



AUSTRALIAN
FOOD AND GROCERY
COUNCIL

SUBMISSION

SUBMISSION TO

Federal Government Export Policy Review

IN RESPONSE TO

Call by Hon Simon Crean MP, Minister for Trade

for submissions into:

Review of Export Policies and Programs

21 May 2008

PREFACE

The Australian Food and Grocery Council is the peak national organisation representing Australia's packaged food, drink and grocery products industry.

The membership of the AFGC comprises more than 150 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the highly processed food, beverage and grocery products sectors. (A list of members is included as Appendix A.) The AFGC represents the nation's largest manufacturing sector. By any measure Australia's food, drink and grocery products industry is a substantial contributor to the economic and social welfare of all Australians. Effectively, the products of AFGC's member companies reach every Australian household.

The industry has annual sales and service income in excess of \$70 billion and employs more than 200 000 people – almost one in five of the nation's manufacturing workforce. Of all Australians working in the industry, half are based in rural and regional Australia, and the processed food sector sources more than 90 per cent of its ingredients from Australian agriculture.

The AFGC's agenda for business growth centres on public and industry policy for a socioeconomic environment conducive to international competitiveness, investment, innovation, employment growth and profitability.

The AFGC's mandate in representing member companies is to ensure a cohesive and credible voice for the industry, to advance policies and manage issues relevant to the industry and to promote the industry and the virtues of its products, enabling member companies to grow their businesses.

The Council advocates business matters, public policy and consumer-related issues on behalf of a dynamic and rapidly changing industry operating in an increasing globalised economy. As global economic and trade developments continue to test the competitiveness of Australian industry, transnational businesses are under increasing pressure to justify Australia as a strategic location for corporate production, irrespective of whether they are Australian or foreign owned. In an increasingly globalised economy, the ability of companies to internationalise their operations is as significant as their ability to trade globally.

Increased trade, rationalisation and consolidation of businesses, increased concentration of ownership among both manufacturers and retailers, intensified competition and dynamic, increasingly complex and demanding consumers are features of the industry across the globe. Moreover, the growing global middle class of consumers is more sophisticated and discerning, driving innovation and differentiation of products and services.

The AFGC is working with governments in taking a proactive, even tactical, approach to public policy to enable businesses to tackle the threats and grasp the dual opportunities of globalisation and changing consumer demands.

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1 INTRODUCTION

Australian food exports are now earning \$23.8 billion per annum (*Australian Food Statistics 2006 p5*). Within this, the value of substantially transformed food exports is \$16.8 billion or 71% of total food exports.

The food and grocery manufacturing sector strongly supports measures which will encourage the development of global markets for Australian goods. Measures to boost the export effort have flow-on benefits in terms of cash flow, job creation, addressing the trade deficit and contributing to global food security.

Multilateral and bilateral negotiations remain a strong point of interest for the food and grocery sector. It is accepted that an emphasis on delivering outcomes from the Doha Round of World Trade Organisation negotiations stands to generate significant gains for Australia's unsubsidised, unprotected food and grocery manufacturers.

Our export performance will continue to be impacted by factors such as:

- currency fluctuations, with the relatively high \$A placing pressure on export incomes;
- climatic conditions, impacting both availability of inputs for domestic manufacture and competing supplies on global markets;
- input costs including fuel, fertiliser, packaging and labour costs, drought and water restrictions.

2 ENCOURAGING EXPORT DEVELOPMENT

At least 300 fast moving consumer goods (FMCG) manufacturers are geared for export (*Retail World guide 18th edition p354*). Our export markets continue to diversify with particular growth evident in the United Kingdom, Indonesia, Republic of Korea, New Zealand and Malaysia since the early 1990s.

The importance of market development has been underlined by the participation of AFGC with the Australian Government and National Farmers Federation in establishing the National Food Industry Strategy (NFIS). While not continuing in its previous form, the NFIS demonstrated that new markets can be won by a combination of private and government expertise and drive.

AFGC has previously strongly supported the Food Innovations Grants (FIG) Scheme as a means of promoting improved pathways to market for Australian produce. Establishment of a new scheme with similar goals and outcomes as announced by the Labor Party in 2007 would become a significant contribution towards the food and grocery export effort.

3 EXPORT MARKET DEVELOPMENT GRANT SCHEME

AFGC acknowledges the value of programs encouraging Australia's export effort. EMDG grants have been aimed encouraging export promotion to eligible businesses receiving not more than \$30 million in the grant year and incurring at least \$15,000 in expenses.

It is acknowledged that the increased contribution towards the EMDG of \$50m in 2008-09 has built the pool of available funding to more than \$200m.

Some concerns have arisen over the time lag between point of investment by the applicant and a decision on availability and quantum of support through the EMDG scheme. Any actions which would help create certainty over the likely value of EMDG payment would be a welcome step for companies making commercial judgements on the feasibility of market development.

A grant entitlement is calculated up to a cap of 50% of total eligible expenses, but is ultimately subject to the available pool of funds and the number of successful applicants. The funding formula as it currently stands does not give any accurate signal of the likely total amount of assistance at the time that a prospective exporter is developing its business case.

This uncertainty might be addressed by establishing a minimum level of payment to which any successful applicant will be entitled. This minimum figure could be set at a base lower than the maximum 50% available, for example 25%, but would give applicants some degree of certainty in deciding to export. Applicants would remain eligible to receive up to 50% of their expenses.

AFGC:

- supports the increased resources made available for EMDG;
- calls for a continuation of this type of encouragement to industry, and
- stands ready to engage in further dialogue should any alternative funding model be brought forward as a result of this review.

Reform to the EMDG scheme aimed at creating more certainty for applicants will in particular help meet the review's objectives in Terms of Reference 7b and 7c, seeking ways to better encourage small scale export companies.

4 RISING PRODUCTION COSTS

Costs impacting on the profitability of food and grocery exports include:

- **Currency fluctuations:** With the \$A now approaching parity with the \$US, export income is sharply reduced from currency levels in 2001-02 when the \$A reached US48 cents.
- **Fuel costs:** Higher world oil prices have limited the capacity of industry to reduce its costs at a time of falling \$A returns.
- **Production inputs** such as raw materials, packaging and labour.

Economic policy settings which keep inflation within the 2-3% band and minimise future interest rate rises will help to maintain the competitiveness of Australian produce entering world markets.

5 MULTILATERAL AND BILATERAL NEGOTIATIONS

Australian food and grocery manufacturers maintain a strong interest towards multilateral and bilateral negotiations including the current round of talks with our major market, Japan, and the 2004 Free Trade Agreement with the United States of America.

The value of strong and clear trade parameters is shown in results such as a 103% increase in Australian cheese exports to USA since commencement of the bilateral agreement in January 2005. At the same time, it is recognised that the best prospects for liberalising trade to benefit Australian industries lie with a successful outcome from the Doha multilateral round of World Trade Organisation negotiations.

6 REGULATORY BURDENS

Australia's food policy and regulatory system is large and complex involving 10 governments, around 20 departments developing policy and numerous agencies responsible for enforcement. Development of food policy and regulation is hampered by jurisdictions having different expectations and priorities and institutional arrangements, and by a lack of uniformity in food regulations.

Productivity gains are crucial to improving the export performance of Australian food and grocery products. A thorough overhaul of the regulatory system would offer significant change, and relief from regulatory burdens, for industry to be confident of maintaining and boosting its competitiveness into the long term.

AFGC has outlined its concerns and potential solutions in a recent submission to the Productivity Commission Review of Regulatory Burdens on Business. AFGC will be pleased to expand on its recommended solutions, as required, to this export policy review.

7 CONCLUSIONS

Australia's food and grocery export performance will be maximised through:

- efforts to gain a successful outcome to the Doha WTO round;
- pursuit of bilateral agreements, notably with China, Japan, India, Malaysia and Indonesia;
- maintenance of an effective EMDG scheme or an alternative model delivering trade promotion support; and
- maintaining a strong working partnership between Austrade and other government agencies with the food and grocery manufacturing sector, with particular emphasis on the needs of SMEs (small to medium enterprises) and
- ongoing attention to minimising red tape and regulatory burdens which impose unnecessary costs and stifle the competitiveness of export-oriented food and grocery manufacturers.

Further information:

AFGC Secretariat contacts:

Russ Neal, Director, Industry Policy russ.neal@afgc.org.au

Tony Mahar, Director, Sustainable Practices and Economics tony.mahar@afgc.org.au

Phone: 02 6723 1466

Web: www.afgc.org.au

AFGC MEMBERS AS AT 14 MAY 2008

AAB Holdings Pty Ltd
 Arnott's Biscuits Ltd
 Snack Foods Ltd
 The Kettle Chip Company Pty Ltd
 Asia-Pacific Blending Corporation Pty Ltd
 Barilla Australia Pty Ltd
 Beak & Johnston Pty Ltd
 BOC Gases Australia Ltd
 Bronte Industries Pty Ltd
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 General Mills Australia Pty Ltd
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 AB Food and Beverages Australia
 AB Mauri
 Cereform/Serrol
 Don
 GWF Baking Division
 George Weston Technologies
 Jasol
 Weston Cereal Industries
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 Harvest FreshCuts Pty Ltd
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 J Boag and Son Brewing Ltd
 Johnson & Johnson Pacific Pty Ltd
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Kellogg (Australia) Pty Ltd
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 Kikkoman
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 Mars Petcare
 Mars Snackfood
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 McCormick Foods Aust. Pty Ltd
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 Merisant Manuf. Aust. Pty Ltd
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 Nerada Tea Pty Ltd
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 Australasia Pty Ltd
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 PZ Cussons Australia Pty Ltd
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 Reckitt Benckiser (Aust) Pty Ltd
 Ridley Corporation Ltd
 Cheetham Salt Limited
 Sanitarium Health Food Company
 Sara Lee Australia
 Sara Lee Foodservice
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AUSTRALIAN FOOD AND GROCERY COUNCIL

ABN 23 068 732 883

Level 2, Salvation Army House
2–4 Brisbane Avenue
Barton ACT 2600

Locked Bag 1
Kingston ACT 2604

Telephone: (02) 6273 1466

Facsimile: (02) 6273 1477

Email: afgc@afgc.org.au

www.afgc.org.au