



AUSTRALIAN
**FOOD &
GROCERY**
COUNCIL

AFGC SUBMISSION

PRODUCTIVITY COMMISSION INQUIRY
INTO REGULATION OF AGRICULTURE

Sustaining Australia

SUMMARY OF RECOMMENDATIONS

DRIVING GROWTH THROUGH BETTER REGULATION

CHAPTER ONE IMPROVING REGULATIONS ACROSS THE SUPPLY CHAIN

- Issue: Lack of Coordinated Commonwealth Policy on Food
Recommendation: Create a role of Assistant Minister to the Prime Minister with responsibility for co-ordination of food sector policy.
- Issue: State and Commonwealth legislative overlap
Recommendation: That the Productivity Commission conducts an audit of duplicative and conflicting legislation in agriculture and food production across environment, health and workplace relations portfolios.
- Issue: Ensuring adherence to Government best practise regulation principles
Recommendation: That the Government's deregulation agenda continues as stated in the Australian Government Guide to Regulation. In particular the AFGC would like to see enhanced commitment to the following:
- Regulation Impact Statements, including rigorous cost-benefit analysis;
 - Permanent deregulation units within each department;
 - Continued independent assessment of regulation through the Office of Best Practice Regulation;
 - Two deregulation repeal days in Parliament per year; and
 - Adoption of the principle of accepting trusted international standards and approvals by all Commonwealth Government funded agencies.
- Issue: Inflexible labour laws
Recommendation: That the administration of working visa schemes should be as streamlined as possible to reduce regulatory burden.
- Issue: Existing regulations impede the policy objectives of infrastructure development.
Recommendation: That the National Infrastructure Plan (to be released shortly) include a reform guide for regulatory regimes so that the objectives of the plan are not impeded.

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- Issue: Environmental Reporting Compliance Costs
Recommendation: Federal and State Governments work through the COAG process to remove duplication and inconsistencies between environmental compliance regimes.
- Issue: Land-use planning often prioritizes housing development over existing farm and plant investments.
Recommendation: Ensure that land-use planning at all levels of government prioritize existing economic infrastructure and allows for the development of transport corridors to accommodate future capital investments by the agribusiness sector.
- Issue: Chemical Approvals and Testing Regimes
Recommendation: That in line with the principles outlined in the Government's Industry Innovation and Competitiveness Agenda, regulation in chemical approvals and testing regimes should accept trusted international standards, including the adoption of default MRLs as per the New Zealand system.
- Issue: Adoption of best practice regulatory principles by NICNAS
Recommendation: That the Government ensure reforms to NICNAS which comply with the Australian Government Guide to Regulation.
- Issue: Australia's non-tariff barriers to trade
Recommendation: That a review mechanism is built into Australia's export biosecurity framework to enable access for food and agricultural producers and exporters to the latest improvements in technology.

CHAPTER TWO ENCOURAGING INNOVATION BETWEEN AGRICULTURE AND FOOD MANUFACTURING

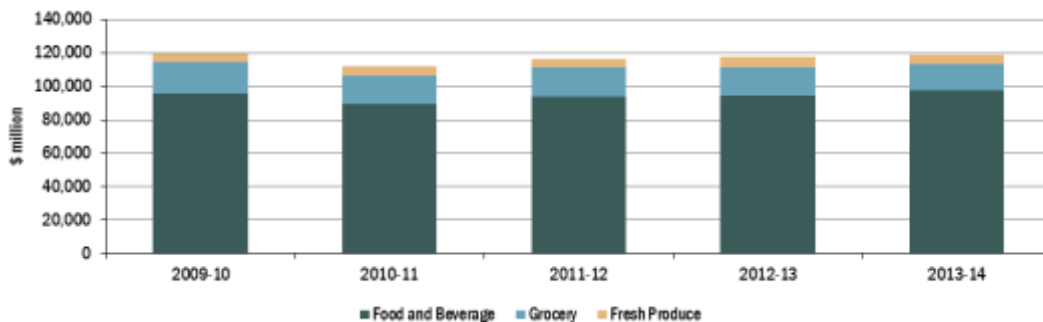
- Issue: Inability of producers to capitalise on Australian scientific discovery due to conservative regulatory regimes.
Recommendation: That the Productivity Commission review Australia's regulatory regimes to ensure they are able to adapt to advances in scientific knowledge. The Government should invest in public education to counter myths around food and fibre technology use.
That sunset clauses be placed on any regulation of new technology.
- Issue: Industry action on improving food safety auditing
Recommendation: That stakeholders from government auditing bodies continue to work with the sector to develop a more efficient streamlined audit system for the benefit of consumers and industry.
- Issue: Improving government communication with business
Recommendation: That the Government should examine all regulatory and biosecurity approval processes (particularly within the Departments of Agriculture and Industry) to ensure that interaction between business and government agencies can be carried out electronically or via the preferred communication method of businesses.

PREFACE

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food, drink and grocery manufacturing industry.

The membership of AFGC comprises more than 178 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the processed food, beverage and grocery products sectors.

Composition of the defined industry's turnover (\$2013-14)



With an annual turnover in the 2013-14 financial year of \$119 billion, Australia's food and grocery manufacturing industry makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity.

Manufacturing of food, beverages and groceries in the fast moving consumer goods sector is Australia's largest manufacturing industry. Representing 30 per cent of total manufacturing turnover, the sector accounts for over one quarter of the total manufacturing industry in Australia.

The diverse and sustainable industry is made up of over 26, 551 businesses and accounts for over \$61.7 billion of the nation's international trade in 2014-15. These businesses range from some of the largest globally significant multinational companies to small and medium enterprises. Industry spends \$541.8 million in 2011-12 on research and development.

The food and grocery manufacturing sector employs more than 322,900 Australians, representing about 3 per cent of all employed people in Australia, paying around \$16.1 billion a year in salaries and wages.

Many food manufacturing plants are located outside the metropolitan regions. The industry makes a large contribution to rural and regional Australia economies, with almost half of the total persons employed being in rural and regional Australia. It is essential for the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

Australians and our political leaders overwhelmingly want a local, value-adding food and grocery manufacturing sector.



The AFGC Agribusiness Forum represents businesses with a role, or interest, in the transformation of raw materials and commodities that are used as inputs to the manufacture of fast moving consumer goods (FMCG).

The AFGC Agribusiness Forum's role is to develop and advocate a policy, regulatory and business environment that facilitates a profitable and internationally competitive agribusiness sector which, in turn, makes a significant contribution to the Australian economy.

The initial priorities of the Forum are to improve the cost competitiveness of the sector, and increase exports of food and beverage products.

1. IMPROVING REGULATIONS ACROSS THE SUPPLY CHAIN

The future of the Australian agri-food sector is in high value added products where we have comparative advantage. This will provide the greatest economic benefit to the industry and Australia more broadly, and deliver the greatest benefit to global food security.

The future of agricultural production cannot be considered in isolation from the agri-food processing sector as revenue, costs and profits are determined by the actions of the entire agri-food supply chain. As has been seen recently, factory closures in the food processing sector have a negative impact on farm returns. The Government's aim of increasing farm profitability and strengthening rural and regional communities therefore fundamentally relies on a strong domestic agri-food processing sector.

The Deloitte research 'Positioning for Prosperity' identifies agricultural production as one of the 'fantastic' five growth engines for the Australian economy: an area where Australia's comparative advantage meets global opportunities. Food processing is identified as a 'slipstream' growth area, building on Australia's agricultural production. The future of Australia's agricultural production and food processing sectors are intertwined in realising the benefits of income growth and demand for high quality foods in Asia.

The Australian agri-food processing and manufacturing sector is a significant employer across rural, regional and metropolitan Australia, employing more than 320,000 people, with over 40% outside metropolitan areas. Wherever agricultural production occurs agribusiness is in close proximity. In many rural and regional areas, individual agribusiness facilities and businesses are significant employers and underpin the economic future of towns and regions. In that sense, agribusiness is not only an enabler for the agri-food sector but also an engine room of economic growth for regions around Australia.

While we must focus on removing costs from the entire supply chain, the greatest opportunity for all participants in the supply chain is providing greater value to the consumer through product innovation. New and innovative products for consumers will drive long term returns and profitability. A focus on improving value will 'grow the (economic) pie' and focus attention on generating value rather than fighting others in the supply chain for a share of a diminishing return.

Greater collaboration in the value chain and focus on consumer trends and demands is required to generate new value for consumers. A focus on consumer demands rather than commodity production will drive innovation and long term profitability. In export markets, a renewed focus on food safety and quality supported by relevant systems will provide a foundation for national, regional, company and product branding.

In a period of declining government expenditure, a decline in government regulation and pressure on industry profitability, it is vital that governments and industry collaborate on the key issues affecting the sector to find practical solutions.

1a) Responsibility for food within Australian Government

Food is a critical part of every Australian's health and wellbeing. Reflecting the important role of food in society, responsibility within government is spread across multiple ministers and departments. Broadly speaking, the Department of Agriculture and Water Resources administers a number of the technical requirements for food production, transport and export, the Department of Industry has general policy responsibility for the sector, and the Department of Health maintains critical engagement on the impact and contribution of food on health. There are a number of government agencies, including Food Standards Australia and New Zealand, which provide technical and policy support for the food industry.

While other sectors face operational requirements from multiple government departments (such as mining companies meeting environmental requirements administered by the Department of Environment) one is hard pressed to find a sector other than food where core business is the responsibility of so many government departments. Acknowledging the role of food in everyday lives it may be unrealistic to propose that a single minister and department be responsible for all food sector issues however a much more reasonable proposition is that a single individual in the Government Executive champions food industry policy.

Recommendation: Create a role of Assistant Minister to the Prime Minister with responsibility for co-ordination of food sector policy.

1b) State and Commonwealth legislative overlap

The Australian Constitution does not confer direct power on the Australian Government to legislate or act executively in relation to food, agriculture or business generally. This means that national policy requires cooperation and implementation by state and territory governments, leading to a multiplicity of regulators and agencies.

While this multiplicity is to an extent unavoidable under the Constitution, the reality experienced by the regulated business is one of competing or conflicting policies, communicated by different people each of whom claims to be "from the government". The use of agricultural and veterinary chemicals, for example, may require Australian Government approvals to import and register (by the Australian Pesticides and Veterinary Medicines Authority (APVMA)), state and territory approvals to use (under Poisons legislation) and both Australian and state/territory government approvals (under Food Standards arrangements) in relation to crop residues. Further, different jurisdictions have different rules for "off label use" and none make allowances for spray drift or very low levels of incidental residue.

The need is to simplify and unify, bringing all approvals into a single point of contact that can deliver uniform and consistent policy.

Another example of the perils of Commonwealth and state/territory overlap can be found in the inter-Governmental arrangements for approving food standards. These arrangements provide for a Commonwealth, New Zealand and state/territory Ministerial Council, known as FoFR, consisting predominantly of Health Ministers, Current voting arrangements of the FoFR assign one vote to each jurisdiction, such that the Australian Capital Territory, with minimal food growing and manufacturing industry, has an equal vote to a major food producing state such as Victoria, and an

equal vote indeed to the Commonwealth and New Zealand. Further, the health portfolio focus of FoFR makes it a conservative decision maker, including in relation to matters such as residue limits that are primarily issues of agricultural best practice. Reform of the food standards system remains a high priority for the agribusiness industry.

Recommendation: That the Productivity Commission conducts an audit of duplicative and conflicting legislation in agriculture and food production across environment, health and workplace relations portfolios.

1c) Ensuring strict adherence to Government best practise regulation principles

The AFGC welcomes the focus by the Australian Government on deregulation, reducing regulatory burden and discipline in considering new regulatory measures. This focus must continue, and indeed spread to state/territory governments and especially extend to inter-governmental creations that typically avoid scrutiny. The opportunity for growth embodied in the reduction of regulatory burden is integral to Australia's future and to any serious policy on Australia's agricultural environment.

Recommendation: That the Government's deregulation agenda continues as stated in the Australian Government Guide to Regulation. In particular the AFGC would like to see enhanced commitment to the following:

- **Regulation Impact Statements, including rigorous cost-benefit analysis;**
- **Permanent deregulation units within each department;**
- **Continued independent assessment of regulation through the Office of Best Practice Regulation;**
- **Two deregulation repeal days in Parliament per year; and**
- **Adoption of the principle of accepting trusted international standards and approvals by all Commonwealth Government funded agencies.**

1d) Inflexible Labour Laws

Incentives for job creation are an important consideration for employment in the agri-food sector however the national employment framework is the primary factor influencing sector employment. A review of Australia's international position provides useful insights on Australia's labour market trends.

The World Economic Forum's Competitiveness Ranking for Australia's overall labour market efficiency is 36 (out of 148 countries). The relatively low ranking for Australia's labour market competitiveness leaves us lagging our key competitors. There is a long term policy imperative to establish a labour market framework in Australia which allows us to compete internationally, and maintain business operations and employment in Australia.

The food and grocery manufacturing sector employs more than 320,000 Australians, representing about 3 per cent of all employed people in Australia, paying around \$16.1 billion a year in salaries

and wages. The sector employs large numbers of Australians, and a number of overseas workers where there are gaps in the local workforce due to a range of factors including the demand of peak operations and a lack of sufficiently skilled or trained staff. Improved access to overseas workers where suitably qualified staff, or an insufficient numbers of locals, are not available is critical to the competitiveness of the agribusiness, food and grocery manufacturing sector in Australia.

Agribusiness companies are beginning to work with agricultural producers to address the lack of available on-farm labour. Similarly, agribusiness, food, beverage and grocery companies often have significant labour requirements and often have difficulty attracting workers. Consideration of changes to the Working Holiday Maker (417), the Temporary Work (Skilled) visa (subclass 457), Seasonal Worker Program (SWP) and arrangements for backpackers should include consultations with agribusiness, food and grocery manufacturers, particularly those in rural and regional areas.

Recommendation: That the administration of working visa schemes should be as streamlined as possible to reduce regulatory burden.

1e) Infrastructure

The expected release of the Australian Infrastructure Plan in the first quarter of 2016, detailing the national infrastructure for the next 15 years, is a key part of the economic framework for the Australian agri-food sector. The Australian agri-food sector spans the length and breadth of the continent, with goods travelling from farms to, often multiple, processing and storage facilities before reaching consumers. Efficient and effective infrastructure and supply chains are critical to the success of the sector.

The regulatory challenges in transport infrastructure and supply chain have been well documented including overlapping and inconsistent regulation between states, and the relative ineffectiveness in the National Heavy Vehicle Regulator in resolving this. In the context of the National Infrastructure Plan and other national policy, it is important that we acknowledge that regulation is a mechanism to achieve a policy objective. Regulation is not an end in itself.

Implementation of the National Infrastructure Plan must be supported by regulatory systems and regulators which facilitate land use changes; robust, evidence based environmental approvals; and nationally consistent transport standards. We can no longer afford to wrap industry in overlapping and misaligned regulation which frustrates policy objectives.

Recommendation: That the National Infrastructure Plan (to be released shortly) include a reform guide for regulatory regimes so that the objectives of the plan are not impeded.

1f) Environmental Reporting Compliance Costs

i. Water and Energy Reporting Requirements

Agribusiness companies face considerable compliance costs associated with environmental reporting under various schemes at Commonwealth and state and territory level. These programs are spread across energy, water and waste.

In common with other manufacturing industries the food and agribusiness sector must report against a number of energy schemes including:

- National Greenhouse and Energy Reporting (NGER) Scheme - Commonwealth
- Energy Efficiency Opportunities (EEO) - Commonwealth
- National Pollution Inventory (NPI) - Commonwealth
- Energy Savings Action Plan - NSW
- Environment and Resource Efficiency Plan (EREP) - VIC

It is clear that there is a degree of duplication across these schemes in their objectives and also their reporting requirements. Whilst companies may package the same data in different ways for each of the schemes, it is still the case that the overall reporting burden is greater than it need be.

Industry is required to report water usage and water quality parameters under different state and Territory initiatives to the following Government agencies:

- Environment and Resource Efficiency Plan (EREP) - VIC
- ongoing Water Efficiency Management Plans (WEMP) - QLD & WA
- Water Savings Action Plans - NSW
- water management action plan (waterMAP) - VIC
- In addition water discharge reports are required by:
- State Environmental Protection Agencies, as part of environmental license requirement; and
- water retailers such as Sydney Water and Yarra Water which require information on parameters such as volume in and out, biological oxygen demand (BOD), total solids and dissolved solids.

The industry is also required to report outputs and disposal of waste to State Environmental Protection Agencies and to initiatives such as:

- Environment and Resource Efficiency Plan (EREP) (VIC); and
- Annual Waste Returns (VIC).

Each of these programs has some individual merit, but the cumulative impact on business is unnecessarily high, contributing to the decline in Australia's competitiveness and perceptions of regulatory burden. The message again is to simplify and unify: industry is as conscious as anyone of the need for energy, water and waste efficiency, it does not need over 15 regulators covering the territory.

Recommendation: Federal and State Governments work through the COAG process to remove duplication and inconsistencies between environmental compliance regimes.

ii. Land Use Planning

Land use planning is a key issue for the entire agri-food sector. The AFGC, NFF and retail industry have previously highlighted the challenges with the Federal Environmental Protection and Biodiversity Conservation Act 1999 (EPBC) and state regulations. The duplication in governing bodies have resulted in inconsistencies between threatened species and ecological communities at a state and federal level which have delayed and/or stalled development processes such as approvals to clear patches of native vegetation. Industry has previously recommended the establishment and effectively functioning of a single national environmental and approval process.

The continued effective operation of agriculture and food processing is also heavily reliant on land use planning. Intensive agriculture such as feedlots and horticulture operations are often located close to population centres due to access to labour, energy (electricity, gas), water and transport links. Food processing facilities are often located close to population centres for the same reasons. As populations increase local councils and other bodies have approved residential subdivisions in close proximity to agricultural and food processing facilities.

Many agri-food plants operate continuously and can therefore produce noise, light, odour and heavy vehicle movements at all times of the day and night. This often results in a conflict between ongoing operation of the agri-food industry and the amenity sought by new residents.

The agri-food sector is often a key employer and driver of economic activity in an area, particularly a regional area. As a key economic asset in an area, established agri-food facilities should have priority in local planning policies. Such facilities need access to transport, energy and water connections, and maintain the ability to operate continuously. Buffer zones are required to ensure the effective and efficient operation of facilities does not impede the amenity of residents.

Lastly, land use planning is vital for future transport corridors. The Australian agri-food sector is heavily reliant on efficient transport systems to provide products to consumers in Australia and overseas. Current transport corridors need to be adequately protected to ensure the continued operation of transport routes for the agri-food sector. Future transport corridors must also be protected effectively so infrastructure can be constructed in the least cost and most efficient manner when required.

Recommendation: Ensure that land-use planning at all levels of government prioritize existing economic infrastructure and allows for the development of transport corridors to accommodate future capital investments by the agribusiness sector.

1g) Improvements to Commonwealth Chemical Approvals and Testing Regimes

COMMONWEALTH AGENCY OVERLAP AND MAXIMUM RESIDUE LIMITS

Current regulatory arrangements see Food Standards Australia New Zealand (FSANZ) set maximum residue limits for imported foods, while the APVMA sets residue limits for domestic foods.

Both are reflected in one document (Food Standard 1.4.2) that is enforced by state and territory officials.

Maximum residue limits are established to reflect good agricultural practice, meaning that use is limited to the least amount of pesticide or medicine necessary to achieve the intended purpose. In the vast majority of cases, there is no safety concern in question – the residues are expressed in very small amounts such as parts per million – the only issue is proper agricultural and animal husbandry practice.

With this in mind, it is reasonable to expect that different countries, with different climates and different pests and diseases, will set different rules as to what may, or may not, be used, and to this extent it is not unreasonable to set different rules for imported and domestic goods – there are even international standards that deal with residues in internationally traded commodities. The problem arises where the differing agencies seek to set MRLs for the same chemical used on the same crop (leaving to one side the problem of restricting chemical use to single target crops). In such an instance, where the imported residue level is higher than the Australian one, the imported residue level is said by APVMA to not reflect Australian conditions, while FSANZ is in the position of seeking to allow the imported residue level so as to avoid imposing a non-tariff trade barrier (again in circumstances where there is no significant risk to public safety).

The situation is compounded by nil tolerance for residues, where the presence of astonishingly small levels of a chemical renders a food illegal in the absence of a specific allowance for the specific chemical in the specific food. In line with the principles outlined in the Government's Industry Innovation and Competitiveness Agenda, regulation in chemical approvals and testing regimes should accept trusted international standards, including the adoption of default MRLs as per the New Zealand system.

Bearing in mind that the activities of APVMA are cost-recovered from industry, a further issue in relation to MRLs lies in the structure of regulation where approvals are granted in relation to a specific crop (e.g. passionfruit) but a separate application is needed to approve the same chemical, at the same level of application and residue, in a closely related crop (e.g. kiwifruit), even though the same pest may be targeted. Application costs to industry could be decreased, and regulatory efficiency increased, if permissions were granted in relation to target pests rather than target crops.

COST RECOVERY

A number of agribusiness regulators (APVMA, FSANZ, NICNAS) are entirely or partly funded through cost recovery, imposed as levies or as application fees. In the past, there has been little policy or practical oversight on the cost recovery processes of these agencies. Now, in contrast, we have the Australian Government Cost Recovery Guidelines and Finance Circular directives from the Department of Finance, together with the more transparent cost recovery impact statement process.

Industry welcomes the improved administration in this respect, which for the present appears sufficient to address prior industry concerns. Individual concerns in relation to specific instances of cost recovery can be taken up directly with the agency in question.

The broader question that remains is the extent to which the public good aspects of regulation need to be publicly funded. In the case, for example, of NICNAS there is a significant public safety and environment protection function served by the regulation of industrial chemicals, but the agency remains fully funded by industry levy with little incentive to operate efficiently, and without the strictures of efficiency dividends faced by other Commonwealth agencies. It is in relation to such agencies that some continued cost recovery reform is needed.

NICNAS REFORM

In December, the AFGC provided a submission in response to the Department of Health (the Department) consultation on “*Implementing reforms to the National Industrial Chemicals Notification and Assessment Scheme*” [NICNAS].

In summary, the AFGC –

- Supports the need for reform of industrial chemicals regulation;
- Supports the majority of policy goals enunciated in the consultation, but considers they should be driven further;
- Does NOT support the detail of the proposed regulation, considering that it undermines the stated policy goals and is unlikely to achieve the intended outcomes.

Existing NICNAS regulation is burdensome in cost and compliance, reflecting a culture of Australian exceptionalism ill-suited to the realities of the Australian market. Such a culture belies the reality of the market for (non-food and beverage) grocery products in Australia, including cosmetics, personal care and household cleaning brands.

As reported in the AFGC’s *State of the Industry 2015* (based primarily on ABS data), in 2014-15, the Australian market *imported* \$15.6 billion worth of products, while exporting just \$3.3 billion worth of products, a net trade deficit of over \$12 billion. Over the past 5 years the number of enterprises in the grocery sector has fallen from 1,578 to 1,491. The *State of the Industry 2015* further cites an IBISWorld Industry Report (C1851, January 2015) to comment “*Cleaning compound manufacturing experienced a decline for the third year in a row, decreasing by a further 3.9 per cent. This drop can be somewhat explained by the movement of manufacturing facilities overseas to nearby Asian countries where costs are lower*”

This, then, is the outcome of Australia’s “leading edge” regulatory system. Australian manufacturing and markets for grocery products are in serious decline, leading to almost total reliance on imported products, and even then creating roadblocks and delays to innovation. Australia is no longer a place where grocery manufacturers are interested in investment or innovation, reducing our market to a late adopter of imported technology. To the AFGC it is unclear what benefits, economic or social, are being achieved. The case for reform is stark.

The AFGC believes that the principles for NICNAS regulation are relatively straightforward to set out –

- It must have a clearly stated and assessable outcome as to what the legislation is to achieve,

- It must recognise the market reality that Australia plays a very small part in the world economy and, with only a small domestic industry, almost no influence in relation to global industrial chemical regulation – a failure to understand this leads to the current malaise where regulation simply serves as a trade barrier for innovative products and chemical ingredients that are available overseas,
- It should deal with industrial chemicals rather than retail products made up of chemicals (or at least provide for equivalence recognition where such retail products are made in accordance with the regulations of trusted international economies),
- It must provide for a genuine tiered approach to risk management for chemicals based on exposure by volume and hazard, evaluated in accordance with the internationally aligned criteria,
- In particular, it must implement the government’s policy on accepting trusted international assessments, standards and products,
- Obligations on industry must be expressed clearly and concisely,
- Measures must be developed in accordance with the *Australian Government Guide to Regulation* and be subject to full regulatory impact analysis,
- Barriers to innovation and competition must meet a higher burden of justification before being adopted,
- Transition mechanisms must minimise disruption to existing products and supply chain, and
- Cost must be assigned fairly and transparently and not impose a burden on industry and deter innovation

Recommendation: That in line with the principles outlined in the Government’s Industry Innovation and Competitiveness Agenda, regulation in chemical approvals and testing regimes should accept trusted international standards, including the adoption of default MRLs as per the New Zealand system.

Recommendation: That the Government ensure reforms to NICNAS which comply with the Australian Government Guide to Regulation.

1h) Non-tariff barriers to Trade

In late 2015, the Australian Food and Grocery Council released a report *Non-Tariff Barriers facing Australia’s Agri-Food Exports* (attached). This report highlights the regulatory barriers to Australia’s agri-food exports in foreign markets and builds on earlier work by the meat and dairy sectors. Addressing the barriers in foreign markets is vital to the future of Australia’s exports however Australia’s own domestic regulations have a significant impact on our exports.

Domestic exporters must meet the food safety and biosecurity requirements of Australia and the foreign market. Importers of food to Australia must also meet Australia’s requirements. As an island

nation with relatively low levels of pest and disease, Australia maintains a relatively strict biosecurity regime to protect human, plant and animal health within our borders.

It is critically important that Australia's own measures are robust, appropriate and subject to regular review in light of developments in science and technology. This ensures that Australian agricultural and food companies have access to the latest technological innovations, and that Australia's international standing as open trading nation is secure. With approximately 60 per cent of Australia agricultural production, and increasing levels of food production, exported to foreign markets, we must ensure that our biosecurity, food safety and export regulations are consistent with the policy objective of growing Australia's agri-food exports.

Recommendation: That a review mechanism is built into Australia's export biosecurity framework to enable access for food and agricultural producers and exporters to the latest improvements in technology.

2. ENCOURAGING INNOVATION BETWEEN AGRICULTURE AND FOOD MANUFACTURING

2a) Improving Australian agriculture's ability to commercialise science research

The AFGC welcomes the Government's commitment to strengthening the relationship between science and industry through *the National Innovation and Science Agenda* and *Boosting the Commercial Returns from Science* policy. These policies will provide a foundation for Australian researchers and industry to maximise the benefits of science investment to the Australian economy.

It is crucial that Australia's regulatory system is flexible and responsive to these technological advancements, a goal that is not always achieved under the current regime. Currently, there are a number of Australian discoveries and inventions that have been utilised on a commercial basis overseas but not in Australia because the regulatory environment makes it commercially unviable to do so.

An example of a commercial application of Australian science being used overseas is the 'Arctic Apple™', an apple that does not turn brown when cut and is sold in Canada and the United States. The patented gene-silencing technology was created by the CSIRO's Plant Science team and has been available for use in stone, pome fruit and potato crops for over a decade in Australia.

No commercial operations have utilised this technology despite its proven safety record for two reasons. First, the Office of the Gene Technology Regulator requires each genetically modified crop variety to be subjected to the same regulatory regime, including field trials, before commercial use, despite most containing identical genes that have been used safely for decades elsewhere.

Second, FSANZ requires labelling of genetically modified organisms in such a way as to confer, in the consumer's mind, a 'danger warning' on the product. This is despite the strong scientific evidence that GMO products are neither a danger to the environment or human health, and decades of use worldwide of GMO agriculture with no ill effect.

This conservative approach to GM technology has been driven by well-financed environmental groups who have driven a consumer scare campaign on the issue. It is the responsibility of governments and indeed scientists to educate the public on the facts behind such technological innovation so that Australians can benefit from the scientific discovery generated in this country.

A further example of Australia's cautious attitude towards new products is seen in the food standard requiring pre-approval for, a consumer labelling of, products rendered safe through the use of ionising radiation (Standard 1.5.3 of the ANZ Food Standards Code). Whatever precaution may have been valid at the time the Standard was put in place, such technology is now mature and a number of generations removed from the initial technology, and it is perplexing why Australian standards actively prohibit the use of such technology to make food safe – recent Salmonella issues in lettuce could have been prevented by the use of such technology, according to the US Centre for Disease Control (http://www.cdc.gov/nczved/divisions/dfbmd/diseases/irradiation_food/).

The answer is that the reach of regulation expands much more often than it contracts – there is no requirement on Food Standards Australia New Zealand to review standards to ensure that they remain necessary to protect safety – with the consequence now that they arguable achieve the very opposite and are hindering public safety. The regulation of new technology should be subject to appropriate regulation impact review, but even assuming it to be necessary, should be subject to an appropriate sunset period (even 10 or 20 years) so that innovation does not become permanently mired in red tape.

Recommendations: That the Productivity Commission review Australia’s regulatory regimes to ensure they are able to adapt to advances in scientific knowledge. The Government should invest in public education to counter myths around food and fibre technology use.

That sunset clauses be placed on any regulation of new technology.

2b) Case Study on Industry Action: Food Safety Audit Project

The AFGC has recently completed a project which demonstrates the value of industry working with stakeholders to drive efficiencies and better outcomes in the regulatory environment.

The Australian food production, manufacture and retail supply chain comprises a complex network of suppliers and customers. Products and manufacturing systems must meet regulatory requirements and customer specifications described in regulation, general industry standards, and/or bespoke company standards.

Compliance with regulations and other standards is demonstrated through the auditing of company operations. In essence, the audits seek to confirm adherence to food safety and quality procedures, and that those procedures are adequate to assure the safety and quality of food products.

In Australia, the major retailers, quick service restaurants, food service companies and major manufacturers commission a large number of audits of suppliers of fresh products, ingredients and finished retail ready products. Regulatory agencies (Commonwealth, State and Territory and local government) also conduct food safety audits. Industry surveys indicate that there is appreciable overlap between audits – that is individual companies may be audited multiple times over short time periods on behalf of different customers. A substantial commonality of elements between audits, particularly for food safety matters and a lack of cross-recognition of audit reports represent a significant, and in many cases unnecessary, cost burden on the companies, which in aggregate across the supply chain is substantial, running to many millions of dollars.

Example of Industry Regulation in the Meat Industry

The meat industry supplies a variety of commercial customers both domestically and overseas. These include but aren't limited to supermarket chains, food service industry (eg Sizzler, McDonald's, Hungry Jacks (Burger King), Pizza Hut, Dominos, Outback Steakhouse, etc) and many hotels and restaurants.

The vast majority of these customers require some form of certification audit covering a whole range of issues from food safety, production system sustainability, animal welfare, ethical production systems, etc. That is on top of the regulatory compliance audits from local, state and Federal authorities.

Most of these customers require independent audits to verify that the products that are being supplied meet basic regulatory requirements and their specific commercial requirements. The costs involved here can be substantial. Some customers tend to reference slightly different standards and some even develop their own standards. The customers generally don't accept the audits from the government that cover the basic elements of food safety, animal welfare and product integrity (truth in labelling and traceability) or the audits of other customers, so duplication of audit effort and cost is very common. This lack of recognition is more about differentiating themselves in the market place. This creates quite a large financial burden on meat processors and this translates into lower farm gate returns to farmers.

One of the more extreme examples is a multi-species processing plant in Victoria with multiple market access listing receiving almost 200 days of audit per year not including the regulators audit and Department of Agriculture on-site veterinarian's verification activity. This processor actually employs additional staff just to deal with audits and their follow up.

The State authorities are primarily responsible for food safety. Due to export certification requirements the Commonwealth has also become involved. There are overlaps between State and Federal jurisdictions in this area. These are gradually being resolved but need further effort to ensure they are not just seen as a revenue raising activity. This applies to government as well as third party audit suppliers.

After development of an initial Business Case for the project the AFGC approached Government seeking funding support. This resulted in the AFGC receiving funding (\$80,000 in total from AusIndustry and FIAL) for a scoping project to gather more specific information to help inform the Business Case, and more specifically the cost/benefit analysis identifying the critical food safety elements of regulatory requirements and industry standards and ensuring they are common to all of those used.

This project has now been completed and is informing the preparation of a Business Case for a larger body of work by the food industry with the ultimate aim of ensuring food safety auditing is a value-add across the food sector for the good of the industry and the consumers it serves.

Key findings include:

- a large number (36) of private standards in addition to regulatory standards were identified.
- the number of audits conducted is higher than necessary to provide for safe foods;
- duplication of food safety requirements and audits imposes unnecessary costs;
- the level of prescriptive requirements in standards is increasing, counter to the established principle of standards being outcomes-based, as the best means of assuring food safety;
- auditor availability and competencies are creating difficulties for audit management; and
- the overall costs of food safety audits on businesses is increasing.

For the first time reliable, detailed information of the costs of food safety systems (\$50 million across 95 respondents) and auditing has been obtained and those costs are large. Further work in this area has potential substantial financial rewards for all stakeholders.

Recommendation: That stakeholders from government auditing bodies continue to work with the sector to develop a more efficient streamlined audit system for the benefit of consumers and industry.

2c) Improving Government Communications

The Government's focus on innovation and technology adoption is encouraging and important for the agriculture, food, beverage and grocery sectors. While technology adoption in companies is vital, there are critical bottlenecks in Government which require technological solutions. For example, a number of companies report that government documents required by companies for exporting will only be sent by government through the mail. This results in unnecessary delays to export shipments and is a particularly important issue for fresh, perishable product.

The AFGC appreciates the constraints around government budgets, legislation and processes, but it is vital that government processes are as efficient as possible to allow Australian food producers and exporters to compete on the global marketplace. Significant resources and efforts should be focused on areas where government process creates bottlenecks in the food supply chain.

Recommendation: That the Government should examine all regulatory and biosecurity approval processes (particularly within the Departments of Agriculture and Industry) to ensure that interaction between business and government agencies can be carried out electronically or via the preferred communication method of businesses.



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