
SELECT COMMITTEE ON AUSTRALIA'S FOOD PROCESSING
SECTOR**

30 September 2011

DEPARTMENT OF INNOVATION, INDUSTRY, SCIENCE AND RESEARCH

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Terms of Reference

That a select committee, to be known as the *Select Committee on Australia's Food Processing Sector* be established to inquire into, and report by 30 June 2012 on the following matters:

- (a) the competitiveness and future viability of Australia's food processing sector in global markets;
- (b) the regulatory environment for Australia's food processing and manufacturing companies including but not limited to:
 - (i) taxation,
 - (ii) research and development,
 - (iii) food labelling,
 - (iv) cross-jurisdictional regulations,
 - (v) bio-security, and
 - (vi) export arrangements;
- (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;
- (d) the effectiveness of anti-dumping rules;
- (e) the costs of production inputs including raw materials, labour, energy and water;
- (f) the effect of international anti-free trade measures;
- (g) the access to efficient and quality infrastructure, investment capital and skilled labour and skills training; and
- (h) any other related matter.

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Executive Summary

The Department of Innovation, Industry, Science and Research (DIISR) has policy responsibility for food industry policy as well as a number of other areas germane to the food processing industry, including innovation and manufacturing policy.

DIISR provides information and comment on some of the industry and issues/challenges facing the sector as well as current portfolio support and programs available to the food processing industry.

The Australian Food Processing Sector

As at June 2009 the total number of businesses in the food and beverage processing sector, excluding tobacco product manufacturing was 12 624. Of those businesses, 12 437 (almost 99 per cent) were small and medium-sized enterprises (SMEs). (ABS 2006 ANZSIC)

The processed food industry in Australia is diverse – 238 subsectors - and is a vital component of the economy. The industry makes a significant contribution to the economies of regional areas through employment, business and service opportunities.

Key Facts

- The food and beverage sector consistently accounts for at least 18 per cent of employment in the Australian manufacturing sector. In 2009-10 employment in the industry was 226 750.
- The food and beverage industry was Australia's largest manufacturing industry in 2006-07 generating total sales and service income of \$79 billion from food processing in 2006–07, an increase of \$8 billion on the previous year.
- The food, beverage and tobacco processing industry produced \$21.7 billion of industry value added in 2009-10, which was 1.8 per cent of total GDP.
- Growth in the value of output of processed food, beverage and tobacco has averaged around 2 per cent a year over the past 10 years.¹
- Australia exported \$16.5 billion in substantially transformed food products and \$0.36 billion in elaborately transformed food products in 2009-10.
- In 2009 Australia exported 2.3 per cent of the value of world trade in processed food and imported 1.1 per cent of the value of food trade in processed food.
- The value of processed food imports decreased by 4.5 per cent in 2009-10 compared with the previous year.²

Investment

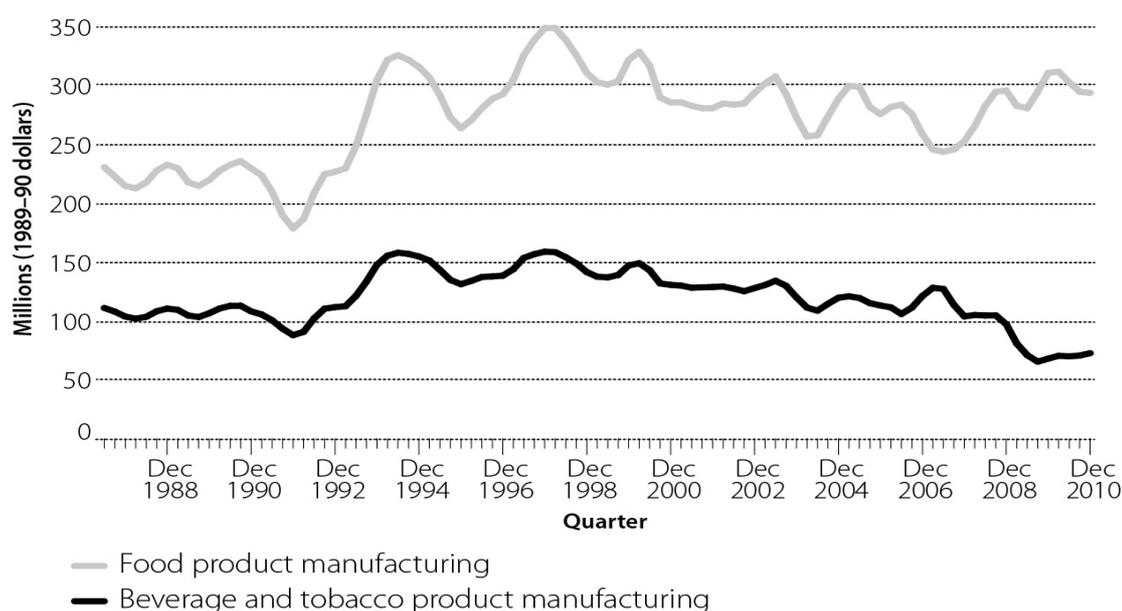
Total domestic investment in new capital (that is, tangible assets including equipment, plant and machinery, and building and structures) by private enterprise in the food product manufacturing sector has been decreasing slightly since 1998 (figure 1), but for the past few years has begun to trend upwards.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

¹ ABS, Australian National Accounts: National Income, Expenditure and Product, Industry Gross Value Added, Chain Volume Measures (Cat No 5206.0, Table 33).

² ABS, International Trade in Goods and Services, Australia, Manufacturing Exports and Imports (Cat No 5368.0 Tables 32a & 35a).

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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.

Food, beverage and tobacco R&D investment in 2008-09 was approximately \$447 million, \$441 million of which was business funded (ABS data - 81040DO004_200809 Research and Experimental Development, Businesses, Australia, 2008-09 refers).

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Issues/Challenges

The food processing industry faces a number of major issues and challenges currently and into the future including:

- high Australian dollar impacting on competitiveness of domestic industry
- land is expensive and factories are expensive to build
- labour and other input costs are higher than in the developing countries
- freight costs to reach market are comparatively high
- low levels of unemployment – competition for skilled/unskilled workers is high
- training – declining numbers of food scientists and food technologists – labour availability and labour retention
- climate change – drought and flood
- growing population internationally predicted to exceed 9 billion by 2050. [See **Attachment A**, preliminary SWOT analysis by the Food Processing Industry Strategy Group (FPISG) for more detail].

Some of the consequences of these issues/challenges are being felt currently by the sector with recent factory closures by National Foods, Heinz and SPC (see **Attachment B**). Nonetheless, the successful Australian processed food sector continues to invest significantly in its future. For example:

- European dairy company Danone and Victorian dairy 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.
- 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.

Current Portfolio Support for The Food Processing Industry

The Innovation, Industry, Science and Research portfolio currently provides substantial support to the food processing industry, including through policy development and program and service delivery. Whilst some involvement relates directly to food, other programs are general industry, innovation, science or research initiatives that are available to the food processing industry, among others.

Through AusIndustry and Enterprise Connect, the Government has provided financial and other assistance to numerous entities involved in food growing, manufacturing or retailing, or projects in those sectors.

The Enterprise Connect program

The Enterprise Connect program is a \$50 million a year initiative designed to boost productivity, improve innovation and increase the competitiveness of Australian small and medium enterprises (SMEs). Enterprise Connect provides a range of services to SMEs, including the provision of business reviews at no cost to firms and grant assistance to implement recommendations flowing from the business reviews. The program's range of services includes:

- Business Review – holistic review of business with suggestions for change (350 in the food processing sector to date);
- Tailored Advisory Service (TAS) – grant assistance to implement change;
- Researchers in Business (RiB)- placement of researchers into businesses;
- Workshops, Industry Intelligence and Networking (WIIN) – knowledge dissemination events;
- Technology and Knowledge Connect - technology specific advice;
- Technology Partnerships Equipment Register – access to specialist equipment.

Support for the Food Industry Support Network is provided by Enterprise Connect. The Network is a specialized national group which brings together Business Advisers with specialist expertise and broad networks.

Its purpose is to help 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 and aims to generally enhance the business development and innovation services provided to the sector.

AusIndustry

AusIndustry is the Australian Government's principal business program delivery division in the Department of Innovation, Industry, Science and Research, and delivers a range of more than 35 business programs. During the period 26 November 2007 to 30 September 2010, 199 entities involved in food growing, manufacturing or

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retailing, or projects in those sectors, has been provided with financial assistance through various programs delivered by AusIndustry. The value of the direct assistance is approximately \$60.3 million.

A number of businesses and individuals in the food processing sector may also have been provided with services subsidised through Commonwealth programs such as Small Business Advisory Services and Small Business Online.

Trade and International

Country of origin labelling policy and regulation

The Department of Innovation has general policy oversight for country of origin labelling, including the relevant provisions of the *Competition and Consumer Act 2010* (CCA), which brought the Australian Consumer Law (ACL) into effect on 1 January 2011. The ACL incorporates country of origin provisions previously contained in the *Trade Practices Act 1974* (TPA), and includes new “grown in (country)” provisions. The ‘grown in (country)’ provisions provide an alternative defence for claims that products are grown in a particular country, as well as made or produced in that country. The new provisions are modelled on the rules for using the “Australian Grown” logo (see below), and would apply to products (including but not limited to food) that are entirely or predominantly composed of ingredients or components entirely grown and processed in the country claimed.

Provisions relating to country of origin labelling are also contained in Commonwealth regulations administered by other portfolios. There are mandatory food-specific country of origin labelling provisions in the Food Standards Code, which is the responsibility of Food Standards Australia New Zealand, for which the Department of Health and Ageing has policy oversight. The *Commerce Trade Descriptions Act 1905*, administered by the Australian Customs and Border Protection Service, precludes the making of false or misleading representations in relation to imports, and requires certain imports (including all food) to be labelled with the country in which they were made or produced.

New Zealand has not adopted the food-specific mandatory country of origin labelling provisions of the Food Standards Code – and the *Trans-Tasman Mutual Recognition Act 1997* (TTMRA) exempts New Zealand imports from the country of origin labelling provisions of the CCA and the Food Standards Code. This exemption is conditional upon the imports meeting New Zealand labelling requirements, which preclude the making of false or misleading origin claims.

The TTMRA does not exempt New Zealand imports from the labelling requirements of the *Commerce Trade Descriptions Act 1905*.

Australian Made, Australian Grown logo

The Department of Innovation manages the Commonwealth’s commitment to the Australian Made, Australian Grown logo. The logo is a certification trademark, and its purpose is to provide a means by which Australian producers can assure Australian consumers that their goods are made, produced or grown here. The Commonwealth deeded the logo’s ownership rights to Australian Made Campaign Limited in 2002, but still has some residual rights in the logo, including resumption of ownership under certain conditions.

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Blewett Food Labelling Review

The Council of Australian Governments (COAG) commissioned a Review of Food Labelling Law and Policy in October 2009, chaired by Dr Neal Blewett AC. The review examined a range of food labelling issues, including country of origin law and policy. Recommendations 40 to 42 of the Blewett Report propose that mandatory food-specific country of origin labelling requirements be expanded to include all primary food products for retail sale, that the country of origin labelling provisions of the Food Standards Code be transferred to the CCA, and that a new Australian origin labelling framework be developed.

The Commonwealth, state and territory governments are expected to respond to the Blewett Report through the Australia New Zealand Food Regulation Ministerial Council in December 2011, and COAG in early 2012.

The effectiveness of anti-dumping rules

A comprehensive review of Australia's anti-dumping and countervailing system (the system) was first proposed in 1996 as part of the Competition Policy Legislation Review Schedule. Such a review did not commence until 2009, although an administrative review of the system was conducted by the then Department of Industry, Tourism and Resources and Australian Customs Service in 2006. The 2006 review did not consider matters of law or policy and its recommendations have largely been implemented.

The Government asked the Productivity Commission to commence a comprehensive review in March 2009, and a report was provided to the Government on 18 December 2009. The report was tabled in Parliament on 27 May 2010. The Government gave interested parties until 31 August 2010 to make submissions on the final recommendations and/or suggest other improvements to the system.

On 22 June 2011, the Government published a statement titled 'Streamlining Australia's anti-dumping system', announcing changes to improve access, timeliness, compliance, decision-making and consistency with other jurisdictions.

On 6 July 2011 The Government introduced the Customs Amendment (Anti-dumping Improvements) Bill 2011 in the House of Representatives containing the first tranche of improvements to the system. That Bill is now before the Senate.

A high level International Trade Remedies Forum (ITRF) has been established so that stakeholders can provide advice to Government on the implementation of changes to the system consistent with WTO rules. The ITRF first met on 29 August 2011. Smaller ITRF working groups have since met to discuss specific aspects of the system. The Department has been represented at all meetings of the ITRF and the ITRF working groups.

On 21 September 2011 the Minister for Home Affairs made a statement to the Parliament reiterating the Government's commitment to implementing reforms to Australia's anti-dumping arrangements, in consultation with the ITRF, that "reflect industry experience and the international trading environment".

The Food Processing Industry Strategy Group

The Food Processing Industry Strategy Group was established in 2010 to help develop a strategy to increase innovation and investment and a more competitive and sustainable food processing sector. The Group has members from food processors, researchers, academia and trade unions and has met three times to date. The Group has agreed on a report outline and methodology and the engagement of a consultant to undertake a major industry survey to be completed early in 2012. The Strategy Group has also begun to develop a SWOT for the sector (see Attachment B).

The Strategy Group will:

- identify the current strengths and weaknesses of industry and any impediments to improving innovation, productivity and competitiveness
- report to the Minister on opportunities for enhancing/expanding the industry
- advise the Minister on strategies to overcome impediments including any changes to current programs and market failures not addressed
- provide an industry report to the Minister within 15 months of its first meeting

The Strategy Group may provide advice to Government on related matters. The Strategy Group is not a decision-making body. It is anticipated that the Group will report by the end of June 2012.

Programs and Activities Targeted Towards Research Collaborations

Commonwealth Scientific and Industrial Research Organization (CSIRO)

The CSIRO, through its many divisions, works with others in the food industry to develop technologies to improve the many challenges we have along the food chain. It has 200 researchers in its Food and Nutritional Sciences division alone. It also funds eight active Cooperative Research Centres in the food industry. CSIRO Staff

numbers across relevant Flagships and Divisions is 1085, including some staff deployed from other non food parts of CSIRO.

CSIRO Plant Industry

CSIRO Plant Industry has been at the forefront in development of new tools for genetic enhancement of plants and is now applying them with notable success. Cereal crops with greatly improved water-use efficiency have been developed; resistance genes to protect wheat from the new virulent rust strain Ug99 (currently threatening 80% of the world's wheat crop) have been uncovered; and grains with improved human health properties have been created.

CSIRO Livestock Industries

This Division is providing technologies to generate high-value differentiated livestock products through its work on genetic improvement, gene discovery, and microbial genomics and gut biology, animal welfare and growth reproduction and development. Through the Australian Animal Health Laboratory it also safeguards livestock industries from emerging and invasive animal diseases.

Food Futures National Research Flagship

The Food Futures National Research Flagship has a strategy and goal that leverages cutting edge science and technology to transform Australia's food production across the value chain, all the way from the field to the consumer. This Flagship's financial goal is to add \$3 billion annually to the Australian agrifood sector. It is also addressing yield and sustainability issues associated with these value added products. The Flagship's goal is being achieved through value adding to:

Future Grains

Animal Breeds (both beef and aquaculture species and their feed sources)

Designed Food and Biomaterials

Quality Biosensors

CSIRO Food and Nutritional Sciences

CSIRO Food and Nutritional Sciences seeks to enhance the economic competitiveness and environmental sustainability of Australian food manufacturing businesses and their supply chains by developing novel manufacturing processes, improving the efficiency of energy and water use in food processing, enhancing the consumer acceptability and health-promoting characteristics of food, and ensuring safety and security of the food chain.

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The CSIRO has registered secure and confidential facilities for pilot scale production to assist businesses trial new products and processes. The Food Manufacturing Pilot Plant located in Victoria can produce pilot cheese, meat, cereal and general food products.

Sustainable Agriculture Flagship

The CSIRO's Sustainable Agriculture Flagship aims to reduce the carbon footprint of Australia's land use whilst achieving the productivity gains needed for prosperous agricultural and forest industries and global food security. The Flagship provides a critical integration function for knowledge and technologies relevant to sustainable farming systems adapted to Australian soils, climates and regional circumstances.

A key challenge is to maintain or grow productivity – needed for prosperous rural industries, and reduce net greenhouse emissions – needed to meet national and ultimately global targets for atmospheric carbon. While these twin goals apply for Australian agriculture, they are also global goals – hence CSIRO's engagement internationally around food security and greenhouse gas abatement from rural lands.

The national challenge goal of the Sustainable Agriculture Flagship will be to secure Australian agricultural and forestry industries by increasing productivity by 50% and reducing net carbon emissions per unit of food and fibre by at least 50% between now and 2030. The specific targets include:

- achieving total factor productivity growth across Australia's key agricultural industries of at least 2% per annum over the next 20 years; and
- reducing the greenhouse gas emissions per unit of food and fibre production by at least 50% by 2030 through a mix of productivity growth, emissions reduction and carbon storage in soils and vegetation.

The Cooperative Research Centre Program

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.

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.

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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.

These figures have been compiled from data maintained in CRC Online, the CRC Program's dedicated information management system.

Since 1991, there have been 28 CRCs performing research for the food industry, including those listed above. In total, these CRCs have been contracted to receive \$588.428 million in program funds.

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	

National Measurement Institute

The National Measurement Institute (NMI) is a Division of the Department of Innovation and is responsible for establishing, maintaining and disseminating

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Australia's physical, chemical and biological measurement standards and reference materials. NMI works closely with Food Standards Australia New Zealand (FSANZ) and other government agencies and industry on the measurements that underpin information provided on food labels.

The NMI provides a broad array of analytical services in chemical, biological and microbiological analyses including the Imported Food Program for Australian Quarantine and Inspection Service, the National Residue Survey for Department of Agriculture, Fisheries and Forestry, advice and testing for Australian Pesticides and Veterinary Medicines Authority, Genetic Modification testing of food and feed and Bovine Spongiform Encephalopathy testing of feedstock.

NMI provides a number of services of benefit to the food industry. These include commercial analytical services, physical calibration services, proficiency testing, provision of reference material for food testing and technical and policy advice to other government agencies.

The NMI runs a Food Sector Advisory Committee which meets annually for information exchange and to provide advice on NMI programs. NMI also inputs into the Codex Alimentarius (international food standards body) and into APEC's Standards and Conformance Subcommittee.

Commercialisation Australia

Commercialisation Australia is a merit based, competitive assistance program delivered by the Australian Government that provides a new integrated, hands-on approach to take products, processes and services to market by offering a range of tailored assistance measures for specialist advice and services, proof of concept and early stage commercialisation activities.

Commercialisation Australia has funding of \$278 million over the five years to 2014, with ongoing funding of \$82 million a year thereafter.

Specific program components include:

- Skills and Knowledge support to help build the skills, knowledge and connections required to commercialise intellectual property, providing funding of up to \$50,000 to pay for specialist advice and services. This funding is provided in the ratio of 20 per cent contribution by the applicant to an 80 per cent contribution from the grant, to a maximum grant amount of \$50,000 (for example, \$12,500 from the applicant and \$50,000 from the grant).
- Experienced Executives which provides funding up to \$200,000 over two years to assist with the recruitment of a Chief Executive Officer or other senior executive. This assistance is provided on a 50:50 matching basis.
- Proof of Concept grants of \$50,000 to \$250,000 to test the commercial viability of a new product, process or service. This assistance is provided on a 50:50 matching basis.

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- Early Stage Commercialisation repayable grants of \$250,000 to \$2 million to develop a new product, process or service to the stage where it can be taken to market. This assistance is provided on a 50:50 matching basis.

Each participant is assigned a Case Manager for the duration of their time with Commercialisation Australia. The Case Manager guides participants through the commercialisation process and facilitates their access to experienced Volunteer Business Mentors.

Participants can access Commercialisation Australia through any one of the components, and exit at any point. Multiple forms of assistance may be accessed concurrently or consecutively, based on the needs of the applicant.

Once companies have participated in CA, the broad objective is for them to be in a position to independently engage in the marketplace - raising money from the private sector, licensing their technology, entering joint ventures, or simply trading profitably

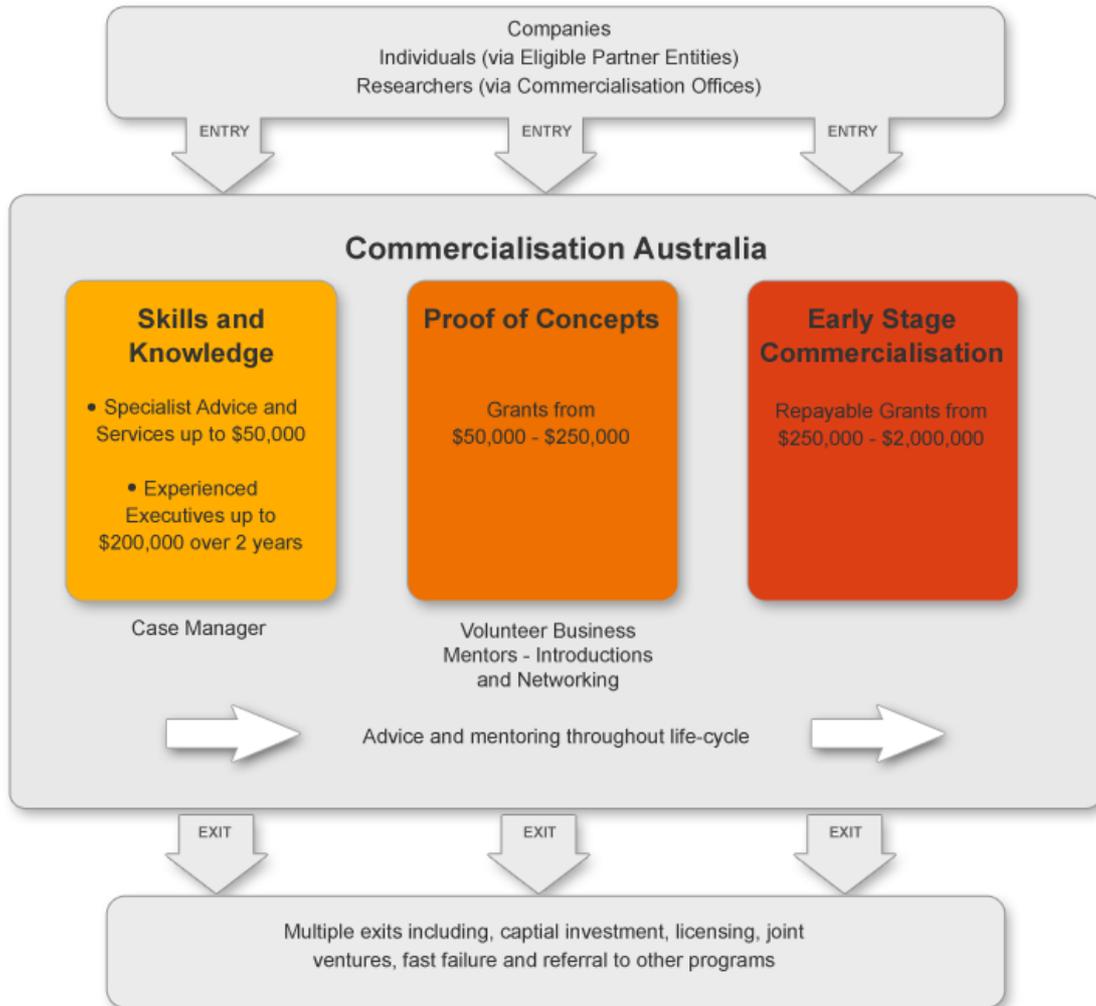
Commercialisation Australia acknowledges the high risk nature of projects supported by the Program and recognises that some projects will fail. In particular, it expects some participants will realise during the term of their funding agreement that their project will not achieve its objectives.

Commercialisation Australia encourages such voluntary terminations ('fast failure') and will view it as a positive indicator of the management team's capability in any future application for funding under the program.

Commercialisation Australia has assisted process food businesses to develop proof of concept, such as Resis Australia Pty Ltd to establish a pilot plant near Nambour, Queensland to produce commercial samples of shelf-stable food-grade functional natural cane juice.

Scientific research has demonstrated the functional capability of this unique natural juice which is produced from innovative technology, that splits each part of the sugar cane plant into cleanly separated components of wax, external rind fibre, internal pith fibre and high purity natural juice. The value chain for target markets will be assessed to determine the final form, size and location of a full scale processing plant.

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Science and Infrastructure Division

The Science and Infrastructure Division of the Department is responsible for the International Science Linkages (ISL) program and the Australia-India Strategic Research Fund (AISRF). These initiatives support researchers to collaborate with international partners on leading-edge scientific research into food. The Division also manages projects related to plant phenomics.

International Science Linkages (ISL)

The ISL program contributes to Australia's economic, social and environmental well-being by:

- facilitating Australia's access to the global science and technology system; and
- enabling Australian scientists, from both the public and private sectors, to collaborate with international partners.

Since its commencement in 2002, ISL has funded over 600 projects which have enabled 3,000 Australian researchers to collaborate with leading researchers in 40 countries on diverse topics of strategic importance. Total commitment to the

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program by the Australian Government is approximately \$94 million. The program ends on 30 June 2011.

The ISL program is currently providing \$3,457,751 in funding to support 34 active projects involving research into areas of dairy, wheat resistance, plant membranes, genome sequencing, beef quality, soil structures, plant epigenetic and drought resistance. \$2,990,106 in funding has been provided to support an additional 47 finalised projects involving research into areas of olive oil, fish, leaf ion transport, parasite genome, veterinary epidemiology and economics, disease control, biotechnology, legumes, water use in plants and element uptake by rice.

Australia-India Strategic Research Fund (AISRF)

The AISRF was established in 2006 to facilitate and support science and technology research cooperation between Australia and India. The fund assists Australian researchers from both the public and private sectors to participate in leading edge scientific research projects and workshops with Indian scientists and supports the development of strategic alliances between Australian and Indian researchers. Total Australian Government commitment to AISRF is \$65 million and the Indian Government is providing matching funding.

The AISRF is supporting five active international collaborative projects involving research into food worth \$1,248,332. These are:

- milk nutraceuticals: a biotechnology opportunity for Australian and Indian dairy producers;
- esterified starch and oral rehydration solution as a treatment for acute infectious diarrhoea;
- plant nutraceuticals and bioactive molecules: a growth opportunity for the pharmaceutical industry in Australia and India;
- anti-tumour and anti-microbial activities of orally administered Fe-saturated lactoferrin: a potential alternative medicine; and
- extraction and purification of sorghum seed protein for delayed delivery of bioactives.

Australian Research Council

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.

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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 by the CEO following independent and extensive competitive peer review by Australian and international experts.

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.

R&D Tax Concession and Tax Incentive

The R&D Tax Concession was introduced in 1985 to encourage Australian industry to undertake more research and development (R&D) activities. During the period from 26 November 2007 to 30 September 2010, 642 food-related companies registered for the R&D Tax Concession. The concession was a broad-based and market-driven program that enabled companies to deduct up to 125% of eligible expenditure incurred on R&D activities when lodging their income tax returns.

Following the recommendations of the Review of the National Innovation System on tax support arrangements for R&D it was announced in the 2009-10 Budget that the R&D Tax Concession would be replaced by an R&D Tax Incentive. The new R&D Tax Incentive commenced on 1 July 2011.

Key features of the R&D Tax Incentive include:

1. more generous benefits, in particular for small – medium enterprises (SMEs);
2. a clearer definition of R&D activities;
3. expanded access to foreign companies who undertake R&D in Australia and to companies that hold their intellectual property offshore;
4. greater certainty in R&D investment, with companies able to seek an advance finding from Innovation Australia where they are uncertain of the eligibility of their activity.

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Clean Technology Food and Foundries Investment Program

The Government has committed \$200 million to the Clean Technology Food and Foundries Investment Program. It forms part of a \$1.5 billion package to stimulate industry investment which will also generate further co-investment by the private sector to assist Australian industry to adapt and prosper in a low carbon economy.

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. Funding will be based on a co-investment basis of \$3 for each \$1 of government funding. There will be a minimum grant size of \$25,000.

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.

The Department of Innovation, Industry, Science and Research will consult with stakeholders between October and December 2011 on the specific design of the program. It is anticipated that funding will be awarded from May 2012. A call for applications will be launched in the first half of 2012.

Conclusion

The challenges facing the Australian processed food sector now and in the future should not be underestimated. The resilience of the sector, reflected not least in the continued and significant investment, currently under difficult trading conditions; and the continued strong support of government committed to assisting this major manufacturing sector to become more innovative, productive and competitive is likely to provide confidence in the Australian processed food sector in the future.

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Attachment A

FPISG SWOT analysis discussed above.³

Strengths	Weaknesses
Product safety and quality	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.
Availability/quality of public research institutions for R,D&E	Remote market (not on the radar of European or USA multinationals)
Low cost producers of input materials	Land and factories are expensive to set up and labour costs are higher than in the developing countries
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.	Freight costs to reach market are high
On the door step of East and South Asia – a rapidly expanding market	Companies claim that margins are already low.
Educated, productive, innovative, motivated and multilingual and multicultural workforce	Low levels of unemployment – competition for skilled/unskilled workers is high
Domestic market is growing and economy is resilient	Due to size of country and low population, infrastructure struggles to keep pace with needs
Stable political system, governance and openness	Comparative lack of R&D expertise in many SMEs to innovate
Open trade regime	Translational research, i.e. current difficulty in converting business problems/issues, especially for SMEs, into coherent, cost effective, and profitable R, D&E projects.
Intellectual property enforcement	Unlevel playing field, i.e. Australia contra overseas, e.g. tariffs; level of government subsidies
One of the easiest places to start a business	The current level of regulation across all levels of government lacks strategic cogency and direction and can inhibit efficient regulation reform
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	
Market status – Two dominant supermarket customers can make sales and marketing easier for producers.	

³ . 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.

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	<p>Local market structures e.g. Duopolies, Coles, Woolworths</p> <p>Technophobia e.g. fears of GMO and nano-tech food.</p> <p>Training – declining numbers of food scientists and food technologists – labour availability and labour retention</p>
Opportunities	Threats
<p>32% increase in world population by 2050 (mainly in Africa and India)</p> <p>Increasing middle class in China and India – will desire safe/quality/quick foods</p> <p>Increasing demand for: livestock products e.g. meat, milk, eggs; feed grains, vegetable oils; and sugar</p> <p>Lifestyle trend for middle class – link between food-health</p> <p>Reduction in post harvest wastage</p>	<p>High Australian dollar impacting on competitiveness of domestic industry</p> <p>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</p> <p>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)</p> <p>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)</p> <p>Barriers to export trade – protectionism from other countries</p> <p>Push to use regulation for other purposes beyond food safety e.g. health promotion</p> <p>Lack of certainty regarding Government policy/regulation inhibiting investment and innovation, e.g. Palm oil; Labelling Logic.</p>

Attachment B

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.

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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 Australia 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.

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- 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

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:

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