



AUSTRALIAN
**FOOD &
GROCERY**
COUNCIL

AFGC SUBMISSION

PRODUCTIVITY COMMISSION DRAFT REPORT:
REGULATION OF AUSTRALIAN AGRICULTURE

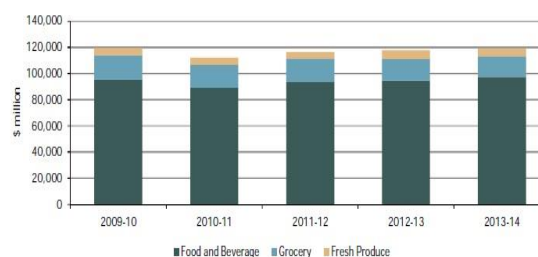
Sustaining Australia

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 190 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.

Figure 3.1: Composition of the defined industry's turnover (\$2013-14)¹¹



Source: Based on ABS, catalogue number 8221.0, 8159.0 and 8155.0

Australia's food and grocery manufacturing industry takes raw materials and farm products and turns them into foods and other products that every Australian uses every day. With an annual turnover in the 2013-14 financial year of \$118 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. It adds over \$32 billion to the value of the products it transforms.

Manufacturing of food, beverages and groceries in the fast moving consumer goods sector is Australia's largest manufacturing industry. The diverse and sustainable industry is made up of over 26,651 businesses and represents 30% (almost one third) of the total manufacturing industry in Australia.

The food and grocery sector accounts for over \$61.7 billion of the nation's international trade in 2014-15, with a trade surplus worth over \$10 billion to the Australian economy in 2014-15. These businesses range from some of the largest globally significant multinational companies to family-based small and medium enterprises.

The food and grocery manufacturing sector employs more than 322,900 Australians, 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 over 40% 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.

The contribution of the food and grocery sector to the economic and social well-being of Australia cannot be overstated. Australians and our political leaders overwhelmingly want a local, value-adding food and grocery manufacturing sector.

Data source: AFGC and EY State of the Industry 2015: Essential Information: Facts and Figures

AFGC SUBMISSION

The AFGC provides this submission in response to the Productivity Commission's July 2016 Draft Report, "*Regulation of Australian Agriculture*".

The AFGC appreciates that the Draft Report goes to some length to meet its Terms of Reference in identifying "**specific areas of regulation that are unnecessarily burdensome, complex or redundant**" (emphasis added). The March 2015 Final Report of the Competition Policy Review, in its Recommendation 8, also called on all Australian governments to "*review regulations ... to ensure unnecessary restrictions on competition are removed.*"

It is also noteworthy that the Draft Report recognises that the regulatory burden on food manufacturers has an impact on the agricultural sector. This may seem obvious, in that manufacturers take the products of agriculture and value-add by transforming them into foods for both the Australian and export markets, but the point is key to understanding how the agricultural sector must work if it is to move beyond bulk commodity sales.

Much of the Draft Report considers issues, such as agricultural land use, that are outside the direct remit of the AFGC, and yet the importance of an efficient and varied Australian agricultural sector remains a cornerstone of Australian food manufacturing, particularly as a driver of export market growth.

The AFGC does not provide detailed comment on each recommendation in the Draft Report, but rather seeks to provide contextual perspectives in relation to the issues of –

- ❖ regulatory reform, and in particular perceived impediments to reform;
- ❖ foreign investment;
- ❖ non-tariff trade barriers; and
- ❖ animal welfare.

REGULATORY REFORM

The Draft Report includes a number of chapters that relate specifically to the pressing need for regulatory reform in agribusiness sectors. The regulation of technologies in Chapter 6, of food regulation in Chapter 9, and export regulations in Chapter 13 serve as prime examples. This focus on reform is welcomed by the AFGC.

However, it is not the first time that a report has called for reform in such areas, nor would it be the first time that the Australian and COAG governments accept the need for reform and establish reform policies and procedures. There seems to be some fundamental obstacle to reform that is not being addressed, meaning that despite the best intentions and endeavours, reform is not being progressed and the same issues and concerns arise today that have been identified in reports dating back a number of years.

For this reason, the AFGC is cautious about calling for reform in specific areas, such as gluten free labelling or the regulation of agricultural and veterinary chemicals. This caution does not reflect any doubt that reform is needed, but rather that simply calling for it has proven ineffective.

Rather than identify specific issues in need of reform, the AFGC considers it would be more valuable to examine why reform is not already happening in this area, despite Government policies. The key single issue, in the AFGC's consideration, is the inability of product regulators to embrace the policy, now nearly three years old, that safety assessments and approvals by regulators in comparable economies should be accepted. It seems that rather than implementing this policy, regulators seek to find ways in which the policy can be sidestepped or avoided, leading to a situation of entrenched Australian exceptionalism in regulatory mind-sets that requires constant, high cost and often contrary re-assessment of safety issues – notwithstanding evidence of no harm demonstrated by the continued health of the populations of those developed economies where the safety assessment has already been made and products approved. The direct and opportunity costs of this mind-set remain one of the largest impediments to agribusiness innovation, consigning Australia to becoming a late-adopter of imported technologies in a global market where innovation is a key to success.

Driving this single three year old policy through barriers of regulator reluctance will at one stroke address many of the single issues identified in the Draft Report, and the AFGC recommends that the Commission focus on this policy in its final report.

FOREIGN INVESTMENT

The AFGC strongly agrees with the Draft Report statement that “*Foreign Investment has been, and will continue to be, important for improving the competitiveness and productivity of the Australian agricultural sector*”. The AFGC would add that the same is true for the competitiveness and productivity of the food processing sector as it seeks to develop export markets.

The AFGC recognises that the Government has responded to community concerns about foreign investment policy, and in particular the appropriate degree of control that should be exercised over individual investment proposals, especially concerning land acquisition and infrastructure.

The issue for the AFGC, however, is to ensure that Australia's foreign investment policy and approvals reflect two key realities –

- the message to international investors must remain that Australia welcomes foreign investments as a driver of economic growth; and
- that Australia must remain an attractive market in which foreign capital wishes to invest.

The first goes to the question of the difficulties of *making* an investment in Australia compared to the difficulty of investing elsewhere, while the second goes to the *return* on an investment compared to the return offered by investments elsewhere.

The sense that Australia deserves foreign investment as of right, and that investors will queue up to invest here, reflects a dangerous confidence in matters that can rapidly change. Global capital is flexible, mobile, at times impatient and hungry for return. Australia is a high costs market compared to our regional neighbours. If capital

investment is as necessary as the Draft Report suggests, every Government intervention needs to be evaluated against these two market realities lest the investment instead be directed to a less problematic, higher return market. Government, in the AFGC's view, has a role in actively promoting Australia as a destination for foreign investment where the global market for capital is so competitive.

NON-TARIFF TRADE BARRIERS

The AFGC notes the Draft Report's discussion of export regulations in Chapter 13 of the Draft Report, and welcomes this analysis and the need to ensure such regulations are as efficient as they can be.

The AFGC considers that there is something of a bigger issue to be addressed, which is the growing trend towards the implementation in export markets of non-tariff barriers (NTBs) to trade, especially in relation to government certification of processing and compliance. It is one thing to make the Australian systems cost- and time efficient, but the effort may be better spent in addressing the need for certification in the first place.

The AFGC appreciates that in any such discussions Australia does not come to the table with spotless hands, and it is perhaps a truism that Australian regulators may not be aware, when introducing requirements that apply to imports, of the potential for retaliatory or even simply equivalent measures to be placed on Australia's exports. It is no coincidence, for example, that the introduction of a system of country of origin labelling was on the policy agenda for Japan's Government in the recent elections.

That said, the potential for NTBs to impede and constrain Australia's exports growth represents a critical threat that needs to be carefully and explicitly examined. The difficulty is that NTBs are of such variety and complexity that it is difficult to identify an appropriate starting point.

The AFGC does not consider this issue to lie solely within the remit of agricultural policy, although agricultural exports are clearly vulnerable and increasingly subject to NTBs. That said, the AFGC considers the issue to be worth addressing in the Commission's final report. A possible way forward would be to seek a consensus amongst Australian exporters as to a single NTB issue to a single country or group of countries that could be addressed with the most impact on the value of Australian exports. Making export growth a touchstone for prioritising a NTB agenda would at least serve to cut through the bewildering array of issues and bring some focus to what needs to be achieved.

ANIMAL WELFARE

The AFGC does not consider it necessary or appropriate to establish a new independent body to develop national standards and guidelines for farm animal welfare.

The discussion in Chapter 5 of the Draft Report appears to be primarily focussed on the formal government arrangements and protocols for establishing animal welfare standards, and indeed these arrangements could, and should, be streamlined.

However, the discussion is less focussed on the commercial drivers of animal welfare, and in particular the quasi-regulatory role played by supermarkets as they compete to

address consumer demand around values-driven shopping. The success in areas such as RSPCA-approved poultry husbandry, hormone-free beef and sow-stall free pork demonstrate that animal welfare can be a powerful consumer incentive for changing supermarket sourcing behaviour, providing in many ways a more rapid and responsive system to address animal welfare issues.

The emergence of supermarket quasi-regulation does not replace the need for more formal protocols, codes and guidelines, but rather has synergies that need to be considered and evaluated before regulatory or additional administrative proposals are considered. The AFGC has great faith in the market to deliver animal welfare outcomes driven by broad social concerns, rather than the narrower range of concerns or influences that might plague a governmental agency, at much less cost to the taxpayer and without the regulatory risk of perverse outcomes that impede, rather than serve, the policy goal.

CONCLUSION

The AFGC considers that –

- (a) regulatory reform remains an issue of paramount concern, and that the better adoption of international safety assessments and approvals is the single key policy likely to deliver the most significant reform;
 - (b) foreign investment policy and interventions need to assess the degree of difficulty placed on investors compared to other countries as well as the ability of Australia to deliver returns on investments compared with other countries;
 - (c) non-tariff trade barriers should be discussed in the Commission's final report, including a means to identify priorities for action; and
 - (d) the case has not yet been established for a new Australian Government independent agency to address animal welfare issues in the absence of consideration of the commercial drivers that might promote animal welfare without regulatory intervention.
-