



Evaluation of the Agri-Food Strategy

An assessment of recent government assistance to the agri-food industry

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Forming the Productivity Commission

The Federal Government, as part of its broader microeconomic reform agenda, is merging the Bureau of Industry Economics, the Economic Planning Advisory Commission and the Industry Commission to form the Productivity Commission. The three agencies are now co-located in the Treasury portfolio and amalgamation has begun on an administrative basis.

While appropriate arrangements are being finalised, the work program of each of the agencies will continue. The relevant legislation will be introduced soon. This report has been produced by the Bureau of Industry Economics.

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Foreword

In August 1995, the then Department of Industry, Science and Technology and the Department of Primary Industries and Energy commissioned the Bureau of Industry Economics (BIE) and the Australian Bureau of Agricultural and Resource Economics (ABARE) to evaluate the Agri-Food Strategy.

The purpose of the evaluation was to examine the extent to which a range of measures included in the Agri-Food Strategy has facilitated closer industry integration and international competitiveness and assisted in achieving improved export performance. An interim report was presented to the Agri-Food Council in November 1995.

The evaluation team has relied substantially on information provided by firms, industry associations, unions, state and commonwealth government representatives and other key individuals associated with the agri-food industry. The BIE and ABARE would like to thank the members of the Agri-Food Council Secretariat for their help and also the representatives of the many companies and organisations which participated in the study. In addition, the research team would like to thank the members of the Agri-Food Strategy Evaluation Advisory Committee: Mitch Hooke (Australian Food Council), John Claringbould (Effem Foods), Malcolm Irving (Australian Horticultural Corporation), Louise Kamp (Department of Finance), Bob Calder (DPIE) and Graeme Taylor (DIST).

The report was researched and written by Ian Bickerdyke, Kate Pearson and Ralph Lattimore (BIE). Paul Morris and Robert Rees (ABARE) provided key inputs into the report. Assistance was provided by Andrew Bradly, Valli Emery and Denise Peoples (BIE) and Peter Connell, Phil Knopke, Ahmed Hafi, Trish Gleeson and Leith Felton-Taylor (ABARE). Helpful referee comments were provided by Stewart Plain (BIE).

Ian Monday
Acting Director

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Abbreviations

ABARE	Australian Bureau of Agricultural and Resource Economics
ABS	Australian Bureau of Statistics
ACTU	Australian Council of Trade Unions
AFC	Australian Food Council
AFISC	Australian Food Industry Science Centre
AFSTF	Australian Food Science and Technology Forum
APEC	Asia Pacific Economic Cooperation
AQIS	Australian Quarantine and Inspection Service
BIE	Bureau of Industry Economics
BNP	Business Networks Program
CFEP	Clean Food Export Program
CFMA	Clean Food Marketing Australia
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DEETYA	Department of Employment, Education, Training and Youth Affairs (formerly DEET)
DFAT	Department of Foreign Affairs and Trade
DIR	Department of Industrial Relations
DIST	Department of Industry, Science and Tourism (known as the Department of Industry, Science and Technology before March 1996)
DITAC	Department of Industry, Technology and Commerce
DPIE	Department of Primary Industries and Energy
EBRS	Export Barriers Reporting Scheme
EMDG	Export Market Development Grants
FBT	Food, beverages and tobacco
FIAC	Food Industry Advisory Committee
FILLIP	Food Industry Language and Literacy Initiative Program

FINA	Food Industries Networking for Asia Export Program
ITES	International Trade Enhancement Scheme
MOU	Memorandum of Understanding on Workplace Reform
NFA	National Food Authority
NFITC	National Food Industry Training Council
PFMAC	Processed Food Market Access Committee
R&D	Research and development
SMEs	Small and medium-sized enterprises
WELL	Workplace English Language and Literacy Program

Note: The US convention for a billion — a thousand million (10^9) — is used by the BIE.

Box 1 Evaluation of the Agri-Food Strategy — major findings

- The agri-food industry has improved its performance across-the-board since the commencement of the Agri-Food Strategy — but has generally fared less well than other manufacturing industries.
- The Agri-Food Strategy has improved some of the processes, mechanisms and relationships in the agri-food industry in a way which may ultimately contribute to better industry performance. Benefits such as engendering greater industry cooperation and addressing specific impediments to international competitiveness are sometimes intangible and usually unquantifiable — but they are benefits nevertheless.
- On the other hand, the Agri-Food Strategy has not had any significant measurable impacts on industry performance (such as exports and productivity). It also appears to have brought only limited benefits to most firms directly involved with strategy programs and initiatives.
- The Agri-Food Council has performed quite well in carrying out its principal ‘core’ functions (particularly providing leadership, forging a common industry purpose and encouraging best practice). However, the council also has several weak spots — limited industry awareness and understanding of the council’s role, insufficient contact and consultation with stakeholders, inadequate dissemination of information and lack of a clear strategic focus.
- These modest outcomes can give a misleading negative perspective on the overall impact of the Agri-Food Strategy. The fact that the Agri-Food Strategy’s quantifiable impacts on industry performance have been small is neither surprising nor necessarily symptomatic of policy failure. The scale of the resources applied through the strategy elements to solve the problems besetting the industry is tiny in comparison with the scale of resources that are committed in the industry as a whole.
- A modified Agri-Food Strategy is recommended. This modified strategy would not revolve around government-funded programs. Rather, it would focus on a revamped Agri-Food Council and the contributions it could make to industry development. The strategy would contain three elements: reforming government infrastructure and institutions, ensuring industry policy is relevant to agri-food firms and changing industry culture and attitudes.
- The Agri-Food Council’s work program should revolve around implementing the modified Agri-Food Strategy. But the council could still have an important ministerial advisory role to play. In addition, the council should outline its vision for developing the agri-food industry and write a more detailed agenda and work program.
- To effectively undertake its new functions, the Agri-Food Council is likely to require some changes to its structure, operations and support. Options are presented relating to council membership, ministerial representation, chairing arrangements, meetings and working groups, secretariat arrangements, communications and consultation, and resources.
- We also make recommendations regarding current Agri-Food Strategy programs and initiatives. We found four components are potentially worthwhile but require modifications. We also found two others to be potentially worthwhile, but the nature of further action depends upon the future role of the Agri-Food Council. We recommend that funding for two programs should not be renewed due to duplication of other government programs. No action is required at this stage on the remaining five strategy initiatives.

Summary

Overview

The Agri-Food Strategy aimed to spark large improvements in the Australian agri-food industry. These lofty aspirations have not been met. This is largely because the aspirations were unrealistic given the resources allocated to the strategy, rather than reflecting endemic flaws in the design of the strategy itself. Overall, the strategy has produced only modest benefits for the industry as a whole — although these benefits may still outweigh the also very modest program costs. We recommend the elimination and alteration of some Agri-Food Strategy elements and changes in the orientation of the strategy — in particular, with a renewed focus on identifying micro reform options throughout the food chain.

Background

The Agri-Food Strategy, announced by the then federal government in July 1992, consisted of a suite of programs and initiatives directed at improving the international competitiveness and export orientation of Australia’s agri-food industry. It was aimed at providing a framework within which industry, unions and government could address key issues impairing the performance of the agri-food industry. Its major objectives were to encourage added value and bring about a substantial increase in highly processed food exports.

This study was commissioned to evaluate the Agri-Food Strategy’s performance since its inception in 1992. The terms of reference for the study called on the evaluators to examine the economic impacts of the strategy and its effectiveness in meeting its objectives (such as improved industry export performance and increased and better industry integration). The evaluation team was also required by the terms of reference to consider efficiency aspects and the appropriateness of an agri-food industry strategy — including whether it should continue in its present or modified form. The assessment of ‘the strategy’ in fact involved three distinct, but related, dimensions (box 2).

The study was undertaken by the Bureau of Industry Economics (BIE) with assistance from the Australian Bureau of Agricultural and Resource Economics (ABARE). The study team took a strongly consultative approach to the evaluation. We distilled the views of all the major stakeholders — agri-food firms, Agri-Food Council members, industry and grower

associations, unions, federal and state government departments and others — through interviews and surveys. We also received a number of written submissions.

Box 2 Evaluating the Agri-Food Strategy

The assessment of the Agri-Food Strategy involved three distinct, but related, dimensions:

- an assessment of the strategy ‘as a whole’;
- an assessment of the individual programs and initiatives comprising the strategy; and
- an assessment of the performance of the Agri-Food Council , which was established to give effect to the strategy initiatives.

Direct consultation with key stakeholders helped the study team to assess how the Agri-Food Strategy is affecting the industry, what benefits it is bringing and how things can be improved. Other evidence gathered to assess the strategy’s impacts included statistical information on the performance of the agri-food industry — such as industry exports and productivity — and the results of previous agri-food related research.

How well has the agri-food industry performed since 1992?

In the context of the Agri-Food Strategy, the ‘agri-food industry’ essentially means processed food and beverages produced within the manufacturing sector — although the strategy also contains some elements relating to fresh food.

Statistics reveal that the growth in all of the agri-food industry’s key performance indicators between 1991-92 and 1994-95 exceeded the growth in the previous three-year period. However, for the purposes of assessing the impacts of the strategy, a more telling comparison is the recent performance of the agri-food industry and manufacturing in general. This shows that over the three years to 1994-95:

- real value-added in Food, beverages and tobacco (FBT) increased by 16.5 per cent (manufacturing increased by 19.8 per cent);
- labour productivity in FBT increased by 8.2 per cent (manufacturing by 11.6 per cent);
- real investment in FBT increased by 60 per cent (manufacturing by 37 per cent);
- FBT exports and manufactured exports increased by around the same amount (33 per cent); and
- highly processed food exports grew by 40 per cent, while high value-added manufactured exports grew by 57 per cent.

In other words, while the agri-food industry has improved its performance across-the-board since the commencement of the Agri-Food Strategy, the industry has generally fared less

well than other manufacturing industries. Critically this includes the key indicator, growth in highly processed/high value-added exports.

Can the \$7 billion highly processed food export target be achieved?

In announcing the Agri-Food Strategy in 1992, the then government noted its intention that within a decade, exports of highly processed foods would be over \$7 billion per annum (in real terms). This high profile target was determined by assuming the growth in exports (in real terms) would gradually increase from 6 per cent per annum in 1991-92 to 18 per cent per annum in 2001-02. The much higher growth rates towards the end of the period presumed that the strategy initiatives would have increasing impacts, and that firms would develop an export culture and seek new markets.

To date, Australia's highly processed food export performance has been above the forecast path. However, this is largely due to an exceptional export performance in 1991-92 — *before* the Agri-Food Strategy commenced. There is no evidence of an accelerating pace of export orientation anticipated at the inception of the strategy. To remain on target over the next seven years the industry will have to achieve higher growth rates (averaging around 12 per cent per annum in real terms).

Recent growth in highly processed food exports may be more due to generic reasons than the influence of the Agri-Food Strategy. These reasons might include increased overseas demand for highly processed food (and other high value-added products), exchange rate changes, a generic cultural change towards exporting, and the increased productivity of Australian industry. This conclusion is supported by the finding that around 85 per cent of the large agri-food firms targeted by the strategy do not attribute any of their recent export growth to the strategy's existence. The other 15 per cent said the strategy had made only a minor contribution towards improving their export performance.

What other impacts has the strategy had on the agri-food industry?

There is little hard evidence that the Agri-Food Strategy has so far contributed to any significant impacts on measurable *industry performance indicators*, such as exports and labour productivity. But this is not the only way of assessing the strategy's effectiveness.

At the firm level, almost 60 per cent of the firms involved with the programs and initiatives included under the strategy umbrella obtained some form of benefit — although the majority of these benefits were said to be of a minor or moderate nature. Only 22 per cent of firms said they had benefited to a major extent and around 40 per cent stated they had failed to benefit at all. In most cases, the benefits noted by firms could not be quantified in terms of objective measures (for example, productivity improvements).



We must also recognise that some of the possible impacts of the Agri-Food Strategy might be quite subtle and more difficult to detect in the short term — although they may eventually have ‘bottom line’ impacts on productivity and exports.

Box 3 Assessing the strategy as a whole

We assessed:

- a. how well the strategy — and its suite of assistance measures — improved the export performance of the agri-food industry and facilitated a more outward orientated industry;
- b. the effectiveness of the strategy in identifying and removing impediments to the international competitiveness of the industry, including those affecting the production, processing, marketing, transport and distribution of food;
- c. the extent to which the strategy facilitated increased and better cooperation and coordination within the industry; and
- d. the extent to which the strategy facilitated increased and better coordinated investment by the industry in innovation, research and development .

In addition to the export performance objective, we examined the effectiveness of the strategy against three less tangible — but nevertheless critical — objectives (box 3). These were identifying and removing impediments to international competitiveness, better industry cooperation and coordination, and increased innovation and research and development (R&D). We found:

- the strategy has been quite successful in identifying impediments to international competitiveness (such as workplace reform issues, problems with transport infrastructure and lack of cooperation in key parts of the industry). It has emphasised the overarching significance of efficiency, best practice and increased productivity as means to raise competitiveness in the agri-food industry. It has also achieved some limited successes in ‘rolling back’ impediments;
- it is doubtful that current levels of cooperation and coordination by agri-food industry participants would have occurred without the Agri-Food Strategy. At the same time, the majority of agri-food industry firms have not been involved with the strategy and it is unlikely that cooperation among these firms is higher than five years ago; and
- the strategy has helped to promote innovation and R&D issues in the agri-food industry and has assisted in bringing parties together. However there is little hard evidence to indicate that the strategy has contributed in a significant way to overall agri-food industry innovation and R&D (for example through increased use of the R&D tax concession or an increase in R&D expenditure).

Which individual strategy components have been the most effective?

We evaluated the impacts and effectiveness of the targeted individual programs and initiatives which together form the Agri-Food Strategy (box 4). A difficulty faced by the evaluation team was that, in some cases, the full impacts are yet to occur. The individual evaluations were also hindered by time and data constraints. Accordingly, our findings should be regarded as indicative rather than conclusive.

Box 4 The individual Agri-Food Strategy components evaluated

	<i>date started/ launched</i>	<i>date completed</i>
Export market development and market access		
• Clean Food Export Program	1992-93	on-going
• Processed Food Market Access Committee	1992	on-going
Efficiency improvements		
• Memorandum of Understanding on Workplace Reform	1993	on-going
• Language and literacy program (FILLIP)	1992-93	1995-96
• Regulatory reform	a	a
• Air freight code of best practice	1995	on-going
• Packaging	a	a
Industry integration		
• Food Quality Program	1994-95	1997-98
• Grower–processor linkages projects	1994	on-going
• Food Industry Networking for Asia Export Program (FINA)	1992-93	1995-96
Innovation		
• Guideline on 150 per cent R&D tax concession	1993	on-going
• Australian Food Industry Science Centre	1994	on-going
• Australian Food Science and Technology Forum	1995	on-going

a Not relevant.

The four high profile components of the Agri-Food Strategy — the Memorandum of Understanding on Workplace Reform (MOU) and the three major strategy programs — receive mixed reviews:

- we found the MOU has had a limited impact amongst the large food firms interviewed and has produced little in the way of concrete outcomes (such as productivity improvements). It has had some success in raising the profile of workplace reform issues but appears to have become dated as the industrial relations focus has shifted to workplace bargaining. It is failing to adequately provide practical guidance on workplace bargaining in individual enterprises;
- the Food Industry Language and Literacy Initiative Program (FILLIP) is the workplace reform program associated with the MOU. The focus of FILLIP is training to support the skills development of the workforce. It appears to be having reasonable success at the firm level and contributing to skills growth in the industry. While we found no quantifiable evidence of the relationship between FILLIP and productivity increases, there is anecdotal evidence that the program has contributed to cost savings and efficiencies;
- the objective of the Clean Food Export Program (CFEP) is to promote the export of Australian foods by associating them with production in a clean environment. To date,

the program appears to have benefited only some of the Australian participants involved. As well, we found no evidence that the program has produced any spillover effects for other Australian exporters. However, we were unable to fully assess the program's effectiveness — including acceptance by overseas consumers of the 'clean food image' — because of the unavailability of data; and

- it is too early to assess the Food Quality Program.

The Australian Food Industry Science Centre (AFISC) would appear to be one of the most successful strategy outcomes — although it has no doubt benefited from having a far greater amount of resources than other Agri-Food Strategy components. The concept was developed by the Agri-Food Council and taken up by the Victorian Government (which provides the bulk of the funding for the centre). The AFISC has relatively high recognition in the industry and has already benefited a number of firms. In the short time it has been operating, the centre appears to have been successful in meeting its objectives.

The strategy's networking initiative, the Food Industries Networking for Asia Export Program (FINA), may also have had reasonable success. Data obtained from agri-food firms involved in networks — including ones receiving government assistance — indicate that the networks are having favourable impacts on firm performance.

The three grower-processor linkages projects initiated under the strategy umbrella have realised mixed success to date. They have made little overall contribution to the adoption of best practice and other objectives throughout the agri-food industry. There are also few tangible benefits evident from the projects. But there may have been some indirect benefits in the form of better communications and a better focused industry.

Two other strategy initiatives are too recent to make any judgements. These are the Industry Code of Best Practice for Air Freight Export of Perishable Goods and the Australian Food Science and Technology Forum (AFSTF). The remaining strategy initiatives — the Processed Food Market Access Committee (PFMAC), regulatory reform, packaging and the guideline on the 150 per cent tax concession for R&D — have experienced a relatively low industry profile. Commensurate with their profile they have little to show in the way of impacts on the agri-food industry, although the PFMAC appears to have had some success in removing specific market barriers.

Are the individual strategy programs and initiatives 'appropriate' ?

Each strategy element was assessed against three major criteria relating to appropriateness:

- the economic justification for government intervention;
- the appropriateness of the strategy objectives within the context of relevant government policy objectives at the time of the review; and
- the role of the strategy elements vis-a-vis other government programs.

From an economic efficiency perspective three factors — the imperfect functioning of firms, markets or infrastructure — may justify government intervention. We found a possible economic justification for all of the strategy elements, although this was more evident in some cases than in others. Most of the economic justifications for government intervention involved ‘firm failures’ (so called ‘X-inefficiency’) and ‘market failures’ (generation of spillovers and weak information flows).

Other strategy elements, such as FILLIP and the Processed Food Market Access Committee, can be justified due to the imperfect functioning of the operating environment and infrastructure used by the industry. In the case of FILLIP government intervention is justified to raise workforce skill levels, while the PFMAC is about opening overseas markets to Australian products.

We also found that the objectives of the strategy elements were consistent with industry, trade and innovation policies of the 1990s. However, we found several of the strategy elements duplicated or overlapped other government programs:

- the strategy’s skill enhancement initiative, FILLIP, is similar in most respects to the generic Workplace English Language and Literacy Program (WELL);
- the strategy’s networking program, FINA, is almost identical to AusIndustry’s Business Networks Program;
- aspects of the Processed Food Market Access Committee’s work appear similar to a generic government market assistance program, the Export Barriers Reporting Scheme; and
- there is also some potential for duplication between the grower-processor projects and the Food Quality Program — both share concerns with through-chain linkages and the development of a quality/best practice culture.

Has the Agri-Food Council been an effective body?

As the driving force behind the Agri-Food Strategy, the Agri-Food Council’s performance is obviously related to the performance of the strategy as a whole and its individual components. But the council’s specific functions were also assessed separately (box 5).

According to key industry stakeholders:

- the council is seen to be performing best at encouraging the adoption of best practice, with half of all stakeholders believing it is doing a good or very good job in this area;
- the council is also seen to be performing reasonably well in providing leadership and forging a common purpose, and in addressing industry impediments;
- the council rates less well in targeting and coordinating programs across portfolios and as an avenue for firms to raise concerns; and

- the council does badly at disseminating information, with around half of all stakeholders (including 40 per cent of council members) rating the council's performance as 'poor'.

Box 5 Functions of the Agri-Food Council

The principal functions of the Agri-Food Council are:

- to forge common purpose and lead change;
- to encourage the adoption of best practice;
- to focus efforts to identify and remove impediments at both government and industry levels; and
- to target and coordinate programs across portfolios.

The council has clearly demonstrated some strengths. It has performed quite well in carrying out its principal 'core' functions (encouraging best practice, providing leadership and forging a common industry purpose). It has also satisfactorily developed some Agri-Food Strategy components and devised several of its own industry development initiatives.

On the other hand, the council appears to have neglected some of the 'detail' which underpins the strategy and its own work. Its major weak spots are industry awareness and understanding of the council's role, contact and consultation with stakeholders, dissemination of information and lack of a clear strategic focus.

Overall effectiveness of the Agri-Food Strategy

An industry strategy is the *coordination* of a *complete set* of disparate resources to *systematically* and *significantly* increase the capabilities of an industry. Each component of such a strategy has a link to other components — to draw an analogy, the artillery is not used in isolation from the air force, infantry or tanks. If a strategy is defined this way, then the Agri-Food Strategy is incomplete. It has lacked links between its components and a coordinated plan of attack on the agri-food industry's impediments. It has tended to serve more as a 'label' for a collection of disparate components which have hardly been coordinated at all.

Moreover, the Agri-Food Strategy has been only 'partly effective' in achieving its objectives. It has not yet contributed to any significant impacts on industry performance indicators, such as exports, productivity and R&D expenditure. It also appears to have brought only limited benefits to most firms directly involved with strategy programs and initiatives.

On the other hand, there have been improvements in the processes, mechanisms and relationships in the agri-food industry which can be traced, at least partly, to the strategy. These improvements may ultimately contribute to better industry performance. Benefits such as engendering greater industry cooperation and addressing specific impediments to

international competitiveness are sometimes intangible and usually unquantifiable. But they are benefits nevertheless and they are making an indirect contribution to overall industry performance. Furthermore, it can be argued — with some justification — that the strategy has really only been running for a short period of time and that its full impact is yet to be felt by the agri-food industry.

Critically too, the results to date can give a misleading negative perspective on the overall impact of the Agri-Food Strategy — because they do not take account of the scale of the resources expended under the strategy compared to the scale of the industry as a whole. The effectiveness of the strategy needs to be viewed in the context that it has only involved a relatively small amount of resources. In subsidy terms, the expenditure on the Agri-Food Strategy is roughly equivalent to a minute 34 *cents* per 1000 *dollars* of processed food and beverages value-added (or 12 cents per 1000 dollars of turnover). It is asking a lot to expect these small sums to reap very high (and visible) returns.

More realistically, it would take little in the way of productivity improvements amongst the targeted large food firms for the strategy to ‘pay its way’. For example, the 22 per cent of firms who have obtained ‘major benefits’ from the strategy account for around \$2 billion of industry sales and an estimated \$700 million in value-added. If the major benefits received by these firms translated into a productivity increase of say, 2.5 per cent each, then the return from just these firms would be around \$17.5 million. This would cover the cost of the entire strategy and make the programs worthwhile.

Options for the Agri-Food Strategy

There are four general options for the strategy:

- sustain it in its current form;
- increase financing to provide more extensive coverage of the industry with a set of interdependent strategically focused programs;
- eliminate it; or
- alter the form of the strategy.

What would be wrong with continuing the strategy in something like its current form? There are several factors working against such a proposal. Apart from the fact that the strategy has not really functioned as a ‘strategy’, it appears to have brought only limited benefits to most firms directly involved with its programs and initiatives. Furthermore, some of the individual programs and initiatives do not appear to be working well or are inappropriate. Overall, the strategy has not achieved the potential envisaged at its commencement and is still not well recognised within the agri-food industry.

Clearly there has been a mismatch between aspirations for the existing Agri-Food Strategy and what its individual components could feasibly achieve. On the other hand, the fact that

we find scarcely visible impacts from the strategy *is just what we would expect*. As noted above, even if there are large net benefits from the strategy, they would be scarcely visible simply because of the massive scale of the industry compared to the resources injected via the strategy. Moreover, the modest benefits achieved *may* still outweigh the also very modest program costs.

Would then a more resource-intensive strategy be appropriate? It could be argued that if more resources were provided the returns could be greater. We believe the option for increased funding has limited viability and appropriateness:

- we are uncertain that many elements of the existing strategy have really been effective;
- there are strong arguments — on efficiency and other grounds — that assistance, where appropriate at all, should be provided to firms across all sectors. A big spending sectoral approach would need to establish an incontrovertible case for deviating from this norm; and
- pragmatically, government budget constraints dictate modest and carefully targeted expenditures.

These arguments suggest that either adaptation or elimination are options to consider. We argue that a modified Agri-Food Strategy is the preferred option. Although we do not favour a high profile, resource-intensive assistance package for the agri-food industry, there are several grounds for favouring the continuation of some form of strategic approach to the agri-food industry's needs:

- many argue that an industry strategy is necessary to drive change — including a suite of micro reforms — and position the industry to take full advantage of future possibilities;
- there are a common set of 'through-chain' issues (such as food quality, innovation, regulatory burdens, export barriers and other micro reform issues) which suggest there may be considerable benefits from a 'whole of industry' approach that brings parties together;
- the idea of a strategy and of augmenting cooperation requires learning by all stakeholders. This is an intangible and gradual process which can nevertheless provide long-term benefits in the form of greater efficiency and higher productivity; and
- there is strong industry support for continuation of an industry strategy, even by those firms who have not used existing Agri-Food Strategy programs and initiatives.

A modified Agri-Food Strategy

The re-configured Agri-Food Strategy we are proposing should be seen as something quite separate to the current strategy with its early-1990s agenda. The intention is to move away from a sectoral strategy containing numerous government-funded programs and projects, to a parsimonious strategy revolving around the Agri-Food Council.

The modified strategy would focus much more on the Agri-Food Council and the contributions it could make to industry development. Its underlying objective would be identifying micro reform impediments and options throughout the food chain — with the aim of producing welfare-enhancing improvements. The modified strategy would contain three elements (box 6).

Box 6 A modified Agri-Food Strategy

A new strategy could involve three main elements with an ambition of improving overall economic efficiency:

- the development by the Agri-Food Council of a highly focused and systematic agenda for reforming government infrastructure and institutions which affect the performance of the industry;
- ensuring that generic industry policies are recognised and appropriate for the agri-food industry, and only identifying programs specific to the industry where there are idiosyncratic needs of the industry not met by generic policies; and
- changing industry culture and attitudes through the development by the Agri-Food Council of mechanisms which encourage industry-based (and funded) initiatives to improve the performance of the industry.

Reforming government infrastructure and institutions

The role of government (state and federal) in the agri-food industry is pervasive — much more extensive than most other industries. A strategic examination of how the web of government institutions, regulations and policies impedes or enhances the industry’s capabilities could produce large gains to the community as a whole — and involve little actual expenditure. While there is already an impetus for generalised reform, the Agri-Food Council could be used as an industry panel of informed business people who can identify the **priority** areas for reform and develop a **systematic** and **highly specific** agenda (including timing and mechanisms).

Ensuring industry policy is relevant to the agri-food industry

The Agri-Food Council would aim to ensure that generic government programs are *recognised* in the agri-food industry and that they are *appropriate* to its needs. If there are idiosyncratic features of the industry that demand a particular government program, then the council could expose these gaps — but duplication of programs provided to non agri-food companies would be avoided.

Changing industry culture and attitudes

It has been claimed that the agri-food industry has languished because it has had a domestic focus, a poor innovation record and a weak capacity for cooperation along the value-added chain. While government business policies can have a role in changing the incentives of

managers by altering the economic environment, there is also a potential role for industry-based action (for example, the industrial ‘round tables’ that the Strategic Industrial Research Foundation has established). The Agri-Food Council could look at industry-based initiatives for changing the culture of the past.

It should be emphasised that in helping drive such a reform agenda we believe two overarching principles are appropriate:

- gains in efficiency and performance in the agri-food industry should be sought which are not at the expense of economic efficiency elsewhere in the economy; and
- possible changes to any regulatory or institutional arrangements affecting the agri-food industry should involve public and transparent consultation.

A revamped Agri-Food Council

The modified Agri-Food Strategy outlined above clearly implies a continuing role for the Agri-Food Council — but it is not its current role. The council will become the ‘core’ of the strategy, rather than the programs and projects which make up the current strategy. This will require the council to take a more active role in driving the agenda.

The new council’s work program will revolve around the modified Agri-Food Strategy, with its focus on reforming government infrastructure and institutions, changing the culture of the agri-food industry and assessing the need for industry-specific government programs. But the council will not exist just to implement the three elements of the modified Agri-Food Strategy. The council could also still have an important advisory role to play in responding to specific ministerial requests relating to agri-food policies or programs.

Moreover, to maximise the contributions of these experts, we believe the council should outline its vision for developing the agri-food industry, and, emanating from that, write a more detailed agenda and work program. The council should take into account certain factors when developing its agenda. These include focusing on only one or two issues at a time, addressing issues specific to the food industry and defining clear goals, achievable outcomes, milestones and performance measures.

To meet its objectives and to perform its proposed new functions effectively, the council is likely to require some changes to its structure, operations and support (administrative, financial and communicative). Several matters require clarification and possible change. These relate to council membership, ministerial representation, chairing arrangements, meetings and working groups, secretariat arrangements, communications and consultation, and resources and funding (box 7).

A key principle guiding the proposed new arrangements is that all the major participants in the agri-food through-chain are fully represented and consulted — from growers and



producers through to packagers and retailers. This will help to ensure that the council's deliberations are aimed at benefiting the entire industry (and the nation) and not just the special interests of certain industry players.

Box 7 A new Agri-Food Council — options for change	
Council membership	Slightly expanded to pick up wider industry constituencies.
Ministerial representation	Minister for Industry, Science and Tourism and Minister for Primary Industries and Energy to be permanent members. Other ministers to attend as required.
Chairing arrangements	Independent chair.
Meetings	Quarterly meetings of council. Informal two-tiered approach to allow for non-ministerial members to meet out of session.
Secretariat arrangements	Establishment of a secretariat independent of the DIST and DPIE portfolios.
Communications & consultation	Development of a strategy for communicating with stakeholders.
Resources and funding	New arrangements could be funded by the federal government at a cost of less than \$1 million per annum.

Future of existing Agri-Food Strategy programs and initiatives

We have indicated that it would be appropriate to modify the Agri-Food Strategy to take away the emphasis on government programs and projects. But what of the current Agri-Food Strategy programs and initiatives? We are suggesting changes to the council and strategy which do not involve these components. However, most are self-standing and have lives of their own which can potentially go on without the 'strategy connection'.

The key questions regarding future arrangements are whether programs or initiatives should continue and, if so, whether any changes need to be made to make them more effective. We weighed the appropriateness and effectiveness of each strategy element to arrive at recommendations for the future (table 1).

We found duplication problems with the **Processed Food Market Access Committee**, **FILLIP** and **FINA**. In the case of the former, we believe the recently revamped PFMAC should continue as the cost is relatively small and the intrinsic idea is sound economically. However, the data base and reporting functions of the PFMAC potentially overlap with the recently introduced Export Barriers Reporting Scheme and we recommend that efforts are made to prevent this occurrence. In the case of FILLIP, funding ceases in 1995-96. We recommend that FILLIP not be continued as it substantially duplicates the Department of Employment, Education, Training and Youth Affairs' generic language and literacy program, WELL. Similarly, funding for the FINA program — which duplicates the

AusIndustry Business Networks Program — lapses this year and we would not propose it being continued.

Table 1 Future of existing Agri-Food Strategy programs and initiatives

<i>Program/initiative</i>	<i>Future</i>
<i>Export development and market access</i>	
Clean Food Export Program	Continue funding for 2 years. Extent of future long-term government funding to be subject to the outcome of a review. The program also needs: <ul style="list-style-type: none"> • certification of quality through an appropriate quality assurance program; and • a greater number of SMEs.
Processed Food Market Access Committee	Functions to continue, but dialogue necessary with the Export Barriers Reporting Scheme to ensure no wasteful overlap.
<i>Efficiency improvements</i>	
Workplace reform	
MOU	MOU is potentially worthwhile but needs reform.
FILLIP	Funding ceases in 1995-96. Program should not be continued as it is similar in most respects to the generic language and literacy program, WELL.
Regulatory reform	One of the elements of the modified Agri-Food Strategy. Dialogue necessary between the Agri-Food Council and other bodies — such as the National Food Authority and the Australian Food Council — to ensure no wasteful overlap.
Air freight best practice code	Code should continue to be supported by relevant agencies.
Packaging	Agri-Food Council's planned follow-up work should be undertaken.
<i>Industry integration</i>	
Grower-processor linkages	Potentially worthwhile, but a new approach needs to be devised. If this component is continued it should only be on an industry-by-industry basis.
Food Quality Program	Program to continue and to be evaluated in due course.
FINA	Funding for the program lapses this year. Should not continue after that time as it duplicates the Business Networks Program.
<i>Innovation</i>	
Guideline on 150 per cent tax concession	No action required.
Australian Food Industry Science Centre	No action required.
Australian Food Science and Technology Forum	No action required.

A shared concern with through-chain linkages and best practice means there is also *some* potential for duplication between the **grower-processor projects** and the **Food Quality Program**. While the grower-processor projects have not succeeded to date they are potentially worthwhile — and might be taken up by the revamped Agri-Food Council. If work in this area is continued a new approach needs to be devised and it should only be handled on an industry-by-industry basis. It is too early to assess and recommend any changes to the Food Quality Program.

It is also too early to assess the **air freight code of best practice** and the **Australian Food Science and Technology Forum**. On the other hand, the **food industry 150 per cent R&D tax concession guideline** has come and gone. The future of the relatively ineffective **packaging** and **regulatory reform** elements are tied up with the future of the Agri-Food Council itself. In the case of the former, there appears to be a prospective benefit if the council's planned follow-up work on packaging is undertaken — this includes best practice case studies to help companies achieve better packaging outcomes. In the case of the latter, the revamped council will consider regulatory burdens and reform as part of the modified Agri-Food Strategy. However, as these matters are also likely to be examined by other bodies — such as the National Food Authority and the Australian Food Council — it is important that dialogue occurs to ensure no wasteful overlap.

We are sceptical of the need for continuing government funding for the **Clean Food Export Program**. However, in view of the considerable uncertainty still surrounding the impact of the program, we believe that more evidence needs to be gathered. Accordingly, we recommend that long-term government funding for the clean food program should be subject to the outcome of a review — this will focus on the effectiveness of the program in developing a valued image of Australia as a source of clean food. Funding for the program should continue for the next two years while the review takes place.

The **MOU** appears to have become dated as the industrial relations focus has shifted to workplace bargaining. In its submission to the evaluation (October 1995), the Department of Industrial Relations indicated that other initiatives could be developed to complement the MOU (rather than subjecting the MOU to a complete overhaul). These initiatives could include enterprise bargaining and/or a best practice checklist, training of internal workplace reform facilitators and case studies. We are not in a position to assess the Department of Industrial Relations recommendations, but we believe the MOU is a potentially worthwhile initiative if it is adapted.

Finally, one of the most successful of the strategy components, the **Australian Food Industry Science Centre (AFISC)** at Werribee (Victoria), appears to be performing well and meeting its objectives. We do not recommend any changes, but in any case the centre is outside the control of the federal government. The Victorian government provides the bulk of the funding for the AFISC.

1 Introduction

1.1 Background

The Agri-Food Strategy was launched by the then federal government in July 1992 after consultation with key industry players. It was aimed at providing a framework within which industry, unions and government can address key issues impairing the performance of Australia's agri-food industry.

The Agri-Food Strategy is focused on international competitiveness and export growth. In announcing the strategy, the federal government stated that its objective was:

...the development of an efficient and profitable Australian food industry which produces high quality, safe and nutritious food products which are differentiated and branded for international markets, particularly in Asia (Button and Crean 1992) .

With improved performance in these areas, government and industry considered it could increase *highly processed food exports* from just over \$2 billion per annum in 1992 to around \$7 billion per annum by 2000 (in real terms).

The Agri-Food Council was established as a centrepiece of the strategy to provide vision and leadership, to identify priorities for change and to oversee the implementation of the strategy.

The Agri-Food Strategy is a four year program, scheduled to end in June 1996. In order for the government to make an informed decision on future assistance for the agri-food industry, it is necessary to evaluate the strengths and weaknesses of the current programs and other initiatives. Accordingly, in August 1995, DIST and DPIE (which jointly administer the strategy) commissioned the BIE and ABARE to jointly undertake an evaluation of the strategy.

An advisory committee was formed at the commencement of the evaluation to oversee the study and to provide advice and assistance. The committee comprised representatives from the agri-food industry and officers from DIST, DPIE and the Department of Finance. The membership of the committee is set out in appendix 3.

The advisory committee formally met with evaluation team representatives several times during the evaluation and also provided comments on various papers on an ad hoc basis. However given the short time frame for the study, and the pressure on the evaluation team

to produce an early report, the committee played a relatively limited role in the overall conduct of the study.

The target audience for the evaluation is the federal cabinet and the ministers responsible for the strategy — the Minister for Industry, Science and Tourism and the Minister for Primary Industries and Energy. However, the evaluation will also be of general interest to the Agri-Food Council and other stakeholders in the agri-food industry.

The draft results of the evaluation were presented to the Agri-Food Council at its 10th meeting on 17 November 1995. The major evaluation findings and reform options were subsequently presented in an ‘interim report’ (late November 1995).

1.2 Objectives of the evaluation

The terms of reference (appendix 1) set the framework for the evaluation. They require BIE/ABARE to assess the effectiveness, efficiency and appropriateness of the Agri-Food Strategy. In addition, they require the evaluation team to analyse the strategy’s impacts and to assess its role in relation to other programs.

The key questions we ask in the evaluation can be summarised as follows:

- are the objectives of the Agri-Food Strategy being achieved?
- is the strategy efficient and appropriate?
- can the strategy be improved?
- how well has the Agri-Food Council performed?
- can the council be improved?

The three main evaluation criteria of effectiveness, efficiency and appropriateness are discussed in more detail below. The definitions are mainly derived from the Department of Finance manual on evaluations (Department of Finance 1994).

1.2.1 Effectiveness

The key issues which need to be addressed in assessing the effectiveness of a strategy or program are:

- whether the objectives of the program are being achieved; and
- the extent to which the program has contributed to these achievements.

The Agri-Food Strategy seeks to assist the food industry by facilitating closer industry integration and international competitiveness, and by encouraging improved export performance. A major part of the evaluation, therefore, is to assess how *effective* the strategy has been in meeting these objectives.

A crucial criterion for evaluating these issues is an estimation of the base, or counterfactual, case. That is, what would have occurred to efficiencies in food production (for example) *in the absence of the Agri-Food Strategy*? Evidence of a causal link with the strategy is needed to support the case that the strategy has been effective.

1.2.2 Efficiency

Efficiency is about doing things better or getting more ‘bang for the buck’. Efficiency deals with the relationship between inputs and outputs. In particular, the extent to which inputs are minimised for a given level of outputs, or to which outputs are maximised for a given level of inputs.

The efficiency in delivering the Agri-Food Strategy is concerned with:

- the inputs (or resources used) in delivery the strategy (for example, financial costs of programs, secretariat resources, Agri-Food Council expenses);
- the processes or activities by which the strategy is delivered (for example, campaigns, projects, programs, high level meetings); and
- outputs delivered by the strategy (for example, increased penetration in Asian markets, reductions in costs of inputs, increases in productivity).

1.2.3 Appropriateness

An *appropriate* government program is one where there is an identified need and addressing the need is consistent with overall government objectives. Further, the priority given to addressing this need should be higher than that accorded to competing needs in the allocation of scarce government resources.

Appropriateness is also about comparing options (addressing which need has greater priority and which strategy is likely to be the most cost effective). Over time the appropriateness of a strategy may increase or diminish.

In the context of the Agri-Food Strategy, the evaluation considers the appropriateness of continuing with the strategy in its present or modified form. We do this by asking a number of questions, including:

- is there a need for a strategy at all?
- what rationale exists for assisting agri-food firms through a specific industry strategy vis-a-vis generic government programs?
- is there a need for the individual components which exist under the strategy umbrella?
- are the strategy programs and initiatives correcting market and/or firm failures and would other methods be more successful? and
- how relevant are the strategy’s objectives within the context of industry, trade and innovation policy objectives?

1.3 Conduct of the evaluation

Timing and budget constraints had significant implications for the methodology. In trying to keep within the budget and to produce the draft report for the 10th meeting of the Agri-Food Council (November 1995), we adopted a ‘top down’ approach. This involved starting with the strategy as a whole (including the core activities of the Agri-Food Council) and examining each component of the Agri-Food Strategy in as much detail as time permitted. This contrasts with a ‘bottom up’ approach whereby the evaluation is built up by a full and complete analysis of individual strategy elements.

The adoption of this top down approach is especially relevant in relation to the assessments of the various strategy programs and initiatives in the report. The evaluation team did as much as it could in the time available to evaluate each individual strategy component. However, it must be emphasised that these do not amount to full program evaluations. Also, a difficulty faced by the evaluation team has been the relatively short life of the Agri-Food Strategy. The strategy has only been in existence for a few years, and consequently its full impact is yet to occur. Accordingly, it is too early to fully assess the strategy as a whole and some of the programs and other initiatives. Taken together, these points suggest that our findings in this report should be regarded as indicative rather than conclusive.

Much of the information gathered for the evaluation was qualitative in nature. As such we were unable to directly quantify the benefits of the strategy relative to its costs. Nonetheless, it was possible to examine how stakeholders appraise the strategy along with assessments of its relative significance in contributing to desired changes.

Information required for the evaluation was gathered in four main areas:

- factual information on the structure and performance of the agri-food industry (for example, export trends, productivity changes);
- background information on the strategy, including the operation, funding and resourcing of program elements and the results of previous evaluations;
- quantitative and qualitative information from key industry stakeholders; and
- more detailed information about the actual and potential impacts of the strategy.

The evaluation team adopted four main mechanisms for gathering data and information. These were:

- face-to-face interviews with key stakeholders (large agri-food firms, past and present agri-food council members, industry and grower associations, unions and program administrators);
- a telephone survey of a representative sample of large and medium-sized agri-food firms;
- written submissions; and
- desk research.

These mechanisms are described in more detail below.

1.3.1 Face-to-face interviews

We took a strongly consultative approach to the evaluation. A major component of the study was face-to-face interviews with key stakeholders in the agri-food industry. Direct consultation with key stakeholders helped the study team to assess how the Agri-Food Strategy is affecting the industry and how things can be improved. It also gave firms and other industry participants an input into decisions on the future direction of the agri-food industry.

The strategy has been targeted principally at the largest 100 or so agri-food firms which account for the majority of Australian processed food exports. We interviewed senior management (typically the CEO) from a cross-section of 27 large agri-food firms from the various segments within the industry, namely:

- meat products
- milk products
- fruit and vegetable products
- flour mill and cereal food products
- bread, cakes and biscuits
- other food products
- beverages and malt.

The firms interviewed had an average level of employment of around 3000 persons. While this figure is influenced by a number of very large companies, the median employment figure of just under 2000 employees demonstrates that the firms interviewed were at the ‘big end of town’. In view of the importance of packaging to agri-food firms we also interviewed two large packaging firms.

We conducted interviews with most of the current Agri-Food Council members and one ex-council member for the ‘insider’s perception’ of the strategy and the role of the council. We also interviewed key industry and grower associations representing various sub-sectors within the agri-food industry and the ACTU coordinator of the food industry unions.

The evaluation team had extensive consultations (including structured interviews) with officers from DIST and DPIE. These officials were either currently or previously involved with strategy programs/initiatives or the council secretariat. The consultations precluded the need for DIST and DPIE to make formal submissions to the evaluation team. We also conducted interviews with other government departments and agencies (both at the federal and state levels) with an interest in the strategy.

The questionnaires used for the interviews varied depending on the stakeholder group involved. Copies of the questionnaires for firms and council members are reproduced in appendix 2.

1.3.2 Telephone survey

The very largest firms in the industry have been the major focus of the Agri-Food Strategy. Accordingly, these firms were targeted for the face-to-face interviews conducted as part of the evaluation. However, we decided to test the effectiveness of the Agri-Food Strategy in reaching out to other large (and medium-sized) firms in the industry by conducting a telephone survey.

The main purpose of the survey was to gauge the extent to which the work of the Agri-Food Council and the components of the Agri-Food Strategy had permeated to agri-food firms beyond the very largest in the industry. These firms may have been either directly involved in some of the strategy elements, or may have been indirectly affected by the strategy through spillovers/demonstration effects.

In this telephone survey of 94 firms in the agri-food industry:

- 87 per cent were exporters, 13 per cent were non-exporters;
- 20 per cent had 50-100 employees, 65 per cent had 100-500 employees and 15 per cent had 500+ employees; and
- the interviews were conducted with either CEOs or export managers.

The survey sought information on firms' awareness of, and involvement with, the Agri-Food Council and the strategy. The survey also sought additional information on matters such as firms' impediments to exporting and their involvement with government programs.

The telephone survey is reproduced in appendix 2.

1.3.3 Written submissions

To encourage the maximum possible participation in the evaluation, we also sought the views of interested parties through written submissions.

An 'issues paper' was prepared and posted out and submissions sought from interested parties, including key stakeholders. The issues paper was written to assist individuals and organisations wishing to contribute submissions. The paper:

- outlined the Agri-Food Strategy and the purpose and scope of the evaluation; and
- identified a number of matters about which information and comment was sought.

The submissions received were considered by the evaluation team and taken into account in our analysis. A list of the submissions is at appendix 5.

1.3.4 Desk research

We undertook a large amount of additional ‘desk research’ including:

- reviewing and assessing previous agri-food related reports;
- reviewing and assessing completed and ongoing evaluations of elements of the Agri-Food Strategy;
- obtaining statistics from official and industry data bases; and
- obtaining data from government and industry publications, academic studies and any other relevant research.

We also examined the papers and minutes of all Agri-Food Council meetings and work commissioned by the council.

1.4 Outline of report

Chapter 2 describes the Australian agri-food industry — its definition, structure, recent performance and prospects. Chapter 3 describes the Agri-Food Strategy, its various initiatives and programs (and resourcing) and the Agri-Food Council. Chapter 4 discusses the appropriateness of the Agri-Food Strategy, including the economic rationale for the strategy and its components and the appropriateness of their objectives. Chapter 5 provides an assessment of the strategy programs and initiatives. Chapter 6 assesses the effectiveness and efficiency of the overall strategy. Chapter 7 assesses the Agri-Food Council. Chapter 8 presents conclusions and outlines future options for the Agri-Food Strategy and the Agri-Food Council.

Appendix 1 contains the terms of reference for the evaluation. The questionnaires used in the evaluation for firms, council members and the telephone survey are reproduced in appendix 2. Appendix 3 lists the members of the evaluation’s advisory committee. Appendix 4 presents further information on the individual elements of the Agri-Food Strategy. Appendix 5 lists the organisations which responded to a request for written submissions. Appendix 6 discusses the difference between highly processed and high value-added products. Appendix 7 assesses the strategy programs against the principles of program design as stated in the Burgess Review. Finally, appendix 8 sets up an artificial simulation to illustrate how the strategy could provide substantial net benefits and yet have no discernible impact on the industry.

2 The agri-food industry — structure, performance and prospects

This chapter provides background information on the Australian agri-food industry.¹ Section 2.1 provides a definition of the agri-food industry. Section 2.2 looks at the structure of the industry. The following section (section 2.3) provides statistics on the recent performance of the industry and the last section (section 2.4) describes the outlook for the industry.

2.1 Definition

What do we mean by the agri-food industry? In the context of the Agri-Food Strategy, it essentially means processed food and beverages.² Definitionally, this is the manufacturing industry of Food, beverages and tobacco (ANZSIC class 21), without tobacco. The groups in the agri-food industry are encompassed in ANZSIC classes 211 through to 218. Section 2.2.2 describes these groups.

The terms ‘food industry’, ‘food processing industry’ and ‘processed food and beverages industry’ are used interchangeably in this report (and other industry literature) to refer to the agri-food industry.

The most recent detailed data available for the agri-food industry (excluding trade data) is 1992-93. However more recent data is available for the more aggregated Food, beverages and tobacco (FBT) industry. As well, some data is *only* available at this more aggregated level. While it includes tobacco, the FBT industry provides a good indicator of the agri-food industry as it is dominated by it — the agri-food industry accounted for about 97 per cent of FBT value-added in 1992-93.

¹ The description of the agri-food industry in this chapter primarily uses published and unpublished Australian Bureau of Statistics (ABS) data, statistics obtained from the DFAT Stars database, and statistics published in DIST (1995b).

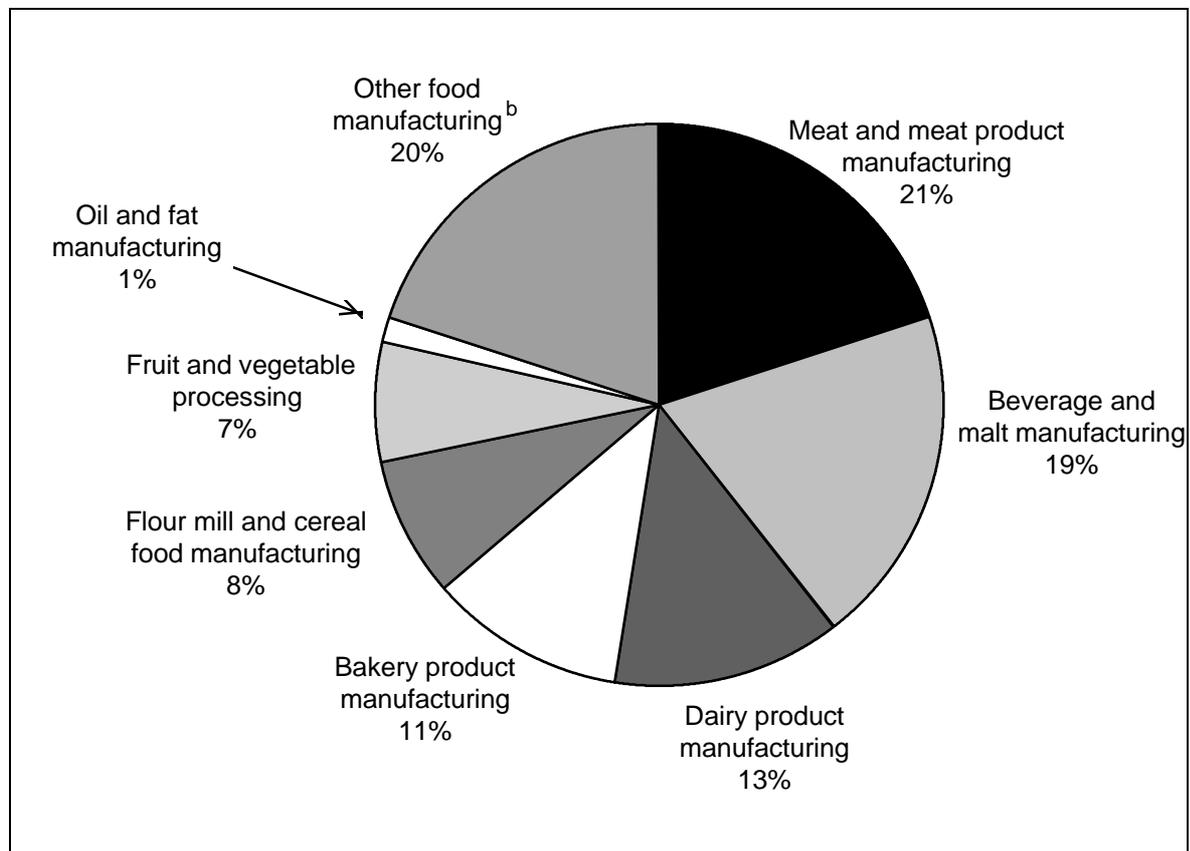
² The Agri-Food Strategy contains elements relating to fresh food (for example, the clean food program). Furthermore, the distinction between processed and fresh products is sometimes blurred, particularly as some fresh products are amenable to high value-adding when exported (see appendix 6). But for definitional purposes, we exclude fresh, unprocessed food as an output of the ‘agri-food industry’.

2.2 Structure

2.2.1 Agri-food industry groups

The agri-food industry makes up the largest industry within the manufacturing sector, contributing just over a fifth of total manufacturing turnover in Australia. Meat and meat products constitute the largest industry group, closely followed by Other food manufacturing. Other industry groups are dairy, fruit and vegetables, cereals, bakery and beverages. Figure 2.1 shows the relative size of each of the agri-food industry groups in terms of value-added.

Figure 2.1 Agri-food industry groups by size,^a 1992-93



^a Size measured by share of value added. See table 2.1 for more detailed statistics. ^b Includes sugar, confectionery, seafood, prepared animal and bird feed and other food manufacturing.

Data source: ABS Cat 8221.0.

Table 2.1 presents more detailed statistics on the various industry groups in the agri-food industry. The relative size of the industry groups depends upon the measure used. For example, Meat and meat products accounts for 29 per cent of employment in the agri-food industry, yet only 17 per cent of establishments. This reflects the relatively large size of establishments in Meat and meat products compared with the industry as a whole.

Table 2.1 The agri-food industry groups, 1992-93

<i>ANZSIC class</i>	<i>Item</i>	<i>Employment</i>	<i>Establish-ments</i>	<i>Value added</i>	<i>Turnover</i>
		number	number	\$m	\$m
211	Meat and meat product mfg	44 895	576	2 663	8 960
2111	Meat processing	29 071	346	1 687	6 038
2112	Poultry processing	8 987	99	567	1 692
2113	Bacon, ham and smallgood mfg	6 837	131	409	1 230
212	Dairy product manufacturing	14 456	199	1 667	5 348
2121	Milk and cream processing	6 386	65	694	2 519
2122	Ice cream mfg	1 648	41	197	492
2129	Dairy product mfg nec	6 422	92	776	2 336
213	Fruit and vegetable processing	10 295	176	927	2 452
214	Oil and fat manufacturing	1 684	35	185	589
215	Flour mill and cereal food mfg	8 463	147	991	2 635
2151	Flour mill product mfg	2 967	54	359	1 210
2152	Cereal food and baking mix mfg	5 496	93	632	1 425
216	Bakery product manufacturing	28 502	1 054	1 419	2 833
2161	Bread mfg	13 940	517	668	1 371
2162	Cake and pastry mfg	9 358	492	389	818
2163	Biscuit mfg	5 203	46	362	644
217	Other food manufacturing	31 410	795	2 544	7 705
2171	Sugar mfg	5 903	36	562	1 891
2172	Confectionery mfg	6 892	150	539	1 162
2173	Seafood processing	4 145	126	272	1 019
2174	Prepared animal & bird feed mfg	4 422	187	384	1 879
2179	Food mfg nec	10 047	296	787	1 753
218	Beverage and malt mfg	16 779	339	2 480	5 668
2181	Soft drink, cordial and syrup mfg	6 198	108	591	1 948
2182	Beer and malt mfg	4 704	32	1 285	2 460
2183	Wine mfg	5 651	192	580	1 187
2184	Spirit mfg	226	7	24	74
	Total food and beverages mfg	156 483	3 322	12 876	36 190
2	Total Manufacturing	881 727	38 285	66 158	169 925

Source: ABS Cat 8221.0.

The agri-food industry varies in the level of processing of the raw product. DIST (1995b) divides the industry into minimally processed food and beverages, and highly processed food and beverages.

The agri-food classes identified as minimally processed are: Meat processing (ANZSIC 2111); Poultry processing (2112); Milk and cream processing (2121); Sugar manufacturing (2171) and Seafood processing (2173). All other products in the agri-food industry are defined as highly processed. Appendix 6 provides a full list of the classes for minimally and highly processed food and beverages.

2.2.2 Size and number of firms in the industry

The agri-food industry is diverse. The industry ranges from small specialist food producers to large multinational food corporations. In 1992-93 there were just over 3300 establishments in the agri-food industry (around 8.7 per cent of manufacturing establishments).

The proportion of smaller firms in the agri-food industry has been relatively stable — between 1988-89 to 1992-93 the share of FBT establishments which had less than 100 employees fluctuated around 90 per cent. The share of small business establishments in manufacturing is somewhat greater, fluctuating around 95 per cent of establishments.

Table 2.2 Major food and beverage companies in Australia, 1994-95

<i>Company</i>	<i>Australian turnover^a</i>	<i>Export earnings</i>	<i>Ownership</i>
	\$m	\$m	
Coca-Cola Amatil ^b	2 239	Nil	Australia (60%) and US (40 %)
Goodman Fielder	2 100	121	Australia (75%) and NZ (20%)
Nestle ^c	1 700	250	Switzerland
Carlton & United Breweries	1 572	50	Australia
Lion Nathan Australia ^d	1 288	10	New Zealand
Pacific Brands Food Group ^e	1 064	na	Various
George Weston Foods	1 038	15	UK (78%) and Australia (22%)
National Foods	1 027	29	Australia
Bonlac Foods ^f	991	427	Australia
Cadbury Schweppes ^b	909	28	UK
Ingham's Enterprises	825	na	Australia
Murray Goulburn Co-operative Co.	805	485	Australia
Unifoods ^b	700+	22	UK/Holland
Effem Foods ^g	692	147	US
Australian Co-operative Foods	625	25	Australia
Kraft Foods ^b	583	92	US
QUF Industries	561	na	Australia
Arnotts Biscuits	546	23	US (61%) and Australia (29%)
CSR ^h	425	600	Australia
Kellogg (Australia) ^b	390	50	US

a Includes export earnings. **b** 1994 data. **c** 1995. **d** Year ending August 1993. **e** Company sold in Sept 1995 to various buyers. **f** 1993-94. **g** 1993. **h** Year ending March 1995, includes revenue from raw sugar acquired by Queensland Government.

Source: DIST (1995b).

On an employment basis, the agri-food industry is dominated by large food companies. Medium and large firms with more than 100 employees account for around 70 per cent of employment in the industry. The corresponding figure for manufacturing is only 52 per

cent of employment. The average number of employees per establishment in the agri-food industry is 47 people, more than double the manufacturing average of 23.

In 1991-92, the 20 largest agri-food firms had 268 establishments in the industry and accounted for just under half of the industry's turnover (ABS Cat 8221.0). Due to confidentiality reasons the ABS does not publish the names of these top 20 firms in the industry. However table 2.2 provides a list of the top 20 companies (by Australian turnover) from DIST (1995b). The influence of multinational firms on the industry is evident. Less than half of the large firms listed are fully Australian-owned.

2.2.3 Use of infrastructure services

Micro reform, and especially measures to encourage the greater efficiency of infrastructure services, is increasingly a focus for policy action. In this context it is relevant to identify the 'hot spots' of infrastructure use in the agri-food industry compared to the rest of manufacturing.

ABS input-output tables (ABS 1994) provide statistics on the direct inputs used to produce a unit of output for all parts of the economy. Figure 2.2 provides a comparison of the direct requirements of a number of selected service industry inputs — infrastructure services — for the agri-food industry and manufacturing in 1989-90.

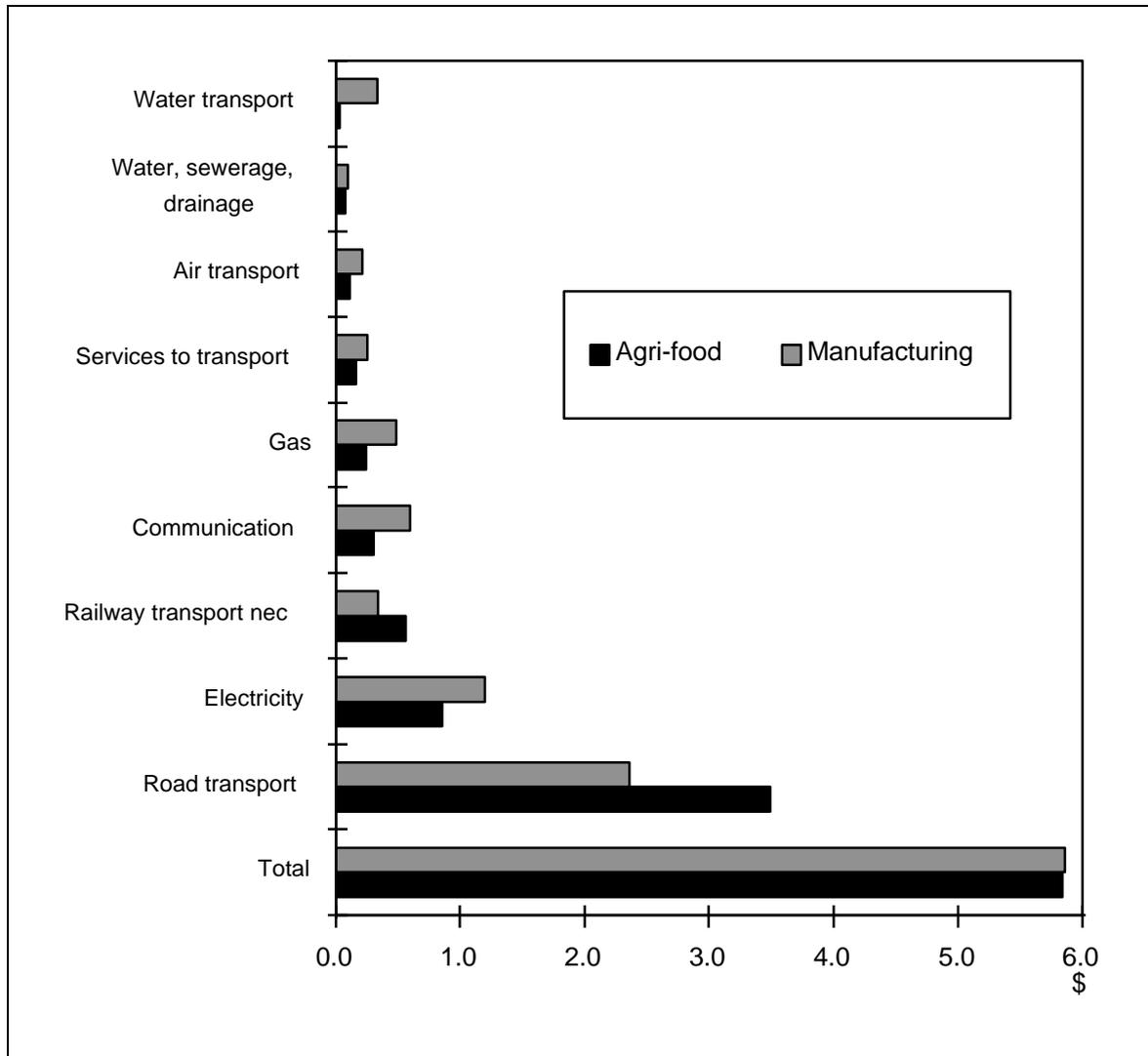
The data presented are the direct requirement of input from the selected service industry to produce \$100 of output (for both manufacturing and agri-food). So for example, \$100 of output in the agri-food industry requires a direct input of \$3.49 from road transport. Analysis of the data shows that in total the agri-food industry and manufacturing use almost the same value of infrastructure services to produce \$100 of output. The figures are \$5.84 and \$5.86 for agri-food and manufacturing respectively.

However these totals mask a number of differences. The data indicate the agri-food industry uses a relatively higher amount of services from road transport and railway transport than manufacturing. But manufacturing records a higher relative usage of the services in all other categories.

Filmer and Dao (1994) show that the agri-food industry could in fact be one of the industries reaping the biggest output gains from micro reform — well in excess of the gains available to the Australian economy as a whole.³ Table 2.3 shows that all of the twenty-five

³ Filmer and Dao (1994) used the static, 25-sector Access Economics-Murphy (AEM-CGE) model to analyse the effects of microeconomic reform on industry for an EPAC background paper. The study included a total of 38 reforms, proposed but not fully implemented by February 1994. The reforms covered in the analysis included: reductions in tariffs and subsidies, labour market reform, facilitation of the operation of markets, transport and communications reforms, GBE reform, gains from international trade negotiations and support for emerging exporters. Also, the analysis was extended to

Figure 2.2 Selected service industry inputs required directly to produce \$100 of output, agri-food and manufacturing, 1989-90



Data source: ABS Cat 5209.0.

industries included in the Filmer and Dao analysis experience GDP growth, with the largest growth in industry level value-added occurring in ‘transport’ (due mainly to gains from infrastructure reforms). The food industry, however, is not far behind — ranking third overall. It is estimated that Food could achieve a 16 per cent increase in its output as a consequence of various micro reforms. Only Clothing and footwear would benefit more in the manufacturing industries. Interestingly, Food and Beverages would be the manufacturing industries to benefit the most from the infrastructure aspects of micro reform (and only three other manufacturing industries would benefit at all in this area).

cover a range of general government activities, including the level and efficiency of government service provision.

We look further at micro reform issues in the agri-food industry in subsequent chapters.

Table 2.3 EPAC study — longer run industry output implications of microeconomic reform

Industry	Percentage change in industry output (conservative scenario)						Total gains
	Share of GDP	Infrastructure reforms incl. GBEs	Tariff reduction	Government services productivity improvements	Improved private sector productivity	Increased employment expansion	
Agriculture	4.0	0.0	1.9	1.3	3.9	5.2	12.3
Mining	5.3	0.0	5.4	1.0	0.0	5.4	12.2
Manufacturing							
Food	2.1	1.2	1.2	1.2	7.4	4.9	16.0
Beverages	2.0	1.3	0.0	1.3	6.6	5.3	15.8
Textiles	0.6	0.0	-4.5	0.0	9.1	4.5	13.6
Clothing and footwear	0.8	0.0	0.0	0.0	10.0	6.7	16.7
Wood, paper & printing	2.8	0.9	0.0	0.9	5.7	5.7	13.2
Chemicals	1.2	0.0	0.0	0.0	4.2	6.3	12.5
Petroleum & coal products	2.5	1.1	1.1	1.1	3.2	5.3	11.6
Mineral products	3.2	0.8	1.6	0.8	4.9	5.7	13.9
Transport equipment	2.4	0.0	-2.2	1.1	7.6	5.4	12.0
Other machinery	2.4	0.0	0.0	1.1	6.5	5.4	13.0
Misc. manufacturing	1.2	0.0	-2.2	0.0	8.9	6.7	13.3
Services							
Electricity, gas, water	3.3	2.3	0.8	0.8	3.9	5.4	13.2
Residential building	2.3	2.2	0.0	2.2	3.4	5.6	12.4
Other construction	5.2	0.5	2.0	0.5	3.0	5.0	11.4
Wholesale, retail trade	13.2	1.0	1.0	1.4	4.9	5.3	13.6
Transport	5.4	11.6	1.9	1.0	1.4	5.3	20.8
Communication	2.1	3.7	1.2	1.2	2.5	4.9	13.6
Finance, property etc.	10.5	0.7	0.7	0.7	3.5	5.2	11.1
Public administration	2.8	0.0	0.0	3.7	0.9	5.6	9.3
Defence	1.1	0.0	0.0	7.3	0.0	4.9	12.2
Community services	12.0	0.2	-0.2	3.9	0.6	5.2	9.9
Recreational services	3.9	1.3	0.0	1.3	2.7	5.3	10.7
Ownership of dwellings	7.8	1.7	0.0	2.0	3.7	5.0	12.7
All industries	100.0	1.5	0.8	1.6	3.5	5.3	12.7

Source: Filmer and Dao (1994), Table 9b.

2.3 Recent performance

2.3.1 Employment

Agri-food producers employed just over 156 000 people in 1992-93. This was around the same level as the previous year. Most of the industry workforce is concentrated in New South Wales (31 per cent), Victoria (27 per cent) and Queensland (21 per cent).⁴

Excluding a rise in employment in the boom period between 1986-87 and 1988-89, employment in the agri-food industry has been falling since 1973-74. At that time it reached a peak of around 200 000 people. Since then, 1 in 4 of these jobs have gone. On the other hand, the rate of job losses in manufacturing as a whole has been greater so that the size of the agri-food industry has grown as a share of manufacturing. Agri-food employment in 1973-74 was around 15 per cent of manufacturing employment, while in 1992-93 the equivalent proportion was nearly 18 per cent.

More recent data on the FBT industry suggest employment fell by around 6 per cent in 1993-94 but then rose by 11 per cent in 1994-95. The equivalent employment changes in manufacturing were increases of 0.7 per cent and 3 per cent respectively.

Skill level of workforce

There are a number of different indicators which can be used to shed some light on the level of skill in an industry's labour force. One of these is the average level of wages and salaries. The agri-food industry's level of wages and salaries per employee has been consistently below the manufacturing level (figure 2.3). In 1992-93 employees in the agri-food industry were paid an average \$29 600, 4 per cent below the manufacturing average of around \$30 900.

The occupation of employees is another indicator of skill. Table 2.4 presents a breakdown by different employment class for FBT and manufacturing. The *only* two occupations where the share of FBT employment is higher than the manufacturing average is in two relatively lower skilled occupations — Salespersons and personal service workers, and Labourers and related workers. From these figures it appears that FBT employees are lower skilled than manufacturing employees.

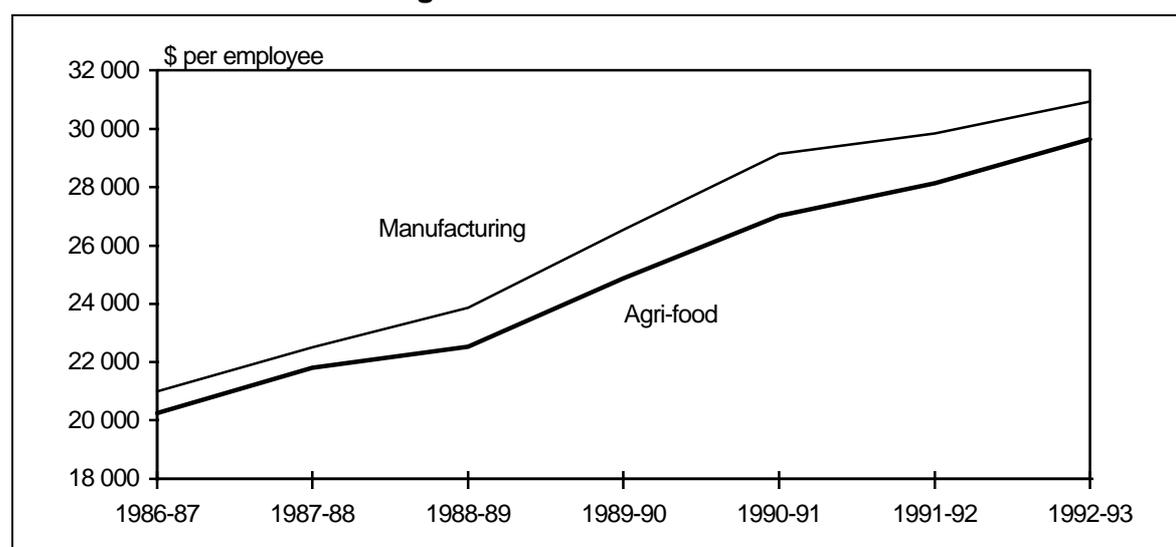
A further indicator of skill level is the level of formal training. Measured as average training expenditure, the FBT industry's performance is about the same as manufacturing. In the September quarter 1993, the Food, beverages and tobacco sector spent 2.4 per cent of gross wages and salaries on training, marginally lower than the figure for manufacturing as a whole (2.6 per cent). However, in terms of hours per employee over the same period,

⁴ State data relate to FBT firms.

manufacturing employees received an average of 6.5 hours of training, while FBT employees received only 4.7 hours.

All three indicators of skill level — relative wage level, occupation and amount of training — suggest that the FBT industry has relatively less skilled employees than manufacturing as a whole.

Figure 2.3 Average annual wages and salaries, agri-food and manufacturing



Data sources: ABS Cat 8221.0, DIST (1995b) and IC (1995a).

Table 2.4 Employment by occupation, FBT and manufacturing, 1994-95

ASCO code and title	Number		Share of total	
	FBT (‘000)	Manufacturing (‘000)	FBT (%)	Manufacturing (%)
1 Managers & administrators	11.6	91.7	6.4	8.2
2 Professionals	8.6	75.8	4.7	6.8
3 Para professionals	4.6	28.3	2.5	2.5
4 Tradepersons	30.5	308.6	16.8	27.7
5 Clerks	14.1	124.1	7.8	11.1
6 Salespersons & personal service workers	16.9	53.1	9.3	4.8
7 Plant and machine operators & drivers	27.6	180.2	15.2	16.2
8 Labourers & related workers	67.4	253.7	37.2	22.7
Total all occupations	181.4	1115.5	100.0	100.0

Source: ABS unpublished statistics.

2.3.2 Value-added

Disaggregated value-added data for the agri-food industry is only available up to 1992-93. On a nominal basis, the industry's value-added was around \$12.9 billion in 1992-93 (around 19 per cent of manufacturing). This was 7.7 per cent higher than in 1989-90. Between 1989-90 and 1992-93 the strongest growth was recorded in the following industry groups:

- Flour mill and cereal food manufacturing (up 27.8 per cent);
- Dairy product manufacturing (up 26.8 per cent); and
- Fruit and vegetable processing (up 18.0 per cent).

At the same time, value-added fell in Oil and fat manufacturing (down 14.0 per cent) and Other food manufacturing (down 8.2 per cent).

Real value-added data is available up to 1994-95, but only at aggregate levels. Over the three years to 1994-95 — the first three years of the Agri-Food Strategy — real value-added (constant 1989-90 prices) in the FBT industry grew by 16.5 per cent (5.2 per cent per annum). This was lower than the 19.8 per cent growth recorded in manufacturing (6.2 per cent per annum).

The relatively weaker performance by the FBT industry contrasts with the previous three year period immediately prior to the commencement of the Agri-Food Strategy. Between 1988-89 and 1991-92, real value added in the FBT industry grew by 2.7 per cent (0.9 per cent per annum), while manufacturing real value added actually declined by 6 per cent (2.0 per cent per annum).

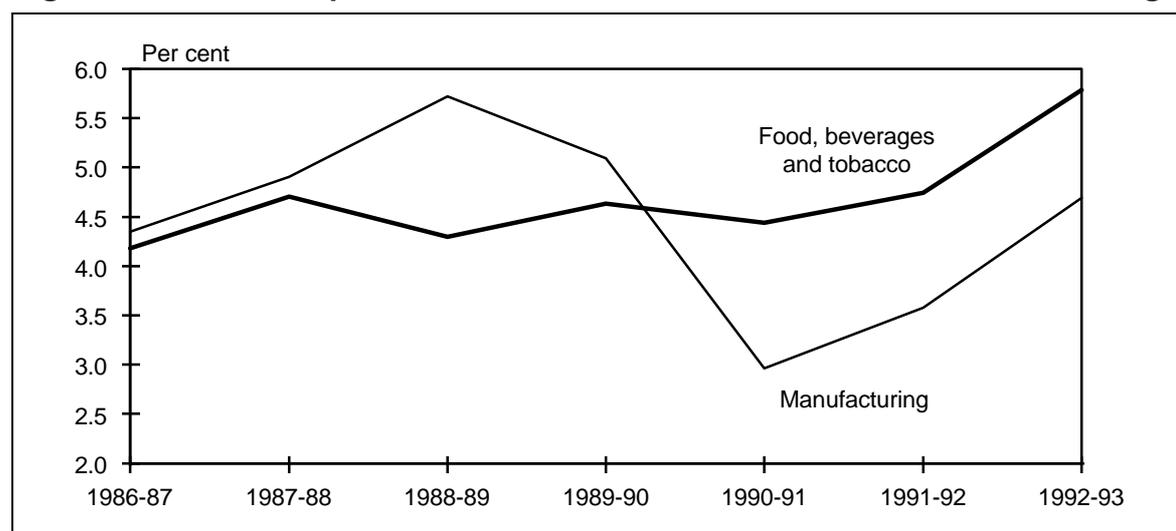
2.3.3 Profitability

In 1994-95 pre-tax profits in the FBT industry were \$2.2 billion, a rise of 4.9 per cent on the previous year. By comparison manufacturing pre-tax profits rose more strongly by 18.3 per cent, to \$12.6 billion.

Over the three years to 1994-95, FBT pre-tax profits rose by 32 per cent. This was significantly below the increase in manufacturing profits over the same period (an increase of 119 per cent). However these figures mask different stories and comparisons should be treated with caution. Manufacturing profitability fell sharply in the recession (falling by 40.4 per cent in 1990-91) and much of the high growth in the past few years reflects a sharp post-recession recovery. Conversely FBT pre-tax profit growth remained positive (though small) during the recession. In fact the only year in the last decade when pre-tax profits fell in FBT was in 1993-94, and only by a slight 0.7 per cent. In that year, tight margins and the impact of the drought severely affected sales figures and profits.

The ratio of profits to turnover in the FBT industry has been higher than manufacturing since the beginning of the 1990s (figure 2.4). Pre-tax profits as a share of turnover in manufacturing peaked in 1988-89 and slumped during the recession. In contrast, the ratio in the FBT industry remained relatively steady from the mid-1980s to 1991-92 — and then accelerated fairly sharply.

Figure 2.4 Pre-tax profits as a share of turnover, FBT and manufacturing



Data sources: ABS Cats 5651.0 and 8221.0, DIST (1995b) and IC (1995a).

2.3.4 Investment

Physical capital

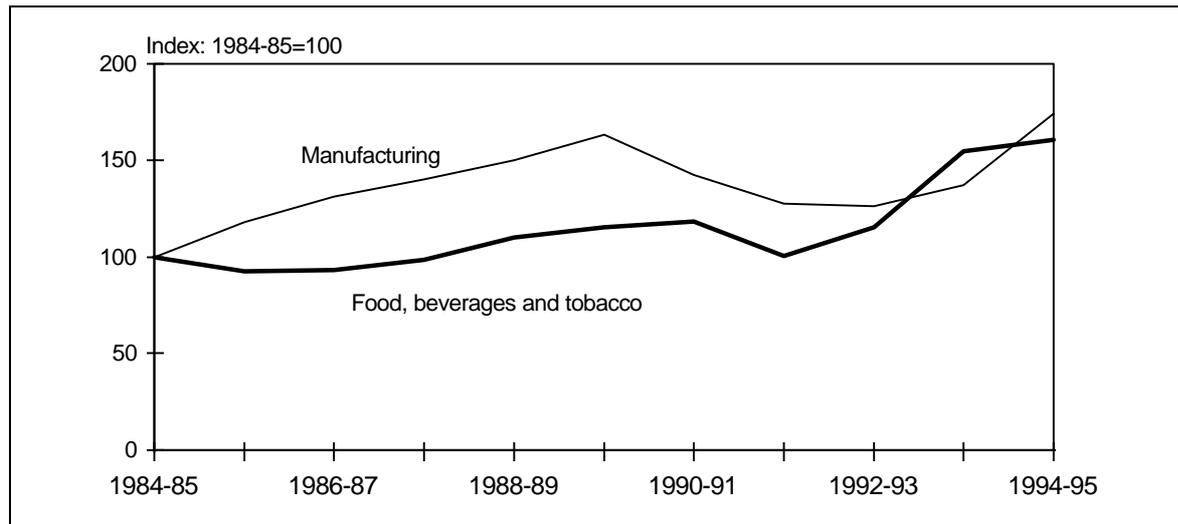
Investment in the FBT industry was \$1.8 billion (constant 1989-90 prices) in 1994-95, accounting for 20 per cent of manufacturing investment. FBT investment as a share of manufacturing has fluctuated over the last decade, ranging from 16 per cent in 1987-88 to 25 per cent in 1993-94.

The investment performance of the FBT industry since 1989-90 has been relatively strong, growing in real terms by around 6.8 per cent per year. Manufacturing investment in comparison grew by only 1.3 per cent per year over the same period. The relatively poor performance in manufacturing was due to a large decline in investment between its peak in 1989-90 and 1992-93 (figure 2.5). Over this period real manufacturing investment fell by 23 per cent. On the other hand FBT investment has only fallen in one year since 1989-90 — in 1991-92 investment declined by 15 per cent.

Over the first three years of the Agri-Food Strategy (1991-92 to 1994-95) real investment in FBT grew by around 60 per cent (17 per cent per annum) compared to investment growth in manufacturing over the same period of 37 per cent (11 per cent per annum).

While recent growth in FBT investment has been relatively strong, it increased by only 3.8 per cent in 1994-95 (compared to a manufacturing average of 27.0 per cent). This may have reflected the effect of drought on the farm sector flowing through to the processing sector, and the fact that the FBT industry had less need to expand capacity because it had already made strong investment in recent years.

Figure 2.5 Investment in FBT and manufacturing



Data sources: ABS Cat 5625.0, unpublished ABS data and BIE estimates.

R&D and innovation

Expenditure on research and development (R&D) in the FBT industry was \$140 million in 1993-94, compared to manufacturing expenditure of \$1.7 billion. FBT firms spent 1.0 per cent of value-added on R&D, less than half the R&D expenditure of manufacturing firms in general (figure 2.6). Food industry R&D expenditure as a share of production increased very slightly in 1992-93 and remained stable in 1993-94. Manufacturing R&D expenditure showed a significant increase in 1992-93 but then declined by a similar amount the following year.

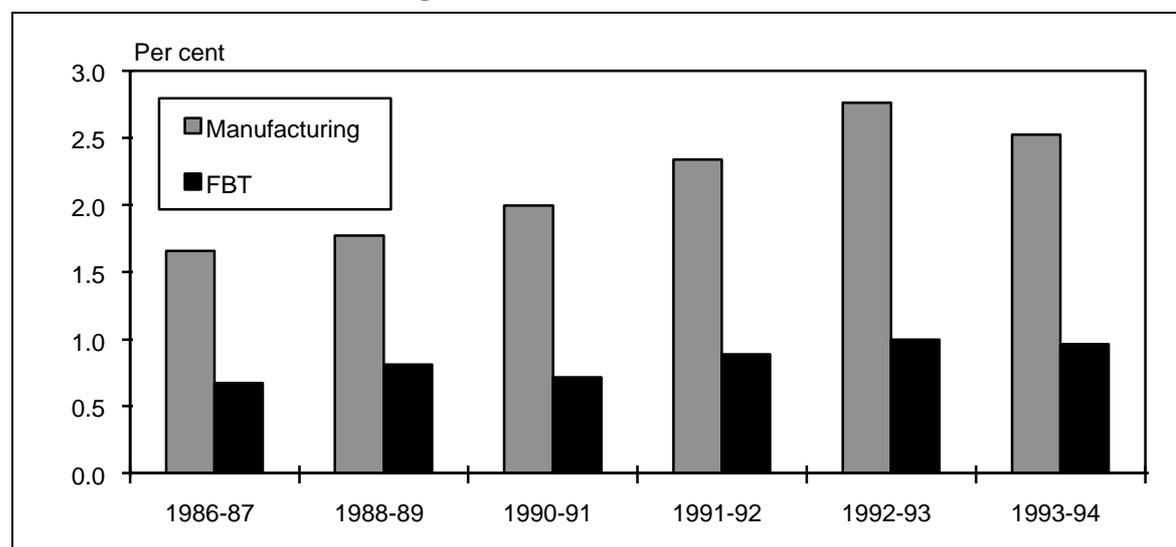
International comparisons from OECD data on investment in R&D by FBT firms as a share of value-added, show that Australia ranks around the middle. Countries spending a higher proportion of value-added on R&D include Denmark, Finland, Japan, Netherlands, Sweden and the US. On the other hand, Australia performs better than Canada, France, Germany, Italy and the UK. However the data is not recent, primarily relating to around 1991.⁵

While the level of R&D expenditure in the FBT industry is proportionally lower than in manufacturing, it performs relatively better than manufacturing in terms of the proportion of firms undertaking *technologically innovative* activities. Technological innovation is

⁵ Data provided by DIST, derived from the OECD's STAN and ANBERD databases (1995 editions).

described by the ABS as the development or introduction of new or substantially changed products, or new or substantially changed processes.

Figure 2.6 R&D expenditure as a share of production, FBT and manufacturing



Data sources: ABS Cats 8114.0 and 5206.0.

The proportion of FBT firms undertaking technologically innovative activities between July 1991 and July 1994 was 35.6 per cent, marginally higher than the average of 33.7 per cent in manufacturing (table 2.5). In FBT the average technological innovator had sales of \$34 million, around nine times the size of the other FBT businesses.⁶

Table 2.5 Innovation statistics, FBT and manufacturing, 1993-94

	<i>Food, beverages and tobacco</i>	<i>Manufacturing</i>
	(%)	(%)
Proportion of businesses undertaking technological innovation	35.6	33.7
<i>Average sales of ...</i>	<i>(\$m)</i>	<i>(\$m)</i>
technological innovators	34.1	12.3
other businesses ^a	3.6	1.6

^a Includes non-innovators and non-technological innovators.

Source: ABS Cat 8116.0.

Other comparisons between FBT and manufacturing show:

⁶ The large difference in size between the two types of firms is also a feature of manufacturing businesses in general.

- the majority of expenditure on innovation by FBT businesses is for tooling up (59 per cent of expenditure compared with 49 per cent for manufacturing);
- the average cost of innovative activity per FBT innovator is \$851 700 (manufacturing average is \$486 400); and
- innovation intensity (the proportion of sales revenue that is spent on innovation) for innovative FBT firms is 2.2 per cent, below the manufacturing average of 3.6 per cent.

In summary, while the proportion of FBT firms undertaking technological innovative activity is higher than for manufacturing as a whole, those firms who are undertaking innovative activity are spending less of a proportion of their sales on innovative activity. Consequently, only 1.8 per cent of sales of the FBT industry is spent on innovation, compared with 2.9 per cent in manufacturing.

2.3.5 Productivity

Labour productivity

How high is labour productivity in the Australian food industry? A recent McKinsey study, using data for 1992-93, found that while the labour productivity of the Australian food processing industry is twice that of Japan, it is only 68 per cent of US levels (McKinsey and Company Australia 1995).

On a group by group basis (figure 2.7), it appears that very low productivity in bakery, cereals and other foods accounts for much of this gap. These industry groups achieve only 58 per cent, 35 per cent and 53 per cent of US productivity respectively. Even Australia's highest performing agri-food industry groups (meat, fruit and vegetables, and fats and oils) have not reached a productivity level equivalent to the average level achieved by the US industry.⁷

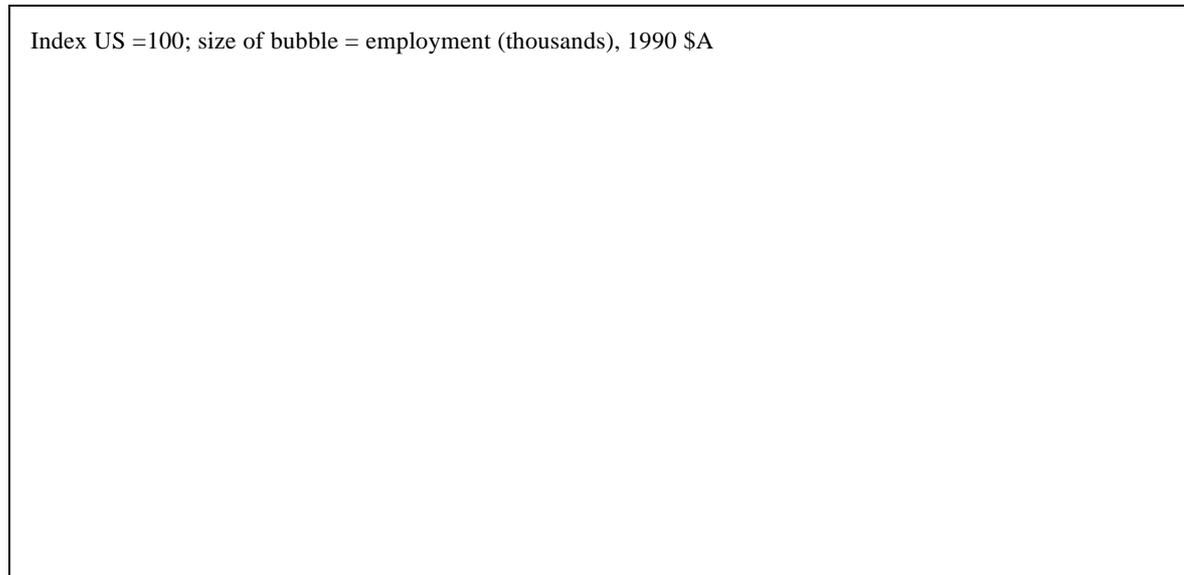
Labour productivity levels in the Australian food industry are considerably higher than in the manufacturing sector as a whole. In 1994-95 the FBT sector produced \$39 of value-added per hour worked, compared with \$29 in manufacturing (figure 2.8). The higher performance is consistent over the last decade.

The higher labour productivity performance in the FBT industry is somewhat paradoxical. The typical reasons for differences in labour productivity between industries are variations in capital intensity, workforce skill levels or knowledge capital. However:

⁷ Of course, complexities in the derivation of purchasing power price indexes and differing factor mixes (driven by varying factor prices and variations in attainable economies of scale and scope) imply that caution should be used in looking at international comparisons of this type. Nevertheless, we believe that the large divergence is revealing and may be symptomatic of potential efficiency gains achievable in the Australian agri-food industry.

- as discussed above, indicators suggest that employees in the FBT industry have relatively lower skills than in manufacturing, while innovation and presumably the stock of knowledge per dollar of value-added are also less than manufacturing; and

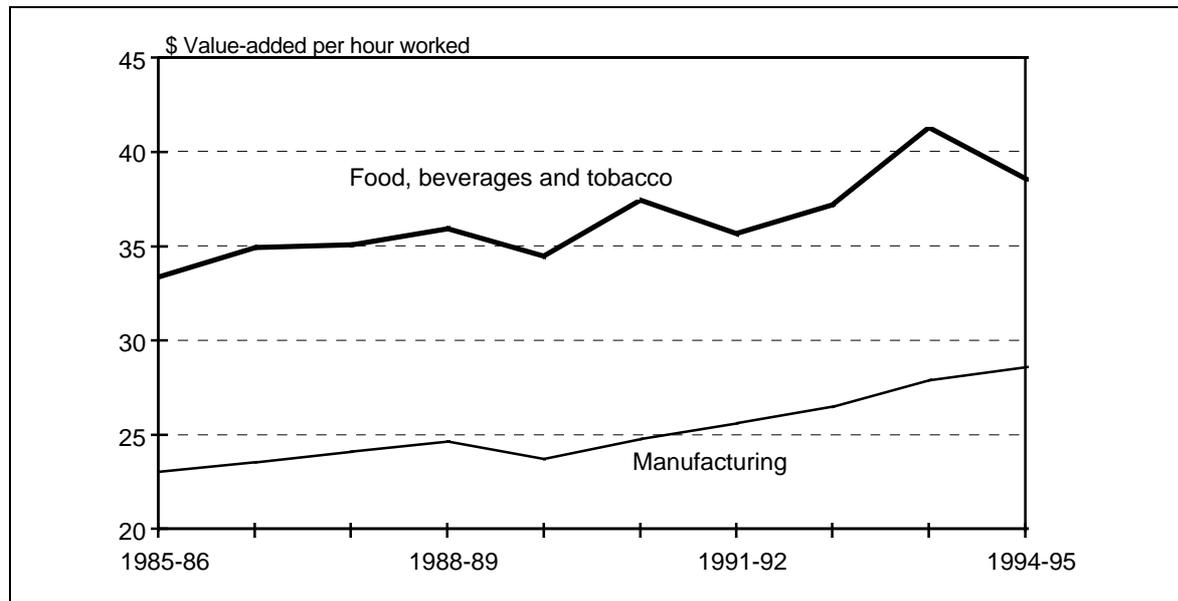
Figure 2.7 Productivity of agri-food industry groups, compared with the United States



* Estimate based on turnover less wages and salaries, purchases and investment (before interest and tax).
 ** PPP for red meat double deflated to adjust for low input prices in Australia. *** Bakery and cereals profitability may be affected by transfer pricing which raises flour mill profitability and lowers bakery productivity; hot bread shops and instore bakeries have been removed from the bakery sector.

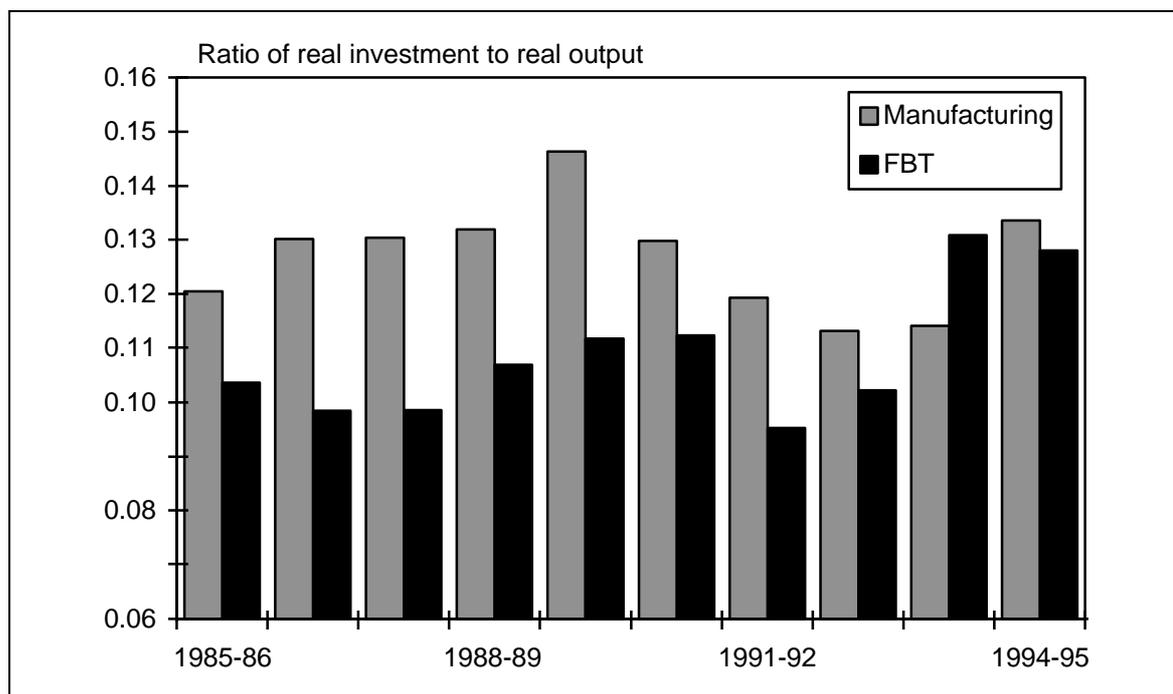
Source: Reproduced from McKinsey and Company Australia (1995, p .31).

Figure 2.8 Labour productivity, FBT and manufacturing



Data sources: ABS Cats 5206.0, 6203.0 and unpublished ABS data.

- calculations based on earlier BIE work (Lattimore 1990) suggests that the capital intensity (measured as the ratio of gross capital stock to output) of the FBT industry is below that for manufacturing. In 1988-89 every \$2 of output in the FBT sector was generated by \$1.10 of capital stock. For the same output, manufacturing used \$1.51 of capital stock. However these data are not very recent. The ratio of investment to output can be used as an indicator of the capital intensity of an industry, and this data is available to 1994-95. Figure 2.9 presents the ratio of real investment (constant 1989-90 prices) to real output for manufacturing and the agri-food industry. In every year, bar one, since 1985-86 FBT has had a lower ratio of investment to output than manufacturing.

Figure 2.9 Ratio of real investment to real output, FBT and manufacturing

Data sources: ABS Cats 5206.0 and 5625.0, unpublished ABS data and BIE estimates.

Perhaps then the higher productivity can be traced to advertising inputs? If the level of advertising in FBT was relatively higher than manufacturing levels, then this would contribute to a relatively higher value-added amount and higher labour productivity.

There is some evidence that this explains the pattern we find. Data on the level of advertising is not available from the ABS, but evidence suggests the food, beverages and tobacco industry spends a relatively high amount on advertising. In the United States, 17 of the top 50 national advertisers in 1990 (including governments, retail chains and entertainment organisations) were in the FBT industry (Carlton and Perloff 1994, p. 597). A recent Australian article (*Ad News*, 22 March 1996, pp 27-33) provides data on advertising in Australia in 19 'key' categories. Nearly half of the categories relate to FBT goods, which accounted for around 20 per cent of the total advertising of the key categories.

A more important indicator — from the perspective of the evaluation — than labour productivity *levels* is recent *changes* in labour productivity. A comparison of labour productivity growth in the FBT and manufacturing sectors shows that the growth in labour productivity in FBT seems to exhibit broadly parallel behaviour to that of manufacturing. However, it is apparent that productivity in the FBT sector is much more volatile than manufacturing. Despite significant gains over the first two years of the Agri-Food Strategy, labour productivity in the FBT sector fell away sharply in 1994-95. Value-added per hour worked in FBT fell by 6.5 per cent (compared with a rise of 2.4 per cent in manufacturing). Taking the three years to 1994-95 as a whole, FBT labour productivity increased by 8.2 per cent (or 2.7 per cent per annum), while manufacturing labour productivity rose by 11.6 per

cent (3.7 per cent per annum). FBT productivity was also outperformed by manufacturing in the three year period to 1991-92 — a decline of 0.7 per cent (FBT) against a rise of 4.0 per cent (manufacturing).

2.3.6 Trade

Australia exports processed food and beverages to most countries in the world. In 1994-95 65 per cent of Australia's exports of processed food and beverages went to other Asia Pacific Economic Cooperation (APEC) countries (down from a peak of 72 per cent in 1991-92).⁸ The ten largest export markets for processed food and beverages in 1994-95 were, in order: Japan, the US, Taiwan, New Zealand, Hong Kong, the UK, Republic of Korea, the Philippines, Singapore and Malaysia. These countries accounted for 60 per cent of Australia's processed food and beverages exports, including 64 per cent of highly processed food exports.

Australia's agri-food industry is a net exporter. In 1994-95 exports were around three and a half times the value of imports (table 2.6). Agri-food exports totalled \$10.6 billion compared with imports of around \$3.0 billion. However Australia's agri-food 'trade balance' varies by industry group. There are a number of groups where Australia is a net importer. These include Fruit and vegetable processing and Bakery product manufacturing. There are also some notable examples where Australia exports significantly more than it imports, such as Sugar manufacturing (in 1994-95 exports were 127 times greater than imports) and Meat processing (75 times).

The share of agri-food exports in manufacturing exports has remained relatively stable in the past five years or so. Between 1989-90 and 1994-95 the share only varied between 24 per cent and 26 per cent. In the most recent year, 1994-95, 24 per cent of manufactured exports were agri-food exports.

Table 2.6 Agri-food trade, 1994-95

<i>ANZSIC</i>	<i>Item</i>	<i>Exports</i>	<i>Imports</i>	<i>Trade balance</i>
<i>class</i>				
		\$ million	\$ million	\$ million
211	Meat and meat product mfg	4 462	76	4 386
2111	Meat processing	4 423	59	4 364
2112	Poultry processing	18	9	9
2113	Bacon, ham and smallgood mfg	21	7	14
212	Dairy product manufacturing	1 461	181	1 280
2121	Milk and cream processing	59	7	53
2122	Ice cream mfg	33	7	25

⁸ APEC countries are Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, South Korea, Singapore, Taiwan, Thailand and the US.

2129	Dairy product mfg nec	1 369	167	1 202
213	Fruit and vegetable processing	383	549	-166
214	Oil and fat manufacturing	65	341	-277
215	Flour mill and cereal food mfg	487	91	396
2151	Flour mill product mfg	27	1	27
2152	Cereal food and baking mix mfg	460	90	370
216	Bakery product manufacturing	52	86	-34
2161	Bread mfg	1	1	0
2162	Cake and pastry mfg	19	39	-20
2163	Biscuit mfg	32	46	-13
217	Other food manufacturing	3 049	1 187	1 862
2171	Sugar mfg	1 580	12	1 568
2172	Confectionery mfg	191	246	-55
2173	Seafood processing	757	564	193
2174	Prepared animal and bird feed mfg	318	76	242
2179	Food mfg nec	202	288	-85
218	Beverage and malt manufacturing	613	531	82
2181	Soft drink, cordial and syrup mfg	30	211	-181
2182	Beer and malt mfg	166	18	147
2183	Wine mfg	391	67	323
2184	Spirit mfg	27	234	-207
	Total food and beverages mfg	10 572	3 042	7 530
	<i>Minimally processed food and beverages</i>	<i>6 838</i>	<i>652</i>	<i>6 186</i>
	<i>Highly processed food and beverages</i>	<i>3 734</i>	<i>2 389</i>	<i>1 344</i>
2	Total Manufacturing	43 684	70 762	-27 078

Source: DIST (1995b).

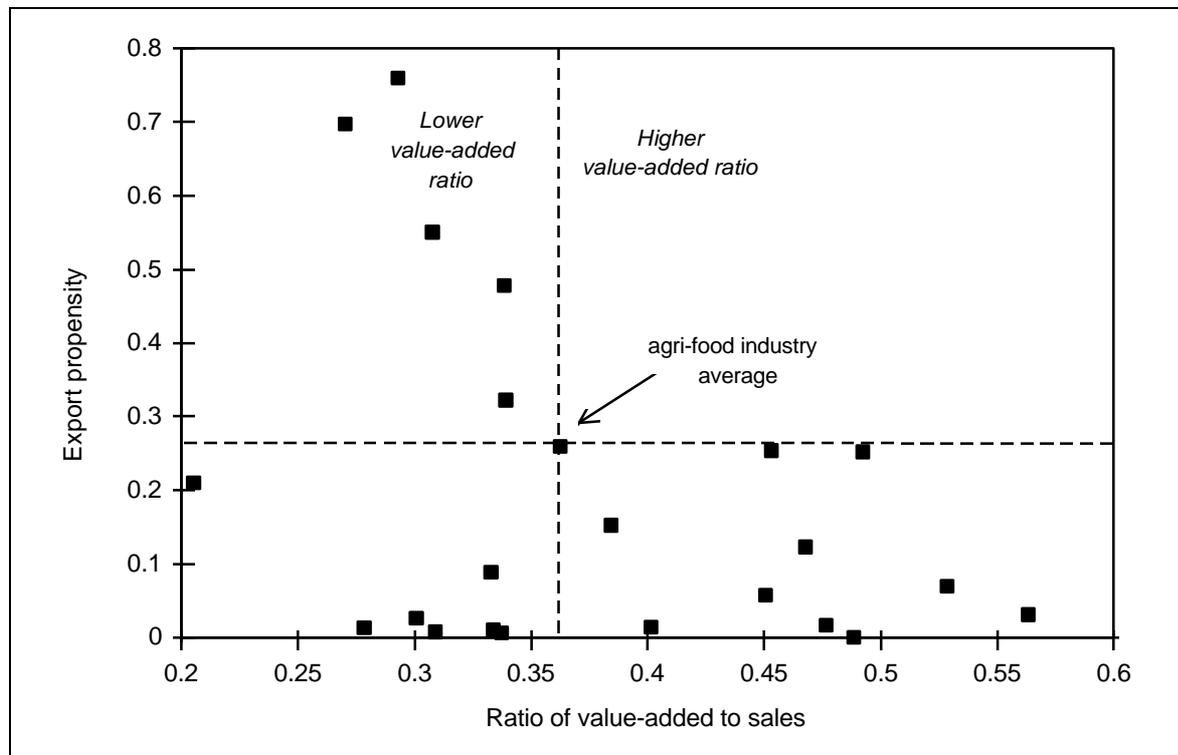
In 1994-95 the export propensity of the FBT industry was almost identical to the manufacturing average.⁹ In 1994-95 the FBT industry exported 25.3 per cent of its sales, compared with 25.0 per cent for manufacturing. In the last six years both FBT and manufacturing have increased their export propensities. However the increase for manufacturing has been stronger — the export propensities in 1988-89 were 22.6 per cent and 18.3 per cent for FBT and manufacturing respectively.

Figure 2.10 shows the comparison between export propensity (as a proxy for comparative advantage) and the ratio of value-added to sales (as a measure of the level of further processing) for the different groups in the agri-food industry. The groups with a high export propensity are all lower value-added classes. These include Meat processing, Seafood processing, Sugar manufacturing, Dairy products manufacturing nec and Spirit manufacturing.

None of the higher value-added groups in agri-food have high export propensities, although the export propensities for Wine manufacturing and Cereal food and baking mix manufacturing are around the average for the agri-food industry.

⁹ Measured as the ratio of exports to total sales of goods and transfers out.

Figure 2.10 Export propensity and level of value-added, agri-food industry groups, 1992-93



Source: BIE estimates based on data in ABS Cat 8221.0 and DIST (1995b).

Australia relies heavily on exports of minimally processed food and beverages. These account for around 65 per cent of processed food and beverages exports.¹⁰ Nevertheless, the share of exports that are highly processed has risen by around 8 percentage points since 1989-90 — rising from 27 per cent in 1989-90 to 35 per cent in 1994-95.

Australia's highly processed food exports to APEC countries grew at an average annual rate of just over 8 per cent between 1988-89 and 1991-92 (figure 2.11). This was less than half the rate of growth in such food exports to the rest of the world (around 19 per cent). However, the average annual growth in highly processed food and beverages exports to APEC countries between 1991-92 and 1994-95 increased to over 11 per cent, substantially narrowing the gap.

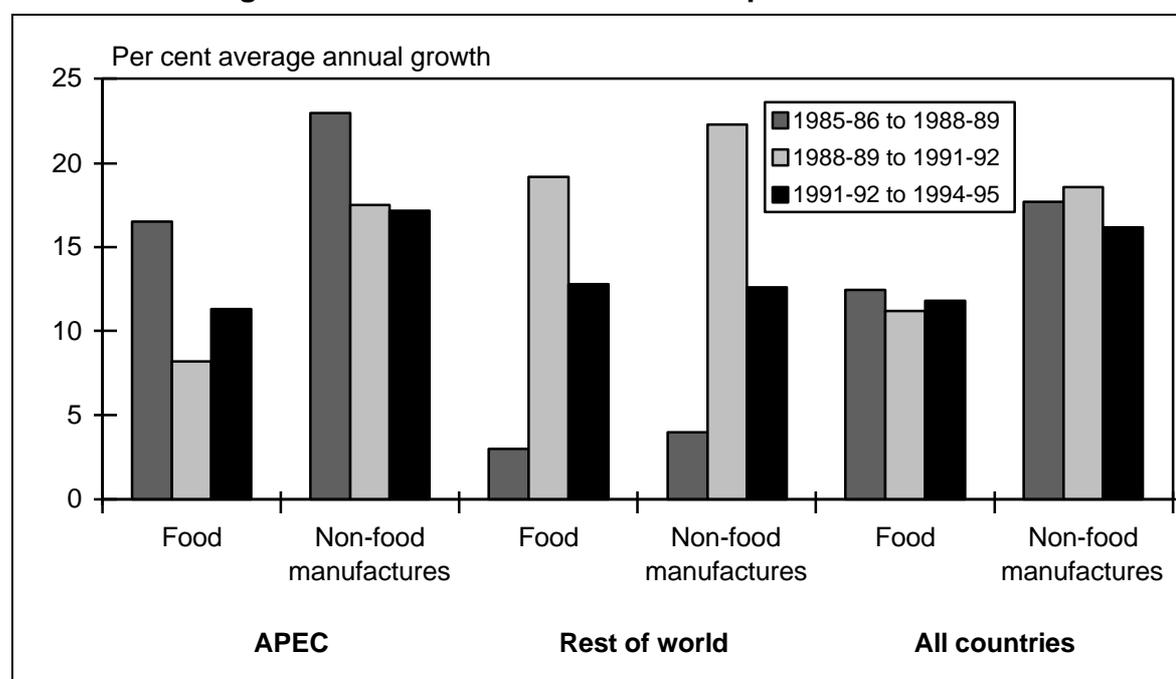
While the recent growth in highly processed food exports appears impressive, it in fact compares unfavourably with growth in high value-added exports of other Australian manufacturing industries.¹¹ Figure 2.11 indicates that export growth of highly processed

¹⁰ Conversely around 79 per cent of Australia's imports of processed food and beverages are highly processed. Australia's major import groups for highly processed food and beverages are Fruit and vegetable processing, Beverage and malt manufacturing — primarily Soft drink, cordial and syrup manufacturing and Spirit manufacturing imports — and Oil and fat manufacturing.

¹¹ Note, however, that it is not always the case that a good which is highly processed is also high value-added, and vice versa. See appendix 6.

food products has been consistently below high value-added exports for non-food manufactures — although this gap has narrowed a little in the most recent period.

Figure 2.11 Growth in highly processed food and beverages exports and high value-added manufactured exports

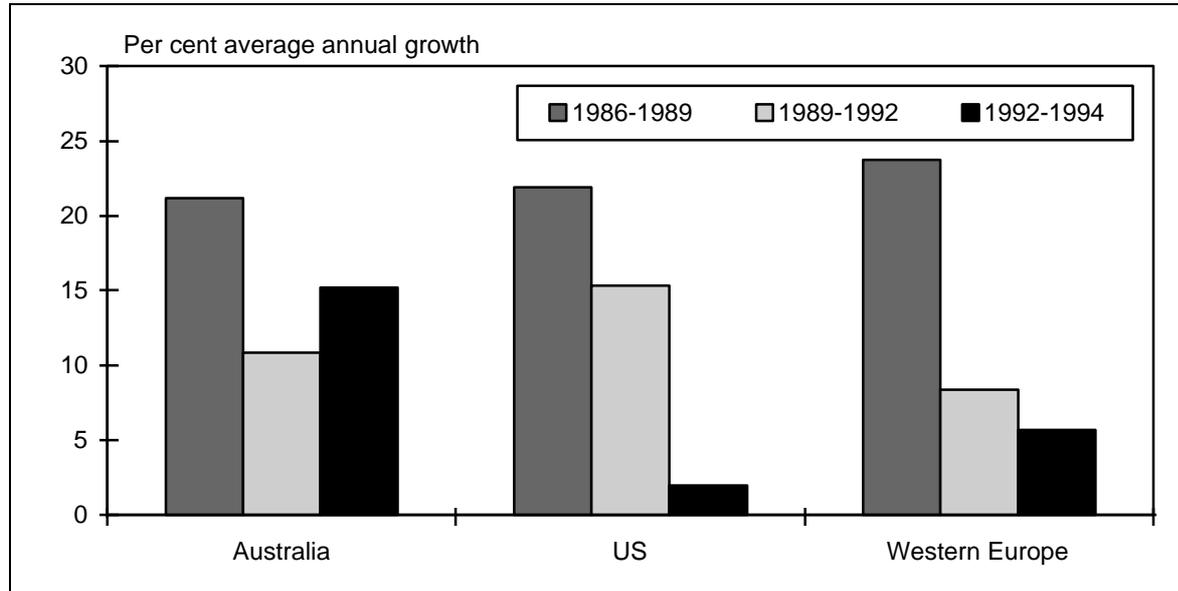


Data source: DFAT Stars database.

To obtain another angle on the relative performance of Australian processed food exports, we also compared their recent growth to APEC countries with processed food exports to APEC from the US and Western Europe. Due to data comparability problems, we were only able to do this with a selection of processed food exports (dairy products, fish and fish preparations, sugar, sugar preparations and honey, feeding stuff for animals, and beverages).

We can observe (figure 2.12) very similar export growth rates for Australia, the US and Western Europe in the 1986–89 period, but in the early 1990s US exports grew more strongly than both Australia and Western Europe. In the most recent period, 1992–94, Australian exports have grown at a much higher rate while Western Europe export growth has continued slowing and US export growth has fallen away completely.

Figure 2.12 Growth in selected processed food exports to APEC ^a



^a The five products are: (1) dairy products, (2) fish and fish preparations, (3) sugar, sugar preparations and honey, (4) beverages, and (5) feeding stuff for animals.

Data source: DFAT Stars database.

2.4 Outlook

There are a number of recent publications that comment on the outlook for the industry. Two prominent surveys are the ABS *Australian Business Expectations* and the Australian Chamber of Manufactures–Telstra *Survey of Australian Manufacturing*. In addition, Monash University and Syntec Economic Services *Guide to Growth* provides industry forecasts to 2001-02.

The ABS *Australian Business Expectations* survey asks firms in all industries to indicate their medium-term outlook for a number of key indicators. These include employment, total operating expenses, international trade, sales, profits and investment. FBT firms believe sales of goods and services will increase by 3.4 per cent from the December quarter 1995 to the December quarter 1996, above the manufacturing average of 2.3 per cent (table 2.7).

Despite the slow sales growth, investment is expected to rise strongly in both FBT and manufacturing. FBT investment is expected to rise by around 15 per cent while the corresponding prediction for manufacturing is 25 per cent. Employment in FBT in the next year is expected to reverse its recent trend and fall by around 0.2 per cent. In manufacturing, employment is expected to rise by 0.2 per cent.

Table 2.7 Medium-term forecasts, FBT and manufacturing^a

	<i>Food, beverages and tobacco</i>	<i>Manufacturing</i>
	growth (%)	growth (%)
Sales of goods and services	3.4	2.3
Selling prices	2.4	1.8
Profits	10.8	8.7
Capital expenditure	15.3	25.0
Stocks	0.5	-0.9
Employment ^b	-0.2	0.2
Wages costs	2.3	2.3
Other labour costs	2.1	1.2
Total expenses	2.1	1.4
Imports	1.9	3.0
Exports	4.9	8.5

a December quarter 1996 compared with December quarter 1995 . **b** Full-time equivalent.

Sources: ABS Cat 5250.0 and unpublished statistics.

On average, manufacturing exports are expected to grow more strongly than domestic demand, thus moderating the impact of the slowdown on domestic sales. Exports in FBT are expected to rise by 4.9 per cent, about half the rate (8.5 per cent) expected for manufacturing as a whole.

The Australian Chamber of Manufactures–Telstra *Survey of Australian Manufacturing* (ACM–Telstra 1995) for the December quarter 1995 covered 545 small, medium and large manufacturing firms. These accounted for around 10 per cent of total manufacturing. According to this source, the FBT industry is expected to perform well in 1996, with an estimated increase of 4.9 per cent in output, above the expected manufacturing average of 3.2 per cent. Employment numbers for both FBT and manufacturing are forecast to remain largely unchanged with only a 0.1 per cent increase expected. Exports of FBT firms are predicted to grow solidly at 7.0 per cent, but below the strong growth of 11.3 per cent forecast for manufacturing.

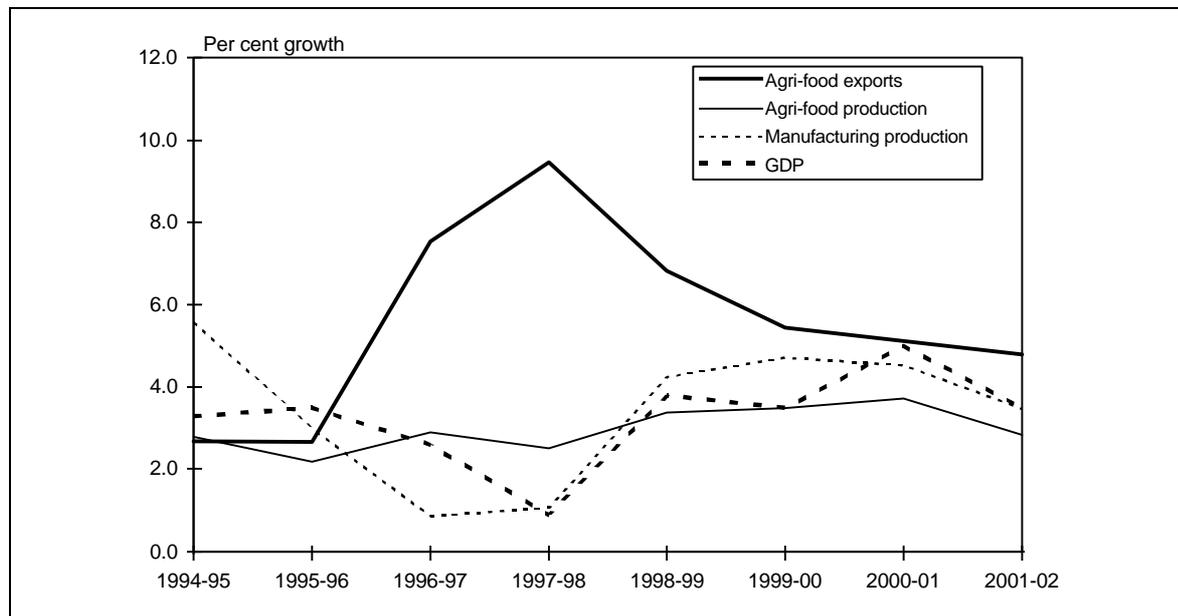
The ACM–Telstra survey result for the FBT investment outlook is flat, which is less positive than the ABS survey (where expectations were for a rise of 15 per cent). However the results are not necessarily contradictory. The ABS *Australian Business Expectations* survey compares expectations for the December quarter 1996 with December quarter 1995, while the ACM survey relates to the annual figures (1996 compared with 1995). It is possible that both survey expectations could be correct. For example FBT investment in the December quarter 1992 was 26 per cent higher than the December quarter 1991, yet investment in 1992 was only 7 per cent higher than in 1991.

Guide to Growth, prepared by Monash University and Syntec Economic Services (Monash/Syntec 1995), provides forecasts for 112 Australian industries to the year 2001-

02. The report produces forecasts for each of the different agri-food industry groups — for example meat products, milk products and fruit and vegetable products.

These show that the prospects for output growth vary for the different industry groups. With slow growth in the domestic market for many of the group's products, overall output growth is predicted to fall below GDP growth (figure 2.13). The fastest growing agri-food industry group is likely to be fruit and vegetable products. This industry is likely to benefit from a favourable movement in consumer preferences and from strong export growth.

Figure 2.13 Forecast real growth, agri-food, manufacturing and GDP, 1994-95 to 2001-02



Data source: Monash/Syntec (1995).

Industries with substantial export shares in their sales generally have comparatively good prospects. Included among these are meat products and milk products. However for some other groups with high export shares — other food products (mainly sugar), wine and spirits, and flour and cereal products — the prospects are less favourable. They are projected to suffer in the 1990s from sluggish domestic sales reflecting continuations of adverse trends in consumer preferences.

Bread, cakes and biscuits; confectionery; soft drinks; and beer are four other industry groups likely to suffer in the late-1990s from adverse movements in consumer preferences. With none having strong export potential, all are likely to experience slow growth in output.

Reflecting the increasing internationalisation that is occurring across many industries, Monash/Syntec believe that the export orientation of the agri-food industry is expected to increase to 2001-02. The share of production which is exported is forecast to increase from 23 per cent in 1993-94 to 28 per cent. However imports are also expected to rise, albeit by a

smaller amount. Imports as a share of domestic consumption are predicted to rise from 8 per cent in 1993-94 to 10 per cent in 2001-02.

3 Description of the Agri-Food Strategy and Agri-Food Council

This chapter provides background information on the Agri-Food Strategy, including the Agri-Food Council. Section 3.1 discusses the origins of the strategy, its objectives and evolving nature. Section 3.2 looks at the role and functions of the Agri-Food Council, its membership and how it operates. The following section (section 3.3) provides background information on the various programs and initiatives which comprise the Agri-Food Strategy. The final section (section 3.4) discusses the funding of strategy components and administrative support.

3.1 What is the Agri-Food Strategy?

3.1.1 Origins of the strategy

The government's agri-food industries statement of July 1992 followed an extensive period of consultation with the food processing industry and related players.

In May 1991 the Prime Minister's Science Council considered a report from an industry-government working group on the food processing industry. The report canvassed the significant potential of food processing in Australia and identified issues needing to be addressed if the industry were to establish a competitive position in world markets. The main recommendation made by the working group was for the development of a sectoral strategy for the industry. Consequently a food processing reference group was established by the Minister for Industry, Technology and Commerce/Department of Industry, Technology and Commerce to develop a strategy. The reference group comprised representatives of industry, unions and commonwealth and state agencies.

The reference group report (DITAC 1991) discussed various impediments to industry competitiveness and proposed a strategy containing measures 'directed at helping food processing achieve its potential as a leading export industry'. In devising the strategy key stakeholders recognised there were significant economy-wide reforms which would be important for the industry's future growth, but also some that needed to be pursued on an industry and enterprise basis. These included improving linkages between growers and processors, workplace reform, market access, and the uptake of existing industry-wide R&D programs.

The report estimated that adoption of the strategy would increase high value-added food exports from the then \$2.1 billion per annum to more than \$7 billion per year (in real terms) by the end of the decade. This reflected a recognition of export opportunities, particularly in Asian markets (which were growing at over 20 per cent per year), as well as continuing export opportunities in traditional markets.

The reference group report presented to the Minister for Industry, Technology and Commerce formed the basis of a Cabinet Submission for a new policy proposal. In July 1992 the Minister for Industry, Technology and Commerce and the Minister for Primary Industries and Energy released a joint statement on the Australian agri-food industries (Button and Crean 1992). The statement outlined a four year industry development strategy (the 'Agri-Food Strategy'), including the establishment of an agri-food council.

3.1.2 The strategy and its objectives

The July 1992 statement was intended to act as a catalyst for substantially increasing the amount of value added to the food produced by Australian farmers before it is exported. In particular, it focussed on how the export orientation and international competitiveness of Australia's food processing industry could be increased.

Box 3.1 The Agri-Food Strategy

The Agri-Food Strategy is a series of related measures and programs with the objectives of substantial increases in value-added food exports through encouraging a major increase in the export orientation and international competitiveness of Australia's food processing industry.

In the statement, the government announced it would spend \$12.7 million over four years, with the aim of developing '...an efficient and profitable Australian food industry which produces high quality, safe and nutritious food products which are differentiated and branded for international markets, particularly in Asia' (Button and Crean 1992, p.3).

Specifically the strategy aims to encourage:

- greater efficiencies in food production;
- more cooperation between food producers, processors and marketers; and
- a sharper focus on the development of international markets for Australian fresh and processed foods.

The specific initiatives announced in the statement, under the banner of an 'Agri-Food Strategy', included:

- fostering closer integration of the food production, processing marketing and distribution chain through the formation of a new Agri-Food Council;

- mechanisms for actively pursuing agri-food market access priorities and ensuring that the International Trade Enhancement Scheme was accessible to medium-large food processing companies;
- funding jointly with industry a pilot promotion program of Australian fresh and processed food and support quality assurance, food safety awareness, and other arrangements necessary for the successful promotion of Australia as the world's leading producer of clean wholesome food;
- developing, with industry, a possible structure for a new industry-based Technology and Innovation Association;
- attracting new investment into the industry;
- working to ensure the industry had access to quality inputs at world competitive prices;
- encouraging workplace reform and productivity improvements; and
- boosting the resources of the National Food Authority to enable it to undertake a major overhaul of the existing body of food regulation and other means of reducing regulatory impediments.

The statement also stated ‘...if the food processing industry makes the most of the initiatives announced in this Statement, we believe that within a decade exports of highly processed foods could be over \$7 billion in real terms’ (Button and Crean 1992, p. 4). The \$7 billion export figure has now become a well recognised target of the strategy.

3.1.3 The evolving nature of the strategy

The food industry is dominated by medium and large-sized firms — more than half the employment in the industry is in establishments with more than 200 employees, and the twenty largest firms account for just under half the industry's turnover. Accordingly the strategy has been directed mainly at the ‘big end of town’ to get results. But there has been some acknowledgment of smaller firms — for example, through the networking and language and literacy programs, and the addition of small business representatives to the council in 1994.

The original areas addressed in the strategy were determined through a consultative process and represented the important issues of the time. However, issues faced by the food industry have not necessarily remained the same — some may have been resolved and others emerged. Consequently while the broad thrust of the strategy has not changed — to bring about reforms which will enable large increases in highly processed food exports — some of the specific issues and impediments *have* changed.

In late 1994, following a mid-term review of the achievements of the strategy, the Agri-Food Council agreed on a number of core priorities to guide its future work (see DIST

1994a). The core priorities identified were market access and export development, regulatory reform, transport and distribution, packaging, and workplace reform and training. Table 3.1 compares some of the intended outcomes of the original strategy with the core priorities and issues agreed following the mid-term review of the strategy.

The evolutionary process of the council is continuing and the most recent meetings of the council have been examining the present and future role of the council and the possible future directions for the Agri-Food Strategy.

Table 3.1 Changes in Agri-Food Strategy focus^a

<i>1992 — intended future outcomes</i>	<i>future priorities following mid-term review^b</i>
Market access and development <ul style="list-style-type: none"> — Processed food market access committee — Clean food export program 	Market access and development <ul style="list-style-type: none"> — market access — strategic alliances — export market development — issues about clean food export program
Regulatory reform <ul style="list-style-type: none"> — extra funding to NFA to undertake review 	Regulatory reform <ul style="list-style-type: none"> — keep issue before governments — AQIS, NFA, SMA reform
	Transport and distribution <ul style="list-style-type: none"> — sea freight
	Packaging <ul style="list-style-type: none"> — address issues raised — best practice case studies
Workplace reform and training <ul style="list-style-type: none"> — MOU — FILLIP program — Benchmarking program 	Workplace reform and training <ul style="list-style-type: none"> — SMEs use of MOU — promote workplace reform through best practice case studies, and internal facilitators — training in understanding best practice and improving management skill
Industry integration <ul style="list-style-type: none"> — more effective grower–processor linkages — through chain composition of council — extra funds for food company networks 	Industry integration <ul style="list-style-type: none"> — grower–processor linkages
	Other <ul style="list-style-type: none"> — SMEs — import replacement through retail strategy — implementation of Food Quality Program
Innovation <ul style="list-style-type: none"> — funding for Technology and Innovation Association 	Innovation <ul style="list-style-type: none"> — development of clusters

a For more detail of actual programs and initiatives, see later in chapter. **b** The first five listed are the agreed 'core priorities' in the mid-term review.

Sources: Button and Crean (1992), DIST (1994a).

3.1.4 Other relevant government programs

The programs in the Agri-Food Strategy supplement existing government programs which support the development of Australia's agri-food industries including:

- the DIST AusIndustry programs and the DPIE AusIndustry Agribusiness Program;
- the Innovative Agricultural Marketing Program, jointly administered by DPIE and Energy and Austrade;
- programs of the National Industries Extension Service and Export Access directed at small business throughout Australia; and
- Austrade export assistance programs such as the International Trade Enhancement Scheme and the Export Market Development Grants Scheme.

Since its inception, the strategy has assisted in the development of closer linkages between key government agencies and other stakeholders, in particular between DIST, DPIE, DIR and DFAT. A number of the initiatives developed through the strategy have been supported by funding accessed through these agencies. For example, under the DPIE Agribusiness program, funding has been provided for a number of projects which complement the strategy (such as packaging, linkages, Asian marketing and quality assurance).

3.2 The Agri-Food Council

3.2.1 Role and functions of the council

A key element of the Agri-Food Strategy was the establishment of an Agri-Food Council to serve as the driving force behind industry integration and the international competitiveness of Australia's agri-food industries. The council was charged with providing leadership in implementing the strategy, generating commitment to cooperation amongst industry participants and overseeing the implementation of strategy programs. In the joint statement announcing the establishment of the council in 1992, the ministers noted the council:

...will have overall responsibility for promoting an export culture in the industry and implementing the initiatives on market access and development, workplace reform, innovation and industry integration ... the most important of the Council's functions will be to ... [promote] closer and more effective linkages between growers, processors, packagers, and employee representatives ... (Button and Crean 1992, p.20).

Over time, as council met and went about its business, its functions became more focussed and transparent. The mid-term review (DIST 1994a) listed the council's principal functions as:

- forging common purpose and leading change;

- focusing efforts to identify and remove impediments at both government and industry level;
- encouraging the adoption of best practice; and
- targeting and coordinating programs across portfolios.

These same functions were listed more recently in Food Australia's *Processed Food and Beverages Industry* (DIST 1995b).

3.2.2 Council membership

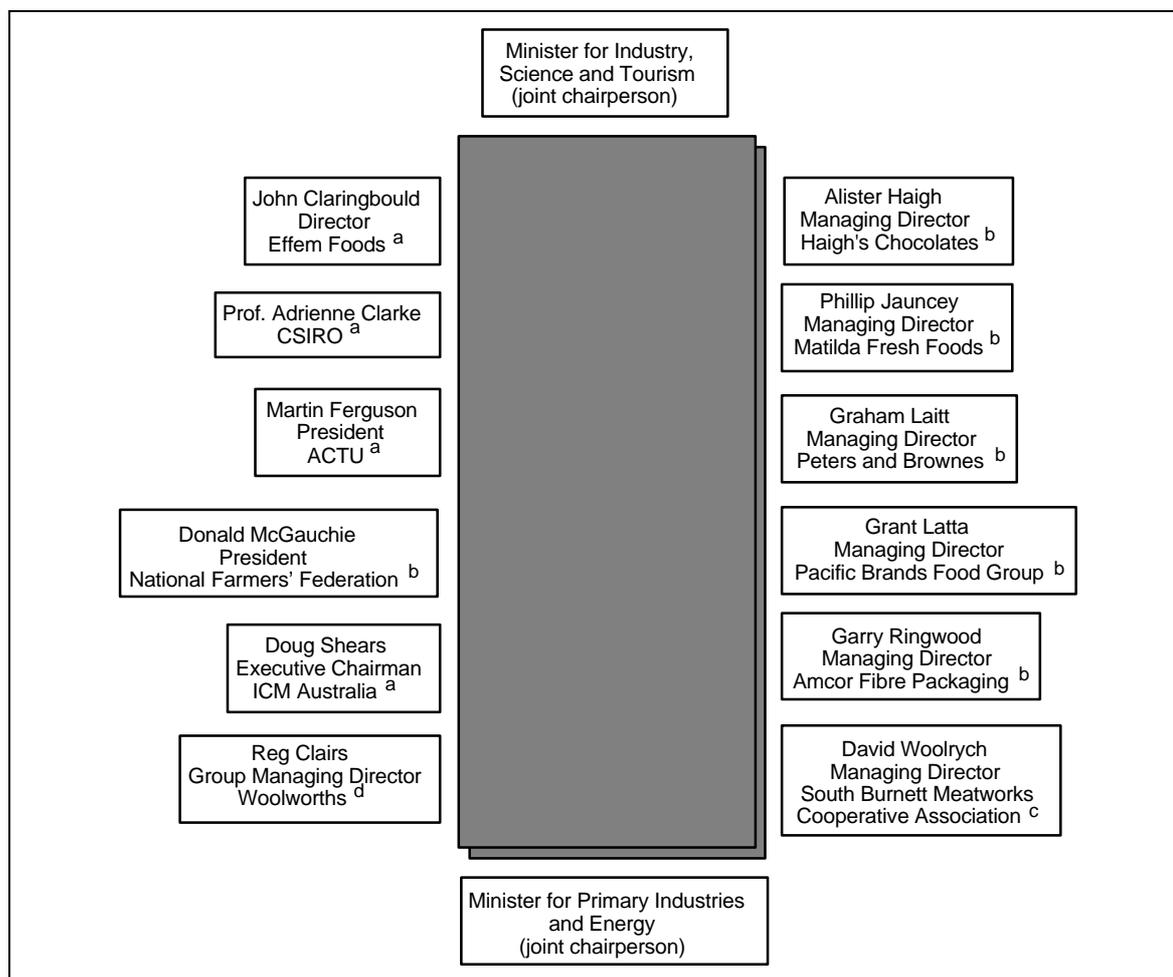
The Agri-Food Council represents interests through the value-added chain in the agri-food industries. Membership is tripartite in nature with industry, government and union representation. The council is jointly chaired by the Minister for Industry, Science and Tourism and the Minister for Primary Industries and Energy.

In determining an appropriate council membership, it was recognised that the food industry comprises a large range of companies at different stages of achieving international competitiveness. It was intended that the council would be a vehicle for using the skills and networks of prominent and successful industry participants to stimulate change in the rest of the industry.

In its early phases, the council included representation from major food processing companies, CSIRO, ACTU, National Farmers' Federation and retailers. As the focus of the strategy changed over time, so did the membership of the council. In 1994 council membership was expanded to include other sectors of the food production chain, namely small business, the meat industry and packaging.

The current membership of the council is listed in figure 3.1. Past non-ministerial members were:

- John Cook (Managing Director, Kellogg), from August 1992 to March 1994;
- Solomon Lew (Chairman, Coles Myer) from August 1992 to August 1994;
- Michael Nugent (Chief Executive, Goodman Fielder Wattie) from August 1992 to March 1994;
- Jack Sumich (CEO, Sumich Group) from August 1992 to about April 1993; and
- Graham Blight (President, National Farmers' Federation) from August 1992 to March 1994.

Figure 3.1 Membership of the Agri-Food Council, December 1995

a Member of council since inception — August 1992. **b** First meeting attended in September 1994. **c** First meeting attended in November 1994. **d** First meeting attended in November 1995.

Sources: Agri-Food Council papers and Agri-Food Council Secretariat.

3.2.3 How the council operates

The Agri-Food Council has met roughly three times a year since its inception. At its first meeting council agreed that working groups would be established on particular issues (under the guidance of council members). This was to facilitate ongoing work between meetings and to enable the involvement of a wider group of interested parties. Box 3.2 lists the major issues or mission of the established working groups and their respective members.

A number of the programs and issues to be addressed by the council were announced at the commencement of the strategy in 1992. These issues were automatically placed on the council's agenda. However, other relevant issues have been raised and followed up by the council over the past three years. These issues have included air freight export of perishable goods, packaging and regulatory reform.

Box 3.2 Agri-Food Council working groups

Clean food export program

Formed: between August–November 1992

Major issue/mission: guiding the development of the Clean Food Export Program

Council members: Doug Shears, Jack Sumich, John Cook

Other members: Annabelle Carter/Steve Dilon (Uncle Tobys), John Penn (Australian Meat and Livestock Corporation), John McKay (Australian Horticultural Corporation), Bruce Cullen (National Farmers Federation), Frank O'Brien (Austrade), Alan Page (Bonlac Foods), Ken Pettifer and Garry Compton (DITAC), Wayne Ryan (DPIE), Laurie Erwin (AQIS).

Workplace reform and training

Formed: between August–November 1992

Major issue/mission: development of MOU and training initiatives

Council members: Martin Ferguson, John Cook

Other members:: Brendan Eames (National Union of Workers), Ruth Frenzel (Pastrycooks, Bakers, Biscuitmakers, and Allied Trades Union), Paul Inches (Australian Liquor, Hospitality and Miscellaneous Workers Union), John Longhurst (Australian Workers Union), Neil Marshall (Metal and Engineering Workers Union), Max Ogden (ACTU), Clive Bubb (Queensland Confederation of Industry), Maurie Maskell (Coca Cola Amatil), Mark Quirk (Vic. Employers Chamber of Commerce and Industry), Keven Semple (Petersville), Peter Ward (Berrivale Orchards), Phillip Watson (NSW Chamber of Manufactures), Ken Pettifer and Soraya Kassim (DITAC), Helen Campbell, Graeme Marshman and Brett Deacon (D IR).

Grower-processor linkages

Formed: between August–November 1992

Major issue/mission: providing practical facilitation of improved linkages between growers, processors and marketers in selected industries/regions, with a view to communicating the main principles throughout the agri-food industry .

Council members: Graham Blight, John Claringbould

Other members: Alan Newton (DPIE)

Innovation

Formed: between November 1992–April 1993

Major issue: developing an innovation strategy

Council members: Prof. Adrienne Clarke, John Claringbould

Other members: Dr Chris Hudson (Goodman Fielder), Max Ogden (ACTU), Aub Egan (CSIRO), Ken Pettifer and Soraya Kassim (DITAC), Bob Calder (DPIE) .

(Continued on next page)

Box 3.2 *(continued)***Regulatory reform**

Formed: between April–October 1993

Major issue/mission: examining the impact of regulatory regimes affecting Australian agri-food industries on their export effort with a view to ensuring they be as supportive as possible of that effort.

Council members: John Cook, John Claringbould, Graham Blight

Other members

Packaging

Formed: between March–September 1994

Major issue/mission: facilitating closer cooperation and communication between packaging and food companies to achieve the objectives of the Agri-Food Strategy

Council members: Garry Ringwood, Grant Latta

Other members: Gavin Williams (Packaging Council of Australia), John Baker (Australian Horticultural Corporation), Mick O'Brien (Campbells), Bill Sapp (Uncle Ben's), Murray Rogers (Kellogg), Barry Watts (Southcorp Packaging), Dr Emery Severin (Tin Mill Products).

Food industry education and training

Formed: between June–September 1995

Major issue/mission: food industry education and training requirements

Council members: Grant Latta, Graham Laitt, Prof. Adrienne Clarke, David Woolrych

Other members: Max Ogden (ACTU).

The Agri-Food Council is an advisory body without any executive powers. The programs included in the strategy are overseen by council, but are administered by relevant government departments. However, council can encourage and coerce industry participants to undertake reforms and become involved in relevant strategy programs and initiatives.

The Agri-Food Council was not directly provided with any money to be spent on issues it decided needed attention. However it appears the funding for the strategy elements was flexible and allowed funds to be used for other areas. For example only \$215 000 out of \$500 000 allocated to a benchmarking program was spent, leaving the remainder to be spent on other initiatives. The council has also been able to fund work that might otherwise not have been possible through savings on running costs. Examples include commissioning ACIL Economics and Policy Consultants to report on regulatory reform and funding of a survey of food company CEOs on packaging (see next section for more examples).

Support for the council is jointly provided by DIST and DPIE. There is a dedicated secretariat in DIST which is responsible for organising council meetings, producing agenda papers for meetings and for liaising with council members and industry participants. Staff at DPIE provide additional policy support, particularly in relation to DPIE portfolio issues and support for working groups.

3.3 Description of strategy programs and initiatives

The programs and initiatives the Agri-Food Strategy umbrella can be divided into four broad groups. *Export market development and market access* encompasses the Clean Food Export Program and the Processed Food Market Access Committee. *Efficiency improvements* covers initiatives such as microeconomic reform, workplace reform and training, regulatory reform, transport and distribution and packaging. *Industry integration* includes the Food Quality Program, grower–processor linkages and networking. The final group is *Innovation*.

We have attempted to allocate the programs and initiatives based on their prime objectives. However as there is some overlap between the groupings, the allocation of initiatives and programs into these groupings is rather arbitrary. For example we allocate the Food Quality Program to industry integration, yet it also has export market development elements because of its aim as a marketing tool, as well as efficiency implications (best practice aspects).

Box 3.3 presents a summary of the initiatives and programs. The following sections describe the program and initiatives in each group in more detail.

3.3.1 Export market development and market access

Key initiatives announced in the Agri-Food Industries Statement in this area included:

- the establishment of a Processed Food Market Access Committee;
- improving access to larger amounts of funding under the International Trade Enhancement Scheme;
- a stronger focus on investment in the food industry; and
- a pilot marketing program to promote Australian fresh and processed food based on our clean growing and processing environment.

The Processed Food Market Access Committee (PFMAC) originally consisted of representatives from DFAT (chair), DIST (or DITAC as it was then), and DPIE together with Austrade and AQIS. The committee came to recognise the need for greater industry participation and in July 1995 invited representation from the National Farmers' Federation and the newly formed Australian Food Council.

Box 3.3 Agri-Food Strategy programs and initiatives

	<i>date started/ launched</i>	<i>date completed</i>
Export market development and market access		
• Clean Food Export Program	1992-93	on-going
• Processed Food Market Access Committee	1992	on-going
• Changes to International Trade Enhancement Scheme	1992	^b
• Food industry priority under Investment Promotion Program	1992	^b
Efficiency improvements		
• <i>Microeconomic reform</i>		
— endorsement and support for a BIE study on the impact of microeconomic reform on the agri-food industries ^a	1994	on-going
• <i>Workplace reform and training</i>		
— Memorandum of Understanding	1993	on-going
— Language and literacy program (FILLIP)	1992-93	1995-96
— Benchmarking program	1992-93	1993-94
• <i>Regulatory reform</i>		
— Commissioned report by ACIL Economics and Policy Consultants ^a	1993	^b
— Representations to relevant ministers and agencies	^b	^b
• <i>Transport and distribution</i>		
— Industry code of best practice for air freight export of perishable goods ^a	1995	on-going
• <i>Packaging</i>		
— Changes to Policy By-Laws	1992	^b
— Survey of food company CEOs	1995	^b
— Follow up work from survey	^b	on-going
Industry integration		
• Food Quality Program	1994-95	1997-98
• <i>Grower–processor linkages</i>		
— Committees: Goulburn Valley deciduous fruit, Queensland pineapple, Tasmanian potatoes	1994	on-going
• <i>Networking</i>		
— Food Industry Networking for Asia Export Program	1992-93	1995-96
Innovation		
• Guideline on 150 per cent tax concession	1993	on-going
• Australian Food Industry Science Centre ^a	1994	on-going
• Australian Food Science and Technology Forum ^a	1995	on-going

^a These initiatives were not announced in the original statement — although the Australian Food Science and Technology Forum funding comes from funding allocated for a 'technology and innovation association'. ^b Not relevant.

The PFMAC it provides a framework within which industry and government can address key issues impairing market access for Australia's agri-food industry as well as discussing

broader trade policy issues and their effect on the industry (such as APEC). More specifically, the committee advises on priorities for bilateral negotiations and develop coordinated strategies with industry to achieve market access objectives. It also seeks to identify issues of specific interest to firms where new access was expected to deliver very significant growth opportunities, and where firms establish their commitment and capacity to deliver on the access once won.

The PFMAC has developed an information brochure and, after the conclusion of the Uruguay Round, conducted a series of nationwide seminars. These seminars discussed the Uruguay Round outcome and the ongoing role of the PFMAC in developing the partnership between industry and government to address market access issues. This information was particularly targeted at SMEs.

The International Trade Enhancement Scheme (ITES) provides loans up to \$5 million to match company commitments to export market development activities. The scheme aims to enhance and accelerate company activities or projects which have the potential to contribute substantially to net foreign exchange earnings. The change announced in the strategy was to take more account of the longer term payoffs of such investments. This was aimed at facilitating greater access to the maximum loan amount available for large agri-food companies.

To facilitate greater internationalisation of the agri-food industries the statement also announced that the government would accord the food processing industry priority under the Investment Promotion Program. This program was set up in 1987 to promote direct overseas investment in the Australian manufacturing and service industries. In addition a special food adviser was set up by Austrade to facilitate investment in the food industry, develop a database of companies seeking investment and strengthen linkages with the financial markets.

Clean Food Export Program

The Clean Food Export Program (CFEP) was announced in July 1992 with the objective of to promoting exports of Australian foods by associating them with production in a clean environment. A pilot program was launched in Taiwan in December 1993. At the same time Clean Food Marketing Australia Limited (CFMA) was established as a public company to manage the CFEP. CFMA is jointly owned by the federal government, the National Farmers' Federation and the Grocery Manufacturers of Australia.

Since its establishment, the main focus of the CFEP has been the implementation of the program in Taiwan. As at June 1995 there were 18 Australian food organisations participating in the program as licensees, covering around 80 per cent of Australia's food exports to Taiwan (CFMA 1995). Recently the program has been extended to Indonesia and it is planned to extend the program to Hong Kong in 1996.

The Clean Food Export Program has received more funds than any other program under the Agri-Food Strategy. The federal government provided \$3.7 million over the period 1992-93 to 1994-95 and a further \$2 million was provided in the 1995-96 Budget. The government funding is conditional on matching funding from industry. To June 1996, the licensees will have committed \$4.9 million in total expenditure (CFMA submission). Included in the licensees' contribution are annual licence fees, which have been established in Taiwan as \$20 000 per annum for established companies and \$5 000 for emerging companies. The licence fees and the profit margins on the supply of marketing services go towards the administrative costs of the program.

3.3.2 Efficiency improvements

Microeconomic reform

The BIE is currently undertaking a four year project to monitor the impact of microeconomic reform at the firm and industry level. The project was initiated in the then government's May 1994 White Paper, *Working Nation*. An element of the project is a case study of the agri-food and related industries.

The Agri-Food Council endorsed the BIE's case study and set up a steering group to advise the BIE on some key aspects of the study. Through the work of the steering group, a number of firms in the agri-food industry have provided financial support for the study (in addition to the funding provided by DIST). This support has enabled coverage of the agri-food and related industries to be more extensive than would have been otherwise possible.

The study is designed to determine the impact of the program of government initiatives known as microeconomic reform on the agri-food and related industries. The depth of knowledge about the impact of microeconomic reform at an industry or firm level has extended little beyond anecdotal experiences of individual firms, including those within the agri-food industry. The case study by the BIE will help address this information gap. The study will also highlight agri-food firms' views about areas in need of further reform.

Progress reports on the agri-food case study were presented to the Agri-Food Council in June and November 1995. The final report was released in June 1996.¹²

Workplace reform and training

Workplace reform and training is an important element of the Agri-Food Strategy. The principal components of this element, the Memorandum of Understanding on Workplace Reform for the Australian processed food industry (MOU) and the Food Industry Language

¹² As *Micro Reform — Impacts on Firms: Agri-food case study* (BIE 1996a).



and Literacy Initiative Program (FILLIP), were announced as part of the original agri-food industries statement in July 1992.

The MOU, launched in early 1993, was developed jointly by food processing industry employers and unions, through the Agri-Food Council. It was designed to serve as a catalyst for workplace reform in the industry and provide a framework for enterprise productivity negotiations. The MOU currently has 93 signatories, including all major food industry unions, industry associations and 75 food enterprises. A project for training internal facilitators to drive the implementation of the MOU within particular enterprises has also been funded by the Commonwealth.

The Department of Industrial Relations has been involved in the MOU process from early on — participating in the working group which developed the MOU. The department has also:

- promoted the MOU through promotional material and seminars;
- encouraged networking of MOU signatories; and
- funded projects in the food industry which support the strategy and MOU.

FILLIP is a \$3.75 million four year program to support and accelerate workplace reform in the Australian processed food industry. Support is given in the form of funding for basic workplace language, literacy and numeracy training for food workers to enable them to participate in future workplace reform activities. While the focus of FILLIP is training to support the skills development of the workforce, the overall strategy is to build training and the better literacy and technical skills of employees into the economic goals of the enterprise. FILLIP funding is dependent upon participating companies signing the MOU.

FILLIP was initially delivered by DIST, but later contracted to the National Food Industry Training Council (NFITC).¹³ In the first two rounds (of four) nearly 4000 processed food workers in 55 enterprises have been assisted by FILLIP. Most round three projects are due for completion in May 1996.

In the July 1992 statement, \$500 000 was also allocated to be spent on a benchmarking program to establish and disseminate information on international best practice in key sub-sectors of the food processing industry. In the event only \$215 000 of the funding was used for benchmarking. Around \$65 000 was used for promotional material for the MOU and the balance used for funding other Agri-Food Council sponsored initiatives.

Five projects were funded under the benchmarking program. Two projects were funded in the wine industry, benchmarking distribution of wine exports and product labelling. Two projects used international comparisons, one for pig meat processing and the other

¹³ NFITC is a federal government council under the auspices of the Australian National Training Authority, which is responsible to the Minister for Employment, Education Training and Youth Affairs.

production of non-dairy baby food. The fifth project looked at the supply of tallow and vegetable oil inputs.

Regulatory reform

Regulation is an important issue for the food industry and changes can affect the competitiveness of firms (both positively and negatively).

There is some indication that regulatory reform in recent times has had positive impacts. The BIE's microeconomic reform survey of the agri-food industry asked firms to rank the most important positive and negative microeconomic reforms from the perspective of the impact on their competitiveness since mid-1989. Food standards and regulations ranked as the third most important positive reform, following telecommunications and industrial relations (BIE 1996a).

The initial agri-food industries statement announced that the National Food Authority (NFA) was to be provided with additional resources to enable it to deal with the backlog of standards and to undertake a major policy review of food regulation. However, food regulation was not listed as one of the Agri-Food Council's priorities. The council nonetheless recognised the importance of this issue, in particular concerns about the operation of the main Commonwealth regulatory agencies, the Australian Quarantine and Inspection Service (AQIS) and the NFA.

In early-1993 the Agri-Food Council established a working group to examine the impact of regulatory regimes affecting Australian agri-food industries on the export effort, including reference to the regimes of AQIS and the NFA. The objective was to ensure that they be supportive as possible of that effort. The working group commissioned ACIL Economics and Policy Consultants to report on possible steps to improve the function of AQIS and the NFA (in response to concerns about their operation). While available publicly, the report appears to have only been used for internal consumption. *Taking Stock*, the mid-term report of the Agri-Food Strategy, notes that the consultant's report '...has provided a useful analytical framework for progressing reforms currently underway in these areas' (DIST 1994a).

The council has regularly discussed the food regulation issue, and has voiced industry's concerns through the representations of members (including the chairs) to relevant ministers and agencies. Issues discussed include:

- NFA: policy review, harmonisation with New Zealand, country of origin labelling; and
- AQIS: reform, charging issue, contestability in service delivery.

Transport and distribution

The issue of transport and distribution, in particular air freight, was brought to the council's attention by the council secretariat in late 1993, following representations from industry. Concern had been expressed over restrictions to access of air freight for perishable goods export. Major complaints included the perceived lack of sufficient air freight capacity (particularly in peak season times), high freight rates, poor handling procedures and insufficient cool storage facilities at airports which adversely affected the export of perishable goods.

The Agri-Food Council formed a working group to look at improving air freight for perishable goods. The council secretariat then discussed the issue with a number of stakeholders in order to canvass relevant issues and opinions. The consultations revealed continuing concern (chiefly by horticulture producers about air freight), but conflicting views from other industry stakeholders on possible solutions. A meeting was subsequently set up with stakeholders to clarify the issues and decide on further action.

In late-1994 the council brought together representatives of key stakeholders in the chain including airlines, freight forwarders, producers/growers, regulatory agencies and state and federal agencies. The purpose was to discuss the issues, identify the key impediments and develop practical means which could help overcome them. A small industry air freight working group, comprising members drawn from that meeting was established and, in conjunction with the secretariat, developed an industry code in close consultation with industry.

The industry code of best practice for the air freight export of perishable goods was launched at the 10th Agri-Food Council meeting in November 1995. The overall objective of the code is to engender a commitment to greater cooperation and coordination of effort in the air freight export of perishable good chain. Under the code parties agree to work cooperatively to implement the principles of the code.

A small interdepartmental group was also formed to examine the feasibility of establishing a National Air Freight Export Council to coordinate an industry wide approach to air freight exports of perishables. The working group concluded that there was some support for the concept of a council. However, support for establishment of a council was not strong enough to make it viable at that stage and the working group agreed to consider the issue further at a later date.

Subsequently, the issue was taken up by another working group which was established in October 1995 by the then Prime Minister to examine impediments to the export of perishable products. This working group recommended the establishment of a National Export Freight Strategy Group which would bring industry players together to collectively address key impediments.

Packaging

There are high levels of interdependency between the food processing and packaging industries. The food and beverage industry is the largest user of packaging in Australia, accounting for around \$3.9 billion or nearly 70 per cent of its output. The size of the packaging industry in Australia is estimated at around \$5.6 billion (BIS Shrapnel 1995, as quoted in IC 1995b).

The only packaging initiative in the July 1992 agri-food industries statement related to new and extended Policy (By-law) Items. The new Policy (By-law) Item allowed the duty free importation of metal material for packaging food which have particular performance advantages and cannot be obtained locally. The introduction of this policy item complemented arrangements introduced earlier in the year which allowed duty free access to paper and plastic packaging materials where similar circumstances apply. In addition, an existing Policy (By-law) item covering goods designed for use in the agricultural industry was extended to the food processing industry. This was to facilitate greater duty free access to processing and packaging equipment for the downstream industry.

Notwithstanding these measures, there was still industry concern about the cost of local supplies and its impact on international competitiveness. One of the problems was the traditionally adversarial relationship between packaging suppliers and users. Consequently the Agri-Food Council set up a packaging working group — in early 1994 — to facilitate closer cooperation and communication between packaging and food companies. The working group consisted of three major packagers, four major food companies and the Australian Horticultural Corporation.

The packaging working group conducted a survey of major processed food company CEOs, with the aim of establishing the nature and extent of problems between the food and packaging industries (and to test ideas for achieving improvements). The key issues were considered to be price, performance and innovation. The survey, conducted by mail, was supplemented by a series of interviews conducted by Price Waterhouse and DIST. The response rate to the survey was high, with around 70 per cent of firms responding (out of 55 firms). The results of the project were presented to the council in June 1995.

The report highlighted a number of issues which warranted attention. A key area for possible involvement of the Agri-Food Council was to highlight the mutual benefits to stakeholders of working more closely together to address issues raised in the report.

Following on from the survey, the packaging working group stated its intentions to:

- produce best practice case studies aimed at assisting food companies achieve better packaging outcomes;
- present regional seminars to publicise the messages highlighted in the case studies;
- prepare a statement outlining market access problems faced by working group members reinforcing and encouraging the work of the council; and

- investigate the potential to coordinate packaging standards through APEC.

The secretariat also intended to produce a summary of the tariffs affecting packaging and packaging inputs, and by-law entry available for selected packaging materials and equipment.

3.3.3 Industry integration

Food Quality Program

The Food Quality Program, announced in May 1994, was apparently established in response to growing concerns that a competitive and self-responsible approach to quality is necessary if the Australian food industry is to maintain its competitive advantage and achieve its export targets.

The program provides \$6 million over three years — from 1994-95 to 1996-97 — to accelerate the uptake of formal quality assurance and a quality management culture in the food industry. Funding is provided to partly subsidise *groups* of enterprises based on commodity sectors, regional networks and processor and retailer supply chains. The program is specifically concerned with fostering through-chain linkages in the assurance of food quality and complements other commonwealth programs funding quality uptake by individual enterprises.

The program assists groups of enterprises in developing quality strategies particular to their needs, and adopting quality as a marketing tool and as a means to improved efficiency. Funds are directed to groups of firms for such common project resources as facilitators, diagnostic and technical consultancies, and training programs. Food Quality Program funds supplement the existing AusIndustry funds which subsidise the installation of Quality Assurance programs in individual enterprises.

The program also has a clear and advantageous objective to create demonstration projects capable of heightening industry awareness of the benefits of quality assurance systems. All sectors of the food industry and food chain, including growing, processing, storage, and transport and distribution are eligible. While the program is directed at the export sector, it has the capacity to also assist domestic retail chains proposing projects with significant spin-offs to the export sector.

The government (through the Food Quality Program) also commissioned an international benchmarking study to identify key quality issues in relation to industry export competitiveness and provide benchmarks against which industry could assess itself. The study comprised three components:

- a survey of the uptake of quality systems in enterprises in all sectors of the Australian agri-food industry;

- a review of supermarket and industrial buyers in nine Asian countries to ascertain how they define quality and rate Australian foods against this, in comparison with those of select competitors — the USA, Canada, New Zealand, France, the Netherlands, and Chile; and
- a review of three Asian markets to gain insights into future trends in food regulation, as these may impact on trends towards quality assurance in the Australian industry.

Overall the study found Australia's key competitors were increasing their level of uptake and implementation of quality standards and confirmed the adoption of a customer focus to quality management was crucial to success. It also reported that those Australian firms with customer-focused through-chain quality programs have experienced greater than 25 per cent export sales growth over the last five years.

Grower-processor linkages

The issue of grower-processor linkages was on the Agri-Food Council's agenda from the beginning. Over the course of the first few council meetings, the council set out to identify particular agri-food industries, on a regional basis as appropriate, where industry development was being impeded by poor relationships between growers and processors. A further requirement was that all the players were willing to invite in a suitably respected and independent mediator/facilitator.

Initial consideration was given to the barley industry, where it was recognised that efficiency gains were needed if the end product was to successfully retain or increase market share in export markets. However, in early 1993 the Grains Council of Australia established a Malting Barley Strategic Planning Unit to address these issues, and the Agri-Food Council decided there was no need for its involvement.

The council subsequently decided to proceed with three linkages projects: the Tasmanian potato industry, the Goulburn Valley (Victoria) deciduous fruits industry, and the Queensland pineapple industry. These projects are described in detail in appendix 4.

The chosen Agri-Food Council model involves establishing a local steering group for each project, chaired by a council member or senior council representative, with membership drawn from all levels of the industry's value-adding chain. The selected practical case studies were to be used by the council to communicate the main principles of improved grower-processor linkages throughout the agri-food sector.

The formal mechanism for raising new grower-processor linkages projects is through the Agri-Food Council. Through 1995, several state government departments informally expressed interest to the Agri-Food Council secretariat in initiating or expanding council linkages projects in their own regions. No action has been taken pending completion of this evaluation.

Networking program

As part of its efforts to encourage linkages and industry integration, the Agri-Food Strategy provided for a networking program for SMEs. The program built on a trial networking project by the National Industries Extension Service, aimed at creating improved horizontal linkages between food processors.

The Food Industries Networking for Asia Export Program (FINA) is aimed at promoting the growth of successful SME networks exporting into Asia. The program targets enterprises wanting to establish export markets in Asia but who are hampered by their small size and limited resources. Funding is utilised to employ experienced network facilitators to develop and support networks.

SMEs involved in manufacturing, processing, or marketing of high value-added processed food or beverages are eligible to apply for funding. Facilitators are also able to apply on behalf of enterprises concerned. Applications are called for annually and are assessed on the following criteria:

- cohesion of, and commitment to, the network by all members;
- export focus of the network;
- extent of value-adding proposed;
- financial viability of individual network members; and
- financial soundness of the proposal, including the level of contributions pledged by members.

Under the FINA program, nine food networks involving growers, processors and distributors have been established nationally. This has involved cooperation and strategic alliances between nearly 100 participating parties.

3.3.4 Innovation

Innovation is an important factor which drives long-term industry competitiveness and high value-added production. However, there are widespread perceptions that the food processing industry's performance in this area has been less than impressive. This perception is partly based on the fact that Food, beverage and tobacco firms spent only 1.0 per cent of value added production on research and development in 1993-94, compared with 2.5 per cent of value added for manufacturing.¹⁴

The agri-food industries statement announced a number of initiatives to encourage increased investment in R&D and improve the effectiveness of existing innovation and

¹⁴ ABS Catalogues 8114.0 and 5206.0. Note however that comparisons of this kind have only some relevance to the issue of whether R&D in a particular industry is sub-optimal. After all, taken to an extreme the argument would suggest that all industries should pursue identical R&D intensities.

R&D activities. Firstly, the Agri-Food Council was charged with developing options for a new Technology and Innovation Association for the food processing industry. The aim of the association was to generate strategic clusters of companies to undertake pre-competitive innovation projects — related to both food products and processing technologies. Subsequently, the council would assess industry support for using such an association. Another initiative was to develop a guideline to clarify application of the 150 per cent tax deduction for R&D for food companies.

At its second meeting (November 1992) the Agri-Food Council established an innovation working group to look at the issue of innovation in the food industry in more detail. The working group, through consultation with key stakeholders, decided that a new Technology and Innovation Association would not be appropriate at that time. Instead it identified five food research priorities, and identified food technology clusters as a means of better coordinating the interaction between industry and public sector research.

The technology cluster concept developed by the council was taken up by the Victorian government and the first food technology cluster, the Australian Food Industry Science Centre, was established in Werribee (Victoria) in October 1994. The centre's focus is on advanced manufacturing technologies, one of the five key areas identified by the innovation working group. The centre was intended to provide a national research facility and support for advanced studies and applied research in food technology. The Victorian government provided the bulk of the funding (\$13 million) for the centre, with the federal government contributing \$1 million. The federal government funding was provided under the program for the development and application of technology in industry launched in the May 1994 White Paper *Working Nation*. Industry also contributes, through paying for using the centre.

The intention to produce a 150 per cent R&D tax concession guideline was announced by the government in its July 1992 statement launching the Agri-Food Strategy. It was believed that uncertainty as to eligibility had constrained the agri-food industry's use of the concession. DIST developed the guideline in consultation with Coopers and Lybrand and other stakeholders (including the council).

The guideline clarified the application of the 150 per cent tax concession to product testing and modification in the agri-food industry and was launched at a series of seminars in each state during the second half of 1993. The seminars involved tax consultants and senior industrialists making presentations on the use of the concession to food industry audiences.

In August 1995 the Australian Food Science and Technology Forum was established by the Agri-Food Council. The forum, established with the support of industry and research providers, intends to provide a strategic direction for food education and research. Mr John Claringbould, a council member, is the convenor of the forum. Funding of \$100 000 has been provided from DIST (out of the \$300 000 allocated for a technology and innovation association in the original statement).

3.4 Resourcing the strategy

3.4.1 Funding of strategy components and administrative support

The Agri-Food Strategy was provided with funding of \$12.7 million over 4 years (see box 3.4 for key funding initiatives). In addition, the *One Nation Statement* in May 1994 included \$1 million for the establishment of the Australian Food Industry Science Centre, and funding for the Food Quality Program of \$6 million over three years commencing in 1995-96. A further \$2 million was provided for the clean food program in the 1995-96 Budget.

Table 3.2 presents the allocated funding and corresponding expenditure for the Agri-Food Strategy for the years 1992-93 to 1995-96 inclusive. It also includes funding for the Food Quality Program which was announced in 1994.

Box 3.4 Key funding initiatives in 1992 strategy announcement

- Up to \$5 million to promote Australian fresh and processed food in Asia (\$3.7 million provided);
- a \$3.75 million language and literacy training program ;
- an \$800 000 networking program bringing food processing companies, their suppliers and marketers together ;
- \$500 000 to fund a workplace reform benchmarking program aimed at establishing and disseminating information on international best practice; and
- a Council Secretariat jointly funded by the then Department of Industry Science and Technology and the Department of Primary Industries and Energy.

The main area where funding has exceeded actual expenditure appears to be running the Agri-Food Council (by around \$250 000). It could be argued however that a number of the initiatives pursued without any explicit funding, could fall under the banner of 'Agri-Food Council' work. Areas where no explicit funding was provided in the statement in 1992, but where work has been undertaken, include packaging and microeconomic reform.

The direct cost of running each Agri-Food Council meeting appears to vary markedly — with members' expenses the element that fluctuates the most. The direct costs of providing the meetings averages around \$8 500 and with approximately three meetings per year the annual cost is around \$25 500.

Table 3.2 Agri-Food Strategy: funding and expenditure, 1992-93 to 1995-96

	<i>Programs</i>		<i>Running costs</i>		<i>Total</i>		<i>Diff^a</i>
	<i>Funding</i>	<i>Expend.</i>	<i>Funding</i>	<i>Expend.</i>	<i>Funding</i>	<i>Expend.</i>	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
DIST							
Networking	560	540	240	95	800	635	165
Policy By-Laws			200	0	200	0	200
Workplace ref. & training	3 750	4 062	500	330	4 250	4 392	-142
Innovation	300			220	300	220	80
Agri-Food Council			1 392 ^b	560	1 392	560	832
Microeconomic reform				120		120	-120
Packaging				160		160	-160
Clean food				95		95	-95
Investment				280		280	-280
Market access				235		235	-235
Linkages				95		95	-95
Regulation				535		535	-535
Quality ^c	3 600	3 600	420	420	4 020	4 020	0
DIST total	8 210	8 202	2 752	3 145	10 962	11 347	-385
DPIE							
Clean Food Export Program	5 616	5 616	84	250	5 700	5 866	166
Other running costs			578 ^d	412	578	412	-166
<i>grower-processor</i>				100			
<i>linkages projects</i>							
<i>Other</i>				312			
DPIE total	5 616	5 616	662	662	6 278	6 278	0
Total	13 826	13 818	3 414	3 807	17 240	17 625	-385

a Difference between original allocation and actual expenditure. Positive indicates an underspend, negative indicates an overspend. **b** DIST was allocated \$810 000 for council running costs, but subsequently received \$581 600 from DPIE as a contribution to the running costs of the council. DPIE was provided with running costs for the council and other activities of \$1.16 million, and transferred \$581 600 to DIST (leaving \$578 400). **c** The Food Quality Program, announced in 1994, is funded to the tune of \$6 million. However, only \$3.6 million of these funds had been allocated to June 1996.

Source: Agri-Food Council Secretariat.

4 Appropriateness of the Agri-Food Strategy

We examine appropriateness issues in this chapter from five main perspectives:

- first, we consider the economic rationale for the components comprising the Agri-Food Strategy (section 4.1). What are the possible economic justifications for government assistance to industry and how well do the strategy elements meet these criteria?
- second, we assess the appropriateness of strategy objectives within the context of relevant government policy objectives (section 4.2). Are the objectives of the strategy programs and initiatives consistent with industry, trade and innovation policy objectives?
- third, we examine the role of the strategy elements in relation to other programs aimed at creating internationally competitive industries (section 4.3). How well do strategy programs and initiatives complement or duplicate other government programs?
- fourth, we consider the rationale for the Agri-Food Strategy as a ‘strategy’ (section 4.4). The strategy consists of a suite of programs and other elements which are tested for their appropriateness in the first three parts to the chapter — but what is the rationale for banding these together as a food industry strategy? and
- fifth, we briefly measure the Agri-Food Strategy programs against the principles of program design as stated in the Burgess Review (section 4.5).

Finally, we conclude the chapter with an overall assessment of appropriateness (section 4.6).

4.1 Rationale for the Agri-Food Strategy programs and initiatives

The aim of the discussion under section 4.1.1 is to explore the possible economic justifications for government intervention in the agri-food industry. The following section (4.1.2) assesses how the strategy programs and initiatives measure up against these economic criteria.

We emphasise that section 4.1.2 focuses on the question of whether the *necessary* conditions exist for government intervention through the elements comprising the Agri-Food Strategy. The final word on the economic appropriateness of the strategy programs and initiatives cannot be answered until we assess their effectiveness in chapter 5.

We should also note that economic appropriateness is rarely a stringent test of a program because the information to rigorously test the relevance of any of the large group of possible rationale is often not available. For example, X-inefficiency in firms is a rationale for many types of enterprise improvement programs — but we do not usually have the rich information required on the exact nature, extent, or life of any particular form of inefficiency that a particular program is trying to alleviate. We can only say in these cases that there are *potential* grounds for intervention, and in our examination of effectiveness see if there is objective detailed evidence of increases in efficiency. However, just the attempt to define the potential rationale for a program is useful in an evaluation by helping to pose sharper questions.

4.1.1 Economic justification for government intervention

There are three things wrong with the world from an industrial economist's point of view. These relate to infrastructure, firms and markets.¹⁵

First, the environment in which firms operate is not perfect. Both tangible infrastructure (for example, roads, harbour facilities, telecommunications) and intangible infrastructure (for example, skills in the workforce, intellectual property protection, commercial law, industrial relations institutions, competition policy) can be poor. There can also be confusing standards, seemingly senseless regulations and onerous tariffs and charges.

Second, not all firms are perfect. While many economic models *assume* that all firms are perfectly efficient and knowing, casual observation, common sense and increasing empirical evidence suggests that in any industry there is a continuum of performance among firms from bad to good. For example, the recent Australian Manufacturing Council (AMC) (1994b) research on best-practice firms in Australia and New Zealand found a large group of under-performing firms. Similarly, Karpin (1995) reported on the low quality of management practice in Australian firms. Some of the motivation for increasing competitive forces in the Australian economy over the last two decades has stemmed from a desire to increase incentives for efficiency within firms.¹⁶

If bad firms died quickly and without large structural costs then such inefficiency might not matter much. But poor firms take some time to exit. As well, many good firms do not

¹⁵ There are other rationales for government interventions (such as equity considerations). We are focusing here on the rationales for industry assistance from an efficiency perspective.

¹⁶ In the international context, there is a burgeoning literature on variations in allocative and technical efficiency in individual firms — particularly utilities.

spring up spontaneously. They ‘learn’ to be good — from their own experiences, from other firms, and, *sometimes*, from government. Wiping out today’s ‘bad’ firms might therefore eliminate next decade’s good performers. In any case, even good firms may use simple but sub-optimal rules of thumb for some aspects of their business. These simple rules of thumb may mean they make mistakes relative to a situation when they have fuller information or use better operating procedures.

Third, markets are not always perfect. Information flows are sometimes weak, some insurance and other markets may never develop and firms may not face all the costs (for example, pollution, industrial accidents) or benefits (for example, innovation spillovers) of their actions.

In practice, most industry development programs tend to tackle information deficiencies and spillovers. In the case of the former, firms do not always operate at best practice because they have deficient access to, or valuation of, information. In addition, markets may not develop to provide the information needed. In this case, governments *may* have a role in providing information or demonstrating the benefits of particular industry practices. For example, governments can indirectly support firm learning by subsidising or encouraging business activities that generate knowledge for firms, but whose benefits firms underestimate. These activities might include exporting, innovation, benchmarking and inter-firm linkages. And because firms are not islands, but are connected to one another via a web of transactions, other firms can also benefit from the knowledge learned by a single firm.

Spillovers occur when a firm’s actions affect other firms and individuals that are not directly involved in the activity. Spillovers are therefore any benefit or cost not appropriated by the firm. Most industry programs focus on beneficial spillovers, usually in the form of knowledge and know-how — which is, over time, spread beyond those responsible for it. Innovation is a classic example. A firm might invest resources in an innovation, only to find other firms copying the idea. The firm may fail to invest in such innovation unless it can capture most of the benefits. Governments are concerned with spillovers because positive spillovers add to Australia’s welfare by enhancing the efficiency of industry and the welfare of domestic consumers.

The imperfect functioning of firms, markets or infrastructure may justify the intervention of governments to try and achieve a more optimal outcome. We emphasise though that while existence of any of these imperfections is a *necessary* condition for government intervention (on economic grounds) it is not a *sufficient* one. It may be hard to leave alone something which is transparently sub-optimal — but that is just what is in order if the costs of solving the problem exceed the benefits.

Effective industry programs target *identified* problems within business operations and markets which may be *cost-effectively* solved by the government. In other words, policy makers should be sceptical before rushing to fix apparent problems in the market. The market, for all its limitations, does nevertheless organise a huge number of complex

transactions and information exchanges between its players. We have to be *sure* the government can do better.

4.1.2 Are the strategy programs and initiatives economically appropriate?

At the outset we should note that the extent of government intervention for the majority of the Agri-Food Strategy elements is relatively insignificant. It is largely a case of the Agri-Food Council examining issues, providing advice and working behind the scenes to encourage common industry purpose and remove impediments to competitiveness.

In other words, ‘government intervention’ is essentially limited to bureaucratic back-up processes. This is not to say that the government’s involvement should not still pass some form of appropriateness test. However, we need to keep in mind the nature and degree of the involvement when considering appropriateness.

On the other hand, some elements of the strategy involve commonwealth-funded and administered *programs*. With these there is a stronger case for being relatively more concerned about their appropriateness — the programs involve a more systematic approach to industry assistance and development. Moreover, they involve the lion’s share of Agri-Food Strategy funding — the four programs under the strategy umbrella have accounted for around 83 per cent of total strategy expenditure.¹⁷

We examined possible economic justifications for government involvement in *all* of the strategy components. These are summarised in table 4.1 and discussed below.

Strategy programs

Both firm and market failures *may* weaken export marketing by food companies — providing a possible economic rationale for the **Clean Food Export Program** (CFEP). Many arguments are advanced in favour of export subsidies — most of these arguments adopt highly questionable macro economic objectives for such subsidies (such as relieving foreign debt burdens or current account deficits). However, in some industries or types of firm a case can be made for limited interventions on the basis of misperceptions and enduring and endemic inefficiencies within firms. Representatives of the industry suggested that many agri-food firms underestimated both their export potential and the importance of export markets in raising firm performance. They pointed to a ‘cultural

¹⁷ Another program, the ‘benchmarking program’, was also undertaken as part of the workplace reform and training initiatives. We have not included the costs of this program (\$330 000) in the 83 per cent share as it has not been evaluated in this study. See chapter 3 for details about resourcing the strategy.

problem' in the industry which may have weakened export orientation.¹⁸ Export markets are typically more difficult than domestic ones — involving more organisational skills by firms, often very demanding customers, and new financial instruments (such as exchange rate hedging, specialised insurance etc). As such, export markets often provide a better learning

Table 4.1 Possible economic justification for Agri-Food Strategy programs and initiatives

	<i>Firm failures</i>	<i>Market failures</i>	<i>Infrastructure failures</i>
<i>Programs</i>			
CFEP	✓	✓	
Food Quality	✓	✓	
FILLIP			✓
FINA	✓	✓	
<i>Other initiatives</i>			
PFMAC			✓
Grower-processor links	✓	✓	
Innovation aspects	✓	✓	
MOU			✓
Regulatory reform			✓
Air freight code		✓	
Packaging		✓	

environment for firms. Limited and temporary government incentives to export may overcome firms' information deficiencies or cultural norms.

It is also possible that the generic branding of Australian food products will bring wider benefits to other Australian companies not directly involved with the clean food program. That is, the enhanced reputation of Australian food products will provide spillover benefits. In effect, other firms will be able to realise higher prices or greater market share for their products because of the export promotion of Australian goods. This 'free rider' possibility may inhibit firms being involved in such a program without government assistance. Furthermore, the transaction costs of negotiating a possible cooperative agreement between

¹⁸ The term 'cultural problem' is unsatisfyingly vague — we interpret it to mean a set of satisficing, sub-optimal business behaviours stemming from weakened incentives for technical and allocative efficiency.

the large number of firms who might benefit from a collaborative marketing program are likely to be high. This leaves the possibility for the government to act as a cheaper coordinator.

The **Food Quality Program** may also involve firm and market failures. The imperfect functioning of firms may often include insufficient regard by management to quality outcomes. Quality is an increasingly important aspect of international competitiveness, particularly so with high value-added goods. Firms will usually rate quality as an important attribute but may sometimes lack credible information to enhance their own performance. Similarly, firms may also lack credible information about forming links with others in the food value chain. We cannot assume they will always know what benefits to expect (or what costs they may face).

There may also be grounds for government support of the type of inter-firm cooperation in the Food Quality Program because of possible spillovers. It appears to be a fairly novel program and if it succeeds the demonstration of its benefits will become a public good which cannot be appropriated by the participating firms. But again such arrangements may be difficult (and costly) to coordinate and establish without government assistance.

The networking program, **FINA**, has much in common with the rationale for the Food Quality program, but also has other attributes. There is evidence that firms can significantly improve their performance through networks, but many firms are unaware of these benefits or have social norms ill-suited to cooperation (BIE 1995). The government can help firms to operate closer to best practice by providing credible information. Networking also tends to produce spillovers, particularly in knowledge and quality improvements. As with the inter-firm cooperation aspects of the Food Quality Program, these provide good grounds for government support. A further justification for the FINA program could be its specific emphasis on export markets and the potential for participating firms to become more productive through the export learning experience.

FILLIP is an industry-wide program. The focus of FILLIP is training to support the skills development of workers in the food processing industry. Training may be lower than socially desirable for a variety of reasons. These include stipulations on wage levels of training workers, high labour turnover, spillovers from training, and ignorance of the returns from training by firms or workers. This provides a rationale for interventions to lift skill levels. A skilled workforce will respond better to changing technology and other industry developments.

Other strategy initiatives

Innovation (including R&D) is fundamentally based on tacit and codified knowledge. Knowledge — whether it be in the form of software, formulas, processes or products — often has two attributes that can lead to sub-optimal investment:

- non-excludability. Other firms can copy or use the innovation without the consent of the innovator. Reverse engineering, simple observation and mimicry, and movement of technologically able staff all allow knowledge to produce benefits which cannot be appropriated by the innovator. In this case, some R&D which is socially valuable may not go ahead; and
- non-rivalrous consumption. Most goods are depletable — from ice cream to aeroplanes — but some, like formulas, cannot be exhausted by use. The community maximises the value of knowledge when its non-rivalrous nature is fully exploited. That is, ideally non-rivalrous goods should be readily available.

As well, firms may make sub-optimal investments in R&D because: they use simple rules of thumb for such ‘peripheral’ investment decisions; have social norms opposed to innovation; are unaware of the rates of return on intangible investments like R&D; are simply under-performing; or are operating in non-competitive market structures. For example, it has oft been stated that Australian firms did not develop an ‘innovative culture’ because of the stultifying effects of made-to-measure import barrier protection. Even when the barriers have been removed, it can take some time for a new culture to develop.

There are three major innovation initiatives included under the strategy umbrella — the 150 per cent R&D guideline, the Australian Food Industry Science Centre and the Australian Food Science and Technology Forum. The three strategy initiatives are focused on different aspects of the innovation process. The guideline is clearly aimed at getting more R&D undertaken and strengthening the generation of ideas. The science centre is about providing the impetus to commercialise and use new ideas, while the forum is seeking to provide a strategic direction for food R&D and to assist in creating an innovative environment. In view of their objectives, all could *potentially* appeal to market or firm failures.

The **grower-processor linkages** initiative is about industry integration and encouraging best practice. Its economic rationale is therefore much the same as the Food Quality Program (and FINA). The main justification for government involvement appears to be in providing a facilitative role in bringing various parts of the marketing chain together. The government can help farmers and firms to operate closer to best practice by helping to encourage strong information flows. Industry cooperation of this nature can also produce spillovers, particularly in knowledge and quality improvements.

Three of the other strategy initiatives have their basis in the imperfect functioning of infrastructure. The objective of the **MOU** is to improve workplace flexibility through encouraging workplace change and enterprise bargaining. The overall objective is to produce an environment which will raise industry productivity.

Similarly, **regulatory reform** has a clear economic justification. Government regulations can have a deleterious impact on firms’ working environment. There is a strong case for governments to continuously monitor both individual regulations and regulatory bodies — to try and minimise the adverse impact of any necessary regulatory functions on the operations and performance of firms in the food industry.

The **Processed Food Market Access Committee** aims to improve the business environment for food firms by providing a framework within which industry and government can address key issues impairing market access. It is focused on identifying and removing barriers to overseas markets. This is clearly an appropriate economic role for a government body.

The strategy's **packaging** initiative has some justification because of market failure elements. Packaging is a significant cost factor for many food processing firms — accordingly, any inefficiencies in their relationships with packaging firms can flow through to the international competitiveness of their own products. The government can possibly help both food and packaging firms to operate nearer to best practice by encouraging closer working relationships. They can do this by providing credible information about forming links or by more actively facilitating cooperation.

The **air transport best practice code for perishable goods** can be justified on market failure grounds. Specifically, it is aimed at correcting the weak information flows between growers and air freight suppliers that contributed to the particular problems which were arising in moving fresh produce to export markets.

4.2 Appropriateness of strategy objectives within the context of relevant government policy objectives

A further test of the appropriateness of the Agri-Food Strategy programs and initiatives relates to the relevance of their objectives vis-a-vis government policy objectives. Specifically, the terms of reference require the evaluation team to 'examine the appropriateness of the strategy's objectives within the context of relevant industry, trade and innovation policy objectives'. We note though the different character of this test from that of economic appropriateness. It is a test of *consistency* with stated policies — and not necessarily a test of whether a program has the potential to be welfare enhancing or not.

We approach this task by first briefly examining recent trade and industry policy objectives. We then assess the appropriateness of both the overall strategy objectives and the objectives of individual strategy components within this context.

4.2.1 Industry, trade and innovation policy objectives

From the mid-1980s there was a shift in Australian industry policy away from protection towards removing impediments to industry development. Industry policy in the 1990s has emphasised:

- institutional and regulatory and other microeconomic reform (such as GBE reforms);
- accentuation of competitive forces (embodied in the elimination of quotas and reductions in tariffs, and a willingness to attract foreign direct investment);

- measures to encourage innovation;
- promotion of increased export orientation in firms, with a particular accent on extending Australia's comparative advantages in the production of raw materials to further processing; and
- measures to improve the efficiency of firms (embodied in programs such as NIES, the Business Networking Program and the Best Practice Demonstration Program).

Innovation policy, partly subsumed under industry policy, has had a number of consistent features over this period:

- a generic set of incentives for firms to be more innovative (such as the 150 per cent R&D tax concession);
- substantial investment by government in publicly owned and directed research infrastructure (such as CSIRO and the Australian Nuclear Science and Technology Organisation) — particularly directed at so-called 'public good' research;
- a variety of mechanisms for funding, and to a lesser extent, directing research in Australia's higher education institutions (such as the ARC);
- measures which try to improve linkages between the components of the system (such as the Cooperative Research Centres and various labour mobility measures); and
- large government commitments of funds for the training of scientists and engineers in tertiary institutions.

Trade policy has in part reflected the shift in industry policy — with greater emphasis on the benefits of intensified competition achieved through lowering of Australian import barriers and attempts to negotiate better access to overseas markets (especially in the Asian-Pacific region).

These policies tend to emphasise the freer operation of markets and limit explicit direction by government of the allocation of resources within industry (for example, by being sceptical of attempts to substantially shift patterns of comparative advantage, pick winners or to use regulatory measures).

We turn now to briefly assess the relevance of these objectives to the Agri-Food Strategy and its various components.

4.2.2 How relevant are the strategy objectives?

The Agri-Food Strategy is an industry development 'program' which aims to remove impediments and develop an efficient and profitable Australian food industry. Its specific objectives are:

- to engender a substantial improvement in the competitiveness and export performance of the Australian food industry; and

- to encourage added value and bring about a substantial increase in highly processed food exports.

These are broadly consistent with the objectives of contemporary industry and trade policy identified in the previous section. The fact that the Australian food industry is an industry where Australia has a clear comparative advantage — food accounts for 24 per cent of manufactured exports but only 4 per cent of total manufactured imports — suggests that the strategy is not aiming for a major re-alignment of Australia's existing patterns of comparative advantage.

Australia's competitiveness in primary food products has not flowed on to later stage processing due to a combination of factors. For example, many of the technologies and production processes employed by later stage processors are similar (or identical) to overseas competitors. Also Australian labour may be less productive than labour in competing countries. Together, this means that Australia's food manufactures, although price competitive in the early production stage, have not been sufficiently below world prices to offset Australia's comparatively high later-stage processing costs.

4.2.3 How relevant are the objectives of the strategy components?

We have found the overall Agri-Food Strategy objectives to be consistent with industry, innovation and trade policy objectives. But the strategy is made up of a suite of quite disparate components, some of which have been added over the years. It does not necessarily follow therefore that the objectives of all these individual programs and initiatives are also appropriate within the context of government policy objectives.

At the general level, all the strategy elements can be viewed as being consistent with the industry policy of encouraging manufactured exports. This is what they are all working towards. But the 'bottom line' objective of increased exports can be several steps away and therefore appear rather vague. We need to ask what are the more immediate rationales justifying the strategy programs and initiatives.

Table 4.2 attempts to match the objectives of each strategy component with relevant industry, innovation and trade policy objectives. Most of the strategy components are consistent with industry policy objectives of improving firms' capabilities or creating a more efficient microeconomic environment.

Three components are consistent with both industry and trade policy objectives. The Clean Food Export Program is an export promotion program with the aim of building on Australia's competitive advantage in food production. It is specifically aimed at developing export markets in Asia. The Processed Food Market Access Committee and the networking program (FINA) also have trade policy relevance.

Innovation policy has three specific matches with strategy component objectives. However, its reach could be extended to several other components if its wider objectives of overcoming inefficiencies and enhancing productivity are taken into account.¹⁹ The strategy components with industry integration objectives might all have an innovation element (through ‘speeding the adoption of new ideas’).

Table 4.2 Program/initiative objectives and policy objectives

<i>Program/initiative</i>	<i>Program/initiative objectives</i>	<i>Policy objectives</i>
Clean Food Export Program	Marketing Australian food products in Asia	Trade policy — developing export markets Industry policy — encouraging best practice
Food Quality Program	Quality assurance/quality management culture, industry integration	Trade policy — developing export markets Industry policy — encouraging best practice
Processed Food Market Access Committee	Market access for Australia’s agri-food products, identifying and removing trade barriers	Trade policy — trade support through bilateral negotiations Industry policy — export market access as part of industry development programs
Grower-processor linkages	Industry integration, best practice, improved product quality	Industry policy — encouraging best practice
FINA (networking program)	Industry integration, developing export markets	Trade policy — developing export markets Industry policy — increasing firm efficiencies
Guideline on 150% R&D tax concession	Increase industry uptake of the R&D concession	Innovation policy — strengthening the generation of ideas
Australian Food Industry Science Centre	Undertake applied research and pre-competitive innovation projects	Innovation policy — providing impetus to commercialise and use new ideas
Australian Food Science and Technology Forum	Provide a strategic direction for food education and research	Innovation policy — assisting in creating an innovative environment
Memorandum of Understanding	Workplace reform, improved productivity	Industry policy — creating a more efficient microeconomic environment
Language and literacy program	Workplace reform, improved productivity	Industry policy — creating a more efficient microeconomic environment
Air freight best practice code	Best practice, improved efficiency, industry integration	Industry policy — encouraging best practice

¹⁹ It is similar in this respect to industry policy and its broad manufactured exports objective.



Regulatory reform	Reduced compliance costs, improved efficiency	Industry policy — creating a more efficient microeconomic environment
Packaging	Reduced costs, industry integration	Industry policy — encouraging best practice

Overall, it appears that all the strategy components have objectives broadly consistent with relevant government policy objectives. However, this may not be a particularly surprising finding in view of the fairly wide criteria available. In addition, while we are able to say the strategy components have ‘appropriate’ objectives, we cannot say the various programs and initiatives are necessarily the *most* appropriate ways of addressing industry impediments. There may be more appropriate forms of government intervention available. We consider this issue further in the following section.

4.3 Role of the strategy elements vis-a-vis other government programs

4.3.1 Strategy elements and related federal government programs

Appropriateness can also be judged by comparing the strategy elements with other government programs aimed at creating internationally competitive industries. How well do strategy programs and initiatives complement other generic government programs? What evidence is there of overlap and duplication? Answers to these questions help to complete the appropriateness picture.

Firms we interviewed were generally uncertain about the degree of overlap between programs, although several noted that the potential clearly existed. Interestingly, another group of firms stated that to the extent programs did overlap or duplicate one another they were not over-concerned. Industry and grower associations also noted some duplication but again considered this relatively unimportant. One industry association believed some duplication was acceptable if this meant the food industry received more attention as a consequence.

There are a great deal of government programs aimed at creating internationally competitive manufacturing and processing industries. We were not able to systematically assess them all against the strategy components in the time allowed. Rather, we examined the more prominent programs relevant to the major component groups under the strategy umbrella (table 4.3).

There are several government programs with similar objectives to the **Clean Food Export Program**. They are similar in the sense of providing assistance for export marketing

activities. Both Export Market Development Grants (EMDG) and the International Trade Enhancement Scheme (ITES) provide financial assistance to help firms develop export markets. The Export Access program is more general in that it helps firms with all aspects of exporting, but more narrow in that it is available only to SMEs.

However, the Clean Food Export Program has several unique features which distinguish it from other programs. It does not just promote the products of individual firms. Its objective is to promote a general image of Australian fresh and processed foods, based on Australia's clean growing and processing environment. It also involves a significant degree of cooperation between the participating companies.



Table 4.3 Strategy elements and related government programs

<i>Strategy component</i>	<i>Related programs</i>
Clean Food Export Program	Export Market Development Grants (EMDG), Export Access, International Trade Enhancement Scheme (ITES)
Processed Food Market Access Committee	Export Barriers Reporting Scheme International Market Access Project (AQIS)
Food Quality Program	Business Growth through Quality, AusIndustry Enterprise Improvement Program (Quality)
Grower-processor projects	Food Quality Program
FINA	Business Networks Program
Innovation 150% R&D Guideline AFISC AFSTF	150% R&D Tax Concession, Concessional Loans for Commercialisation of Technological Innovation, ARC Collaborative Research Grants Scheme, Cooperative Research Centres, Competitive Grants for Research and Development
Workplace Reform and Training MOU FILLIP	Workplace Bargaining Program, Australian Best Practice Demonstration Program, Australian Centre for Best Practice, AusIndustry Enterprise Improvement Program (Workplace Issues), Workplace English Language and Literacy Program (WELL)

Overall, it is a program which is aimed at developing the exports of an entire industry rather than assisting firms on a case-by-case basis.²⁰ This is notwithstanding that most of the benefits from the program to date appear likely to have only really flowed to the firms actually involved in the program.

Some of the **Processed Food Market Access Committee (PFMAC)** functions appear similar to a generic government market assistance program, the Export Barriers Reporting Scheme (EBRS), which commenced in October 1995.²¹ Under this scheme, DFAT keeps a comprehensive inventory of export barriers faced by Australian companies and provides advice to firms. DFAT and Austrade resources are used to investigate market access problems identified by firms and make representations on their behalf. Similarly, the PFMAC provides a forum for industry to report on its market access barriers and keeps a database of market access impediments. It also advises on priorities for bilateral negotiations. However, it takes a more strategic view to market access in the sense it

²⁰ We note, however, that two sub-industries within the agri-food industry have developed their own promotional logos — the Australian Horticultural Corporation (‘Australia Fresh’) and the Australian Dairy Corporation (‘Dairy Good’).

²¹ The EBRS was announced as part of the former government’s *Winning Markets* trade policy statement. See DFAT (1995).

develops coordinated strategies with industry to achieve market access objectives. And, of course, it is specifically directed at processed foods (unlike the EBRs).

Both the Austrade and DFAT submissions supported the work of the PFMAC. DFAT believes the PFMAC and the EBRs work well together and between them capture most of the market access concerns of the agri-food industry. In our view though, the potential overlap between the reporting functions, the data bases and possible follow-up action raises legitimate duplication and appropriateness concerns.²²

The **Food Quality Program** shares the objective of other government programs of developing a quality culture amongst industry participants and accelerating the uptake of quality assurance systems. The key feature of the program though is its emphasis on quality assurance links in the food chain. It is specifically concerned with fostering through-chain linkages in the assurance of food quality, rather than a focus on individual enterprises. To this extent it complements (rather than duplicates) other government programs which fund quality uptake by individual enterprises.

The **grower-processor projects** initiative is essentially about achieving best growing practice by building links in the value-adding chain, improving market signals to farmers and enhancing technology transfer. The essence of the projects has been to get growers and processors (and other interested parties) working more closely to achieve best growing practice and internationally competitive processed products. The policy objective of best practice is common to other industries and other programs. However, the specific features of the agri-food industry and the nature of intra-industry relationships give the projects a somewhat unique flavour. At the same time, there is *some* potential for duplication between the grower-processor projects and another program dedicated to the agri-food industry — namely, the Food Quality Program. Both share concerns with through-chain linkages and the development of a quality/best practice culture.

The strategy's networking program for SMEs, **FINA**, is very similar to the federal government's generic Business Networks Program (BNP) which commenced in 1994. FINA and the BNP have the same basic objectives to increase SMEs' competitiveness and capabilities. They also operate on a similar basis in terms of funding and the use of network brokers. The only significant difference is that FINA is specifically aimed at increasing exports while this is not always the case with BNP networks.

There are numerous government programs and initiatives relating to innovation and R&D. The thrust of the strategy approach has clearly been to devise initiatives of particular relevance to the food industry which bring some additionality. The special **150 per cent R&D tax concession guideline**, developed to encourage a greater food industry uptake of the concession (and ultimately more R&D expenditure), complements the more general

²² Another government project undertaking similar (although specialised) functions to the PFMAC is the AQIS International Market Access Project. This project is designed to coordinate agri-food industry effort on unjustified quarantine barriers. AQIS and the PFMAC apparently work closely together on these issues.

policy since it is really only an attempt to ‘sell’ more effectively a generic program to a particular industry. There is some duplication present — to the extent that AusIndustry and other agencies also provide firms with information on the tax concession. However, the guideline also had a specific role in explaining eligibility requirements relating to product testing and modification in the food industry.

The **Australian Food Industry Science Centre (AFISC)** at Werribee, is a food technology cluster aimed at better coordinating and focusing research efforts. The federal government funding for the centre was seen as complementary to its innovation policy. The funding was provided under the program for the development and application of technology in industry, launched in the May 1994 White Paper *Working Nation* (Keating 1994). The idea of food technology clusters acting as a means of better coordinating the interaction between industry and public sector research has similarities with other government programs, such as Cooperative Research Centres and Collaborative Research Grants. The centre’s unique feature though is providing a national research facility and support for advanced studies and applied research in food technology.

The **Australian Food Science and Technology Forum (AFSTF)** is also aimed at collaboration, but with a more strategic focus on directions for food education and research. In principle the forum should assist food industry research by providing a national focus for industry and researchers and by reducing the scope for duplication of research effort.

The **MOU** aims to improve workplace flexibility (and labour productivity) through encouraging workplace change, enterprise bargaining and ultimately more effective working relationships between management and employees. While several other industry programs have broadly similar objectives, only one comes close to overlapping the specific intentions of the MOU. The Workplace Bargaining Program aims to promote productive and cooperative workplace bargaining through projects which focus on particular issues, including improving the participation of all groups in the workforce. However the specific features of the agri-food industry, including the predominance of a relatively small number of large food processing firms (to which the MOU has been targeted), lend support to the need for a special initiative.

When **FILLIP** was established for the food industry (specifically for firms signing the MOU), there already was a language and literacy program available to firms across all industries (WELL). While FILLIP is reserved for food firms, WELL provides untied funding across all industries and funding for national strategic projects (including the food industry). The aims and objectives of FILLIP and WELL are similar in most respects. Funding aims to assist workers with English language and literacy needs, training is work based, both programs expect an employer contribution and the training complements workplace reform.

The National Food Industry Training Council (NFITC), on the other hand, believes there are sufficient and meaningful differences between the two programs. The NFITC suggests that FILLIP was required because of a high level of need in the food processing industry —

low levels of training expenditure, innovation and investment when compared to other sectors of Australian industry. Moreover, the NFITC maintains there is some difference in the ‘bottom line’ expectations of the two programs. Thus, WELL aims to assist individuals to develop language and literacy skills required to remain in employment and to undertake training. FILLIP, on the other hand, places a greater emphasis on technical skills growth and is linked to the food industry priorities of workplace reform and productivity improvement.

The strategy initiatives relating to **regulation, the air transport of perishable goods and packaging** can all be seen as specific to the food industry and involving no duplication with other government programs.

Overall, while most Agri-Food Strategy programs do not overlap with other government initiatives, several of the strategy components — the Processed Food Market Access Committee, grower-processor projects, FINA and FILLIP — contain elements which appear to overlap or duplicate other programs.

4.3.2 Strategy elements and related state government programs

We did not specifically examine state government programs to identify areas of complementarity, duplication or overlap with the Agri-Food Strategy. However, we obtained some relevant information from state government departments and other stakeholders.

Government departments across different states had mixed views on these issues. A government department in one of the smaller states noted that it always tried to fit in with what was happening at the federal level by supporting, and sometimes supplementing, federal programs. A department in another state thought that duplication in the food area was fairly minimal, with innovation initiatives and SME networking being the main exceptions.

A submission to the evaluation by Business Victoria provides the most detailed account of a state government’s activity in food industry development. The submission outlines the priority issues adopted by the Victorian government’s own Food Industry Advisory Committee (FIAC). FIAC’s priority issues for 1996 were given as:

- leadership and export culture;
- market access;
- regulation review;
- air freight of perishable goods;
- port reform;
- sustainable development/quality assurance; and
- supply chain management.

There is clearly significant overlap between these issues and matters which have been considered by the Agri-Food Council. In fact, in many respects FIAC appears to operate in much the same way as the council. It is a peak level advisory committee, initiated by the Victorian Premier in 1993 to provide a framework for government and industry to work together to develop the food sector in Victoria. Its current activities are policy advocacy for the food industry, development of an improved export culture in Victoria and regional industry development.

4.4 Rationale for a food industry strategy

The previous sections have focused principally on the appropriateness of the individual programs and initiatives comprising the Agri-Food Strategy. But what is the rationale for the strategy itself? Does the Australian food industry need its own strategy with industry-specific assistance measures?

In one sense this seems to be a non-issue. If the various components comprising the strategy pass the appropriateness test, we could simply leave the matter there. But the notion of a 'strategy' raises other issues to do with sectoral approaches to industry assistance. The food industry appears to have been accorded special treatment by the government. What justification is there for this approach?

4.4.1 Industry policy and sectoral assistance

Recent industry policy has down-played sectoral support and given more prominence instead to broad-based industry assistance programs. The main exceptions to this in the past have been industries where the government exercises significant purchasing power (such as information technology) or where severe adjustment difficulties are being experienced (such as textiles, clothing and footwear).

The choices between broad-based (generic) versus sectoral industry policies depends on issues such as:

- the extent to which the problems facing firms varies between industries. Figure 4.1 provides a useful framework for understanding this point. If industry policy was based on a purely sectoral basis then there would be a different package of policies for each industry — altogether there would be k (the number of industries) times n (the number of individual policies for each industry) policies. Policy 1 for industry 1 is a little different to policy 1 for industry 2 because the problems and behavioural responses of the industries are different. In contrast, generic policies rely on some economies of

Figure 4.1 Sectoral versus generic policies

Sectoral industry policy				
<i>Industry₁</i>	<i>Industry₂</i>	<i>Industry₃</i>	<i>Industry_k</i>
policy ₁₁	policy ₂₁	policy ₃₁		policy _{k1}
policy ₁₂	policy ₂₂	policy ₃₂		policy _{k2}
policy ₁₃	policy ₂₃	policy ₃₃		policy _{k3}
.	.	.		.
.	.	.		.
policy _{1n}	policy _{2n}	policy _{3n}		policy _{kn}

Generic industry policy				
<i>Policy₁</i>	<i>Policy₂</i>	<i>Policy₃</i>	<i>Policy_n</i>
industry ₁	industry ₁	industry ₁		industry ₁
industry ₂	industry ₂	industry ₂		industry ₂
industry ₃	industry ₃	industry ₃		industry ₃
.	.	.		.
.	.	.		.
industry _k	industry _k	industry _k		industry _k

scope — a certain policy can often be identically designed and delivered to many different sorts of industries. In this case there are only n policies (figure 4.1). For example, it seems unlikely that the business planning of firms varies enough between industries that there would be justification for a separate business planning program for each industry. In some cases, however, particular industries face idiosyncratic problems which may warrant specific programs or interventions (such as national security policies relating to defence industries). Generic programs are favoured where the program mechanisms work fairly uniformly;

- whether it is possible to *coordinate* a package of programs for an industry under a sectoral policy in such a way that their value is greater than a series of uncoordinated generic policies (or again using figure 4.1 the impact of the sectorally designed suite of policies, such as policy₁₁ to policy_{1n}, is greater than the application of policy₁ to policy_n for industry₁). Such coordination relies on a number of other requirements — *low transactions costs* when dealing with firms so that it is possible to tailor programs to work effectively for a given industry; *rich sources of information* about the characteristics of firms and their interactions within the industry; and *flexibility* in the delivery and packaging of the programs. Firms are provided with tools to create a capability. In the case of the food industry, for example, the theory would be that firms are drawn into industry-specific programs — such as best practice, networking and literacy — which are linked together in a cohesive way. An industry strategy draws together the full range of attributes which firms need to give the industry an effective capability to become more efficient;
- the likelihood of ‘capture’. It is sometimes argued that policy makers tend to get captured by their clients in industry policies, becoming advocates for influential interests in the industry — engendering inappropriate policies or poor administration. Such capture is more likely if the policy maker has close and continuous connections

with firms within a particular industry — and is therefore more likely in sectoral policies;

- the level of risk management skills and administrative competence of policy administrators — or the vulnerability to ‘government’ failure. Arguably, if the success of sectoral policies relies on the gathering and exploitation of complex information, flexibility, discretion, and careful coordination of a suite of programs, then it makes greater demands on the skills of policy administrators. And it may be more easily subject to failure compared to more robust generic policies. For example, broad, ill-defined and conflicting strategy goals or weak incentives and poor management in the government sector can lead to inefficient outcomes. As well, governments may have difficulty acquiring full information about an industry;
- the extent of administrative efficiencies from adopting one approach or another. Generic policies reap efficiencies where program delivery, program characteristics and firm responses are virtually the same across all industries; and/or when the (often high) fixed costs involved in the development of programs can be shared across industries. The intention of generic policy is to develop effective and efficient programs (and program delivery mechanisms) which are suitable for widespread application across the economy. Figure 4.1 implies that if there is a fixed cost of C to run or design any program, then an inappropriate use of sectoral policies could cost an additional $n(k-1)C$. But sectoral policies may be more efficient if the responses of firms to a policy mechanism varies significantly between industries — so that it is optimal to vary the policy mechanisms depending on the industry. For example, as a completely hypothetical example, a particular industry may fail to respond to a business network program based on government appointed network brokers because of an historical suspicion of government — while this mechanism might work well in other industries; and
- the nature of policy learning by policy makers. Policy makers learn from each other. A policy maker designing an innovation package for one industry will be able to pass on some useful information to another policy maker designing an innovation package for another industry — because the process of innovation has some common threads across industries. We call this *across industry learning*. As well, a policy maker designing an innovation package for a particular industry will be able to exchange useful information with a policy maker designing an export promotion program for the same industry because there are common threads within an industry — we call this *within industry learning*. If across industry learning is more intense than within industry learning then generic policies will generally be favoured.

Of course the distinction between the purely sectoral approach and the generic approach is never this stark.²³ A generic approach typically allows for some design concessions to

²³ As well, there are other ways of classifying industry policy — for example, programs suited for small versus large firms, programs for firms whose activities generate sizeable spillovers, programs for firms which are natural monopolies, and so on. We have simply explored two opposing characterisations of industry policy.

specific industries or sectors — for example, there might be a ‘food industry best practice program’ and a ‘metal industry best practice program’. But this is likely to involve relatively minor modifications to the generic program to take account of specific industry factors. The Australian Manufacturing Council ‘best practice kits’ for different industries were an example of this principle.

4.4.2 Does the food industry have unique problems or characteristics?

Even outside the special circumstances of some industries (such as long investment cycles, natural monopolies, or strong firm interdependencies), it can be argued that dealing with systematic problems and impediments in firms may sometimes require action at the industry specific level — different industries exist in different micro-environments. By working closely with individual industries, it is argued that the government can identify particular impediments to growth and design appropriate solutions.

A key question is whether the food industry has unique problems or specific impediments which justify sector-specific government assistance. It was beyond the scope of this study to investigate food industry problems in depth or to compare these with other manufacturing industries. However this issue was addressed by the food processing reference group report which laid the foundations for the development of the Agri-Food Strategy (DITAC 1991). The report built the case for industry assistance around three categories of impediments to competitiveness:

- those arising from the international trading environment (for example, trade barriers);
- those arising from the Australian business environment (for example, transport and freight handling inefficiencies); and
- those internal to the food processing industry itself (specifically, poor export market development, poor productivity growth, poor commitment to innovation and training and poor food value-chain linkages).

However, having called for government action to help resolve both external and internal impediments, the report makes its main case for sectoral assistance on ‘industry parity’ grounds:

In this regard the food processing industry is no different from those industries now driving the growth in exports of elaborately transformed manufactures — virtually all these industries have experienced difficulties with internal competitiveness, and with integrating themselves in global markets. Public assistance to facilitate the necessary adjustments has been provided to a number of them. (DITAC 1991)

The report establishes the case for government assistance by arguing that the food processing industry in fact presents *a more promising* case for returns on public investment than do most other manufacturing industries. This is mainly based on its available advantages in scale, competition, resource endowment, technology and skills — but also

the potential absolute gains from accelerated export growth in Australia's largest manufacturing industry.

The food processing reference group analysis suggests the food industry in fact *does not* have unique problems or specific impediments relative to other manufacturing industries. It has approximately the same type and degree of problems and impediments.²⁴

4.4.3 Economic justification for a sectoral approach

What are the economic grounds for *specific* food industry assistance? Are there externalities, major problems with infrastructure or endemic and idiosyncratic firm failures which justify a specific approach to the industry?²⁵ We found little concrete evidence that this was the case, however:

- there is evidence that the potential for, and impact of micro reform (encompassing barriers to trade, transport, industrial relations, packaging, food labelling and other regulations) is greater and distinctive for the agri-food industry;
- there is some suggestion that there were barriers to greater industry integration — this was one of the main reasons put forward to justify the Agri-Food Strategy. Links between growers, processors, packagers and distributors were regarded as poor and inhibiting a common industry (and export) culture. On the other hand, a recent BIE study of linkages and networks found firms in the food industry to be no better or worse than other manufacturing industries for their capacity to engage in inter-firm cooperation (BIE 1995); and
- it is possible that foreigners' perceptions of Australia as a clean environment for the growing and processing of food is a unique basis for a sectoral export promotion program — although we note that even a generic export program could accommodate sectoral peculiarities such as this.

4.4.4 Potential problems with a food industry strategy

So far we have looked at a variety of rationale for a food industry strategy. We have noted recent government policy on industry-based strategies and examined the issue of specific food industry impediments. We have also discussed some of the economic reasons why the government might be justified in adopting an industry-specific approach. But whatever the

²⁴ We examine later the usefulness of the finding that the food industry offers better potential returns from government assistance.

²⁵ For example, consider another industry where this appears to be the case. The metal-based engineering sector used to receive industry-specific support through the Metal Based Engineering Program. That sector was found by the BIE to generate significantly more knowledge-related externalities than most other branches of industry. A major reason for this is the close linkages between firms in the sector. On these externality grounds the BIE found that 'a higher assistance level than the average for the industry appears to be justified for the metal-based engineering sector' (BIE 1993).

particular merits of these factors there are also potential problems with industry-based strategies. Some of these are outlined below.²⁶

First, providing the food industry with special assistance which is not available more generally, may disadvantage other industries which have equal or more promising prospects. We noted above how the food processing reference group report (DITAC 1991) partially justified the Agri-Food Strategy because of the food industry's perceived good prospects. However, the relative prospects of different manufacturing industries is clearly open for debate. The surest way of not disadvantaging any particular industry is to implement economy-wide assistance measures.

Second, industry strategies may also make the industry in question unduly reliant on the government — or at least give stakeholders an expectation of continuing assistance. Stakeholders get used to the idea of government intervention in the industry. There may be a tendency for firms to let the government 'take control' of the industry's future — including through work programs, milestones and targets. Furthermore, future action on the government's part to scale down assistance, or withdraw it completely, can send negative signals and affect industry confidence.

Third, there is the vulnerability of industry strategies to 'government failure', where the costs of intervention outweigh the benefits (as described in section 4.4.1).

Fourth, there also is the question of size and diversity. Is the food industry too big and too diverse for an industry strategy? Other manufacturing industries with their own strategies are much smaller than the food industry. Food is the largest of the manufacturing industries, accounting for around one-fifth of manufacturing output. It consists of eight quite different industry groups, from fairly low processed products to highly-processed confectionery goods. Moreover, numerous industry groups within the agri-food industry have their *own* export enhancement strategies (for example, horticulture and dairy products).

4.4.5 Are the strategy programs really only appropriate for the food industry?

Finally, we need to look again at the programs comprising the strategy. In the previous sections we tested the appropriateness of individual strategy components against economic criteria, government policy objectives and other relevant government programs. In the case of the latter, our interest was in whether the strategy components duplicated or complemented other government programs. In this context, a strategy component was 'appropriate' if it had unique features which did not duplicate generic assistance programs.

²⁶ However, it should be noted that the first three of these potential problems are likely to be especially relevant to industry strategies involving substantial amounts of government funding — they are less likely to occur in the case of the Agri-Food Strategy with its relatively modest call on the government budget.

But there is another way of looking at the appropriateness of these components. It involves turning around this proposition and asking whether the ‘unique’ program features are suitable *only* for the food industry. Or could they also be suitable for other manufacturing industries? The answers to these questions have critical implications for a food industry strategy rationale.

We noted earlier that the four Agri-Food Strategy programs account for around 83 per cent of strategy expenditure. In effect, we can say there is a strong case for a food industry strategy (banding together these programs) if the programs have features which are only relevant to the food industry. On the other hand if the type of industry support given by the strategy programs could be potentially provided to *any* section of manufacturing, the case for a separate food industry strategy is weak. This would be saying there are no distinctive sectoral characteristics requiring special treatment.

The key feature of the Clean Food Export Program is developing export markets on the basis of generic ‘Australia Inc.’ branding. Could the type of support given for the export market development of Australian food products be provided to other manufacturing industries? The answer would appear to be yes. Rather than ‘clean, green foods’ it might, for example, be ‘innovative construction materials’. Three other agri-food industries in fact already have a similar generic branding approach to export markets — meat, dairy and horticulture all have their own promotional logos which are used overseas. The point is, there could, in principle, be one general export market development program which could be adapted for individual industries.

The Food Quality Program would appear to also fall in the same category. The ‘unique’ feature of this program is its emphasis on achieving quality through the value-chain linkages (rather than the individual enterprise). But other industries have value-chain linkages too. No doubt firms in these industries could also improve the quality of their products, and their international competitiveness, with a similar type of quality program.

There is no doubt that the food processing industry has a high level of need for its workers to be trained to lift language and literacy skills. The question is whether this can be addressed through a generic program or whether a separate industry program, such as FILLIP, is required. The case for FILLIP is really that food processing *is* a special case and that a massive cultural shift was required to support the development of positive communication strategies and a commitment to training and workplace reform at all levels. In these circumstances, it can be argued, nothing less than a tailor-made program would suffice. On the other hand, if a very similar but generic program already exists, then it is difficult to sustain the argument that FILLIP has features only relevant to the food processing industry. While some differences do exist between the programs, the type of industry support given by FILLIP can — for the most part — also be provided across all industries through the WELL program.

The strategy’s networking program (FINA), announced in 1992, was based on a pilot networking project being undertaken at the time by the government’s National Industries

Extension Service (NIES). The NIES pilot subsequently developed into AusIndustry's Business Networks Program (BNP), announced in *Working Nation* (Keating 1994). The BNP and FINA have the same basic objectives to increase SMEs' competitiveness and capabilities, although FINA is specifically aimed at increasing exports (which is not necessarily the case with BNP networks). The two programs also operate on a similar basis in terms of funding and the use of network brokers. The previous government in fact recognised the duplication between the two programs and FINA will lapse in 1996 (with its networks transferring to the BNP umbrella).

Overall, we are left with the impression that the key four programs which account for the bulk of strategy funding have no truly distinctive sectoral characteristics. The type of assistance given to the food industry through these programs could also be provided to many other manufacturing industries.

4.5 The Burgess principles of program design

In June 1994 Ian Burgess AO was commissioned by the government to undertake a review of Commonwealth programs designed to assist enterprise development and improve the performance of business. The review's report, presented to the Prime Minister in November 1994 (Burgess 1994) proposed a number of organisational and administrative changes.

One of the report's recommendations was that all enterprise improvement programs follow a set of design principles to ensure the programs are targeted effectively, assistance to a firm is appropriately limited and agencies adopt a holistic approach to assisting clients. This section briefly assesses the Agri-Food Strategy programs against these principles²⁷ — but it should be emphasised that failure to meet the design principles may in part reflect:

- inadequacies in the principles themselves. For example, it may not always be desirable that a program takes a holistic approach to upgrading a firm's competitiveness or that it requires a demonstration of sound financial management in the recipient firms if the informational requirements or program complexity makes that approach too costly; and
- the fact that the Burgess principles were explicitly coined for enterprise programs — and that only some elements of the Agri-Food Strategy programs conform to this model. For example, neither FILLIP nor the clean food program are strictly enterprise improvement programs.

In making these assessments we also recognise that the four programs were all designed *prior* to the Burgess review. Accordingly, we cannot fairly criticise programs for not

²⁷ We have not included the other strategy components in this assessment as they are not government programs. But in any case, the four programs account for over 80 per cent of expenditure under the strategy. See appendix 7 for a more complete assessment of the programs against the Burgess principles.

complying with the Burgess principles which were developed at a later date. On the other hand, any ‘design flaws’ identified by application of the Burgess principles may still be program weaknesses and relevant to overall appropriateness.²⁸

Table 4.4 provides a summary check-list of whether each of the relevant Agri-Food Strategy programs satisfies the Burgess principles. We

- found that not all enterprises in the tradeable goods and services sector are eligible for the assistance provided by the four programs — by definition, they are all targeted at the *food* sector (although the Food Quality Program has a slightly wider industry coverage). However, we note that the Burgess Report states that small sectoral programs may be appropriate in some cases;
- found that the four programs do not take a holistic approach to upgrading a firm’s competitiveness — although it might be argued that each program is part of a collection of programs within an industry strategy;
- found that three of the four programs fail the test that the financial assistance should be directed towards SMEs — only the networking program, FINA, is specifically aimed at SMEs. This finding is not surprising, given that (a) the Agri-Food Strategy has generally targeted the larger firms to pave the way for industry development and (b) some programs are justified by spillovers (such as the clean food program) which are as relevant for large firms as small;
- found no evidence that two of the programs require a demonstration of sound financial management in the recipient firms; and
- had some reservations about whether the FILLIP is likely to buy an outcome additional to that which would otherwise have occurred. There may be sufficient incentive for firms to improve workforce literacy without financial assistance from the government.

Other than the first point (which we have already discussed in the previous section) and the last point, the violations of the Burgess principles do not constitute strong violations of appropriateness — because of doubts over the relevance of the principles to the set of programs. *This suggests a wider set of design principles should be formulated with broader application to industry support programs.*

²⁸ We emphasise too that these assessments are made against program designs or guidelines which may differ from what occurs in practice. For example, in the case of the Food Quality Program there is no requirement in the guidelines to direct funding to SMEs (which conflicts with the third Burgess principle). However, according to DIST officers, the bulk of the funding for the program to date has been directed to consortia comprising a majority of SMEs.

Table 4.4 Do Agri-Food Strategy programs satisfy the Burgess principles for program design?

	<i>Principles for program design</i>	<i>Clean Food Export Program</i>	<i>FILLIP</i>	<i>FINA</i>	<i>Food Quality Program</i>
1a	Assistance should be for enterprises which are committed to improving their international competitiveness	✓	✓	✓	✓
1b	And can demonstrate sound financial and general management.	✓	?	✓	?
2.	Financial assistance is more appropriately directed to small to medium sized enterprises (SMEs).	✗	✗	✓	✗
3.	All enterprises in the tradeable goods and services sector should be eligible for assistance.	✗	✗	✗	✗
4.	Government funding should buy an outcome additional to that which would otherwise have occurred.	✓	?	✓	✓
5.	Government should take an holistic approach to assisting the upgrade of a firm's competitiveness.	✗	✗	✗	✗
6.	Subsidies should not be ongoing but should be used to assist firms to overcome a significant barrier to the upgrading of competitiveness.	✓	✓	✓	✓
7.	The impact of enterprise improvement programs should be sustainable beyond the life of the government support; ^a they should promote ongoing adjustment and innovation.	✓	✓	✓	✓
8.	Government intervention should be reviewed periodically to establish whether there is ongoing need for the program.	✓	✓	✓	✓

a Some of these programs are not explicitly enterprise improvement programs, although they may achieve that end.

Source: Burgess (1994, p. 17).

4.6 Overall assessment

The imperfect functioning of firms, markets or infrastructure may justify the intervention of governments to try and achieve more optimal outcomes. We found a possible economic justification for all the Agri-Food Strategy elements, although this was more evident in some cases than in others. Most of the economic justifications for government intervention involved 'firm failures' (usually in the form of possible firm inefficiencies and information

deficiencies) and ‘market failures’ (generation of spillovers and weak information flows). Other strategy elements, such as literacy training, market access barriers and regulatory reform, can be justified due to the imperfect functioning of the operating environment and infrastructure used by the industry.

We also found that the objectives of the strategy (and its elements) were broadly consistent with industry, trade and innovation policies of the 1990s. The focus of the strategy on highly processed food exports is clearly broadly consistent with the objective of encouraging added value and the further processing of Australia’s raw materials. The strategy’s objectives are also consistent with policy objectives to promote the development of internationally competitive and export-oriented resource-based industries.

The third criteria for judging appropriateness, the role of the strategy components vis-a-vis other government programs, presented some problems. We found that several of the strategy components failed to fully demonstrate their appropriateness when assessed against other government programs for evidence of duplication and overlap:

- the strategy’s skill enhancement initiative, FILLIP, is similar in most respects to the Workplace English Language and Literacy Program;
- the networking program, FINA, is almost identical to AusIndustry’s Business Networks program; and
- some of the Processed Food Market Access Committee’s functions potentially overlap with those of a generic government program, the Export Barriers Reporting Scheme.

In addition, some elements of the grower-processor projects are similar to the Food Quality Program. Both are concerned with through-chain linkages and the development of a quality/best practice culture.

Whether the various components comprising the strategy pass or fail the various tests of appropriateness is not the end of the matter. The notion of a ‘strategy’ raises other issues to do with sectoral approaches to industry assistance. Does the Australian food industry need its own strategy with its industry-specific assistance measures?

We examined the case for a food industry strategy vis-a-vis a generic government assistance approach. We found that:

- there are possible economic grounds for assistance due to the presence of firm, market and infrastructure failures;
- however, the agri-food industry cannot demonstrate unique problems or specific impediments that are best dealt with in a sectoral program;
- in addition, the strategy has taken a fairly piecemeal approach and has not systematically linked its components for individual firms; and
- the four key programs which account for the bulk of strategy funding have no truly distinctive sectoral characteristics. The assistance given to agri-food firms through

these programs could also be provided to many other manufacturing industries (and already is in some cases).

We also assessed the appropriateness of the four strategy programs, which account for 83 per cent of Agri-Food Strategy expenditure, in relation to the Burgess Review program design principles. These uncovered no additional valid defects in the Agri-Food Strategy other than a question about the likely extent to which the FILLIP bought an outcome additional to what would have happened anyway. While three of the four strategy programs ‘fail’ the Burgess test that financial assistance should be directed towards SMEs, we note that the strategy has generally targeted larger firms to pave the way for industry development. In addition, some strategy programs are justified by spillovers (which are as relevant for large firms as small).

Overall, there are considerable doubts that the agri-food industry justifies special government attention in the form of an industry strategy. At the same time, the label ‘strategy’ is somewhat misleading — it is not a grand plan for fixing up the industry, but a number of measures aimed at fixing up specific impediments. Nor is the Agri-Food Strategy resource-intensive — it involves a relatively small amount of government assistance for a few strategic measures.

In other words, we need to be careful not to reject the rationale for the Agri-Food Strategy for pretending it is something it is not — and especially when most of its individual elements pass their own tests of appropriateness. In any case, we can reserve our judgement on these issues until we have considered effectiveness and efficiency criteria in subsequent chapters.

5 Assessment of the strategy programs and initiatives

In this chapter we provide an assessment of how the Agri-Food Strategy programs and initiatives have performed. To do this we examine each of the strategy components individually — ‘mini’ evaluations to measure their impacts on the food industry and their effectiveness in meeting objectives.²⁹ We note the objectives of each strategy component, discuss the direct and indirect impacts of the program or initiative and assess whether the objectives of the program/initiative are being achieved. Integral to this analysis is consideration of the inducement factor — that is, are the ‘outcomes’ we see really attributable to the program/initiative or would they have happened anyway.³⁰

Before proceeding to the individual evaluations, we commence the chapter by briefly examining data relating to the awareness of the strategy components by food industry firms (section 5.1). We do this partly to set the scene but also because recognition sometimes provides an initial indication of the likely impact of a government program.

In the remainder of the chapter we evaluate the individual Agri-Food Strategy components under the four main strategy categories — export market development and market access (5.2), efficiency improvements (5.3), industry integration (5.4) and improved innovation (5.5). Finally, we draw some conclusions on the performance of the individual strategy components (5.6).

5.1 Awareness of strategy programs and initiatives

The impact and effectiveness of any government program or initiative depends to some extent on its recognition by industry. Low recognition obviously limits uptake of programs. As well, firms are usually aware of the factors which make a big difference to their business environment. If they fail to recognise a program which purports to improve that

²⁹ An assessment of the efficiency of delivery of the strategy components (and the strategy as a whole) is contained in chapter 6. An overall assessment of the strategy components (appropriateness, effectiveness and efficiency), including recommendations for the future, is reserved for the final chapter.

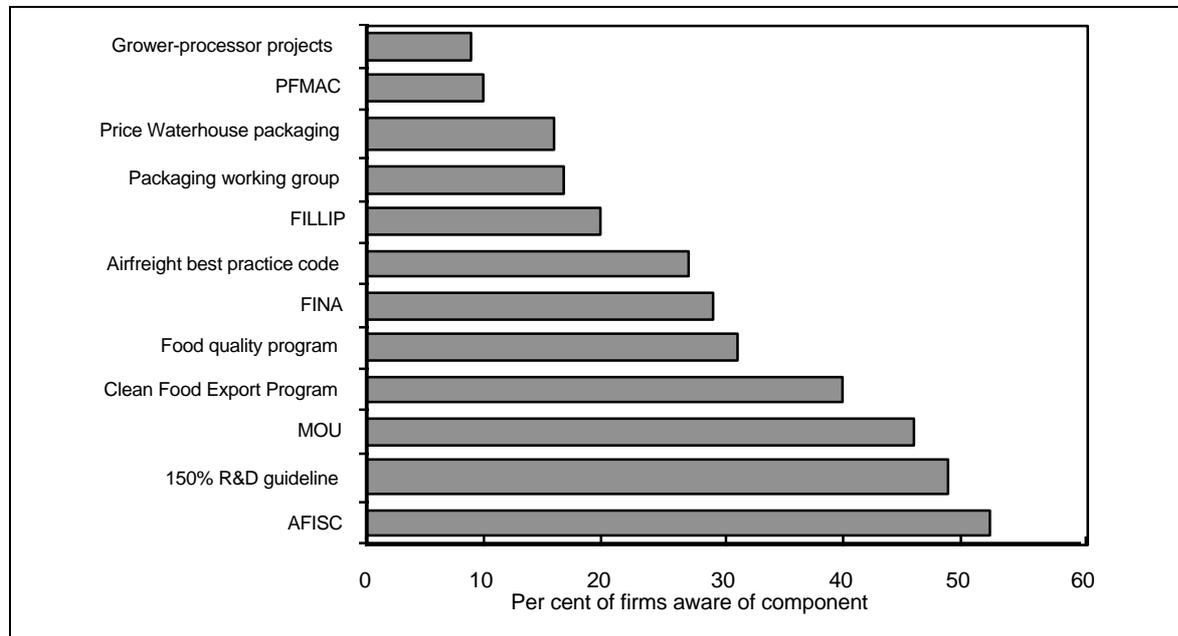
³⁰ Further assessments of the programs and initiatives can be found in appendix 4. Readers interested in background information on the nature of each strategy component, and its development over the course of the strategy, are referred to chapter 3.

environment it *suggests* that the program impacts are small. In addition, programs which rely on demonstration effects to propagate their benefits will probably face an easier task if there is good industry awareness of the ‘game plan’.

The large food firms interviewed on a face-to-face basis were all involved in some way with the Agri-Food Strategy. Not unexpectedly, they had a good awareness of the various strategy components. A more relevant basis for testing wider food industry awareness of the strategy was provided by the telephone survey of 95 medium to large firms. Most of these firms have more than 100 employees and the vast majority are exporters — they are generally part of the target group to which the strategy was aimed (and indeed many are involved with strategy initiatives).

The levels of awareness of the strategy components amongst these firms are shown in figure 5.1. The results are mixed, with reasonable awareness of some components but a generally low recognition level. The Memorandum of Understanding on Workplace Reform (MOU), the Australian Food Industry Science Centre and the 150 per cent R&D tax concession guideline had the strongest recognition factors. The Clean Food Export Program is also reasonably well known. Least known were the Processed Food Market Access Committee, the grower-processor projects and the Agri-Food Council’s work on packaging issues.

Figure 5.1 Awareness of Agri-Food Strategy components^a



^a PFMAC — Processed Food Market Access Committee, AFISC — Australian Food Industry Science Centre.

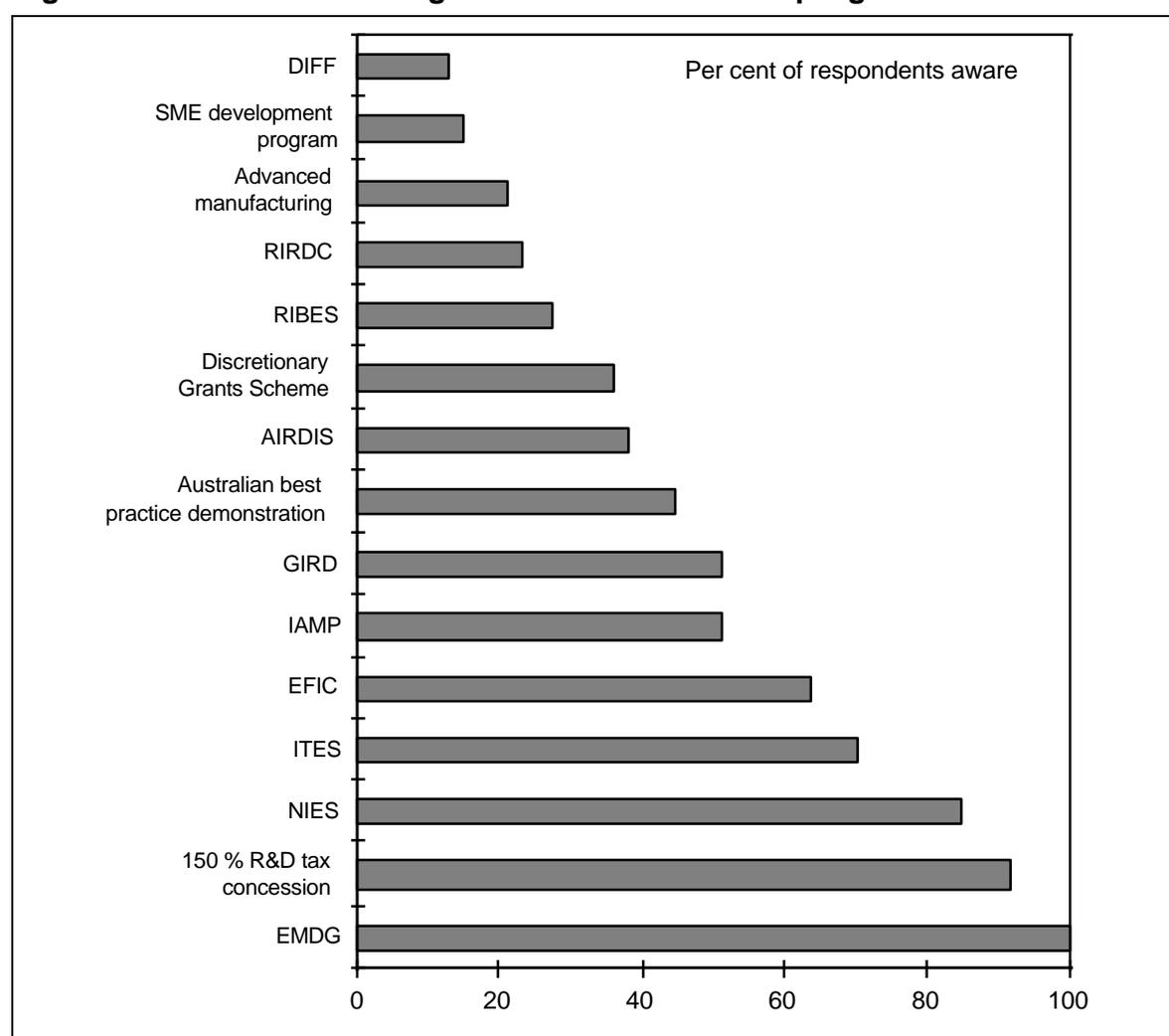
Source: BIE telephone survey of medium and large firms. Number surveyed = 95.

How significant is it that only one of the strategy components — the Australian Food Industry Science Centre — had an awareness level greater than 50 per cent? What degree

of recognition should we expect for government programs? Comparisons are difficult, but two recent studies provide some assistance in answering these questions.

A survey of 47 CEOs from both large firms and SMEs in the food industry (AATS&E 1994) found a significant number of government assistance programs with an awareness factor greater than 50 per cent (figure 5.2). Particularly well known (and used) were Export Market Development Grants (100 per cent), the 150 per cent R&D tax concession (92 per cent) and NIES (85 per cent).

Figure 5.2 Awareness of government assistance programs^a



^a DIFF Development Import Finance Facility, RIRDC Rural Industries R&D Corp funding, RIBES Rural Industries Business Extension Program, AIRDIS Industrial R&D Incentive Scheme, GIRD Grants for industrial R&D, IAMP Innovative Agricultural Marketing Program, EFIC Export Finance Insurance Corporation, ITES International Trade Enhancement Scheme, NIES world class manufacturing, EMDG Export Market Development Grants Scheme.

Source: AATS&E (1994, p.42).

Another study (LEK 1994) asked exporting firms questions relating to their awareness of federal and state government export support programs. The results (table 5.1) show that

only two programs rated greater than 50 per cent recognition. Even the Export Market Development Grants, which have been in existence for many years, were unknown to around one-quarter of firms.

Table 5.1 Service exporting firms' awareness of export support programs^a

	<i>Aware of program?</i>
	Per cent
Export Market Development Grants	73
Other Austrade assistance	54
150% tax incentive for R&D	50
Export Finance and Insurance Commission — Credit Insurance	46
National Industry Extension Service	41
Grants for industrial R&D	39
Australian International Development Assistance Bureau	36
Export Finance and Insurance Commission — Finance	28
Export Access	27
International Trade Enhancement Scheme	27
Development Import Finance Facility	21
Income Tax Relief Facility	12
Australian Best Practice	11
Investment Promotion Program	6

^a The survey had more than 1370 services exporter respondents.

Source: LEK (1994).

Overall there are mixed signals on 'appropriate awareness levels', but we should perhaps not be too concerned with only one strategy component having a recognition factor greater than 50 per cent. However, the five strategy components with a recognition factor of 20 per cent or less (figure 5.1) may be a more telling statistic — the implications of which we explore later.

5.2 Export market development and market access

We assessed the impacts of the two on-going strategy components in this category — the Clean Food Export Program (CFEP) and the Processed Food Market Access Committee (PFMAC). A summary of the key findings is shown in table 5.2. The results are discussed in more detail below.

5.2.1 Clean Food Export Program

The CFEP subsidises the marketing of Australian food products in Asia. Specifically, its objective is to promote the export of Australian foods by associating them with production in a clean environment. We have attempted to measure the effectiveness of the program in four ways. First, we assess the impacts on some of the firms directly involved in the program. Second, we look for any spillovers in Australian food industry exports to Taiwan (where the first stage of the program has been directed). Third, we examine aspects of the nature and number of the clean food program participants. Fourth, we try to find any evidence of other possible spillover impacts on Australian food firms.

Table 5.2 Impact of export market development and market access elements

<i>Program/ initiative</i>	<i>Objectives</i>	<i>Impact</i>	<i>Assessment</i>
Clean Food Export Program	To promote export of Australian foods by associating them with production in a clean environment	There appear to have been positive impacts for some of the clean food program participants. But no identifiable spillover benefits for other Australian food exporters. Some evidence of indirect benefits.	Insufficient evidence to fully assess effectiveness. Uncertain how much it has benefited participants through increased exports. Some evidence of indirect benefits. No evidence of any spillover benefits to other Australian firms.
Processed Food Market Access Committee	To provide a forum for reporting of market access barriers. To advise on priorities for bilateral negotiations. To develop coordinated strategies with industry to achieve market access objectives.	Some limited successes in identifying and remedying market access impediments for Australian food firms. Made some small strategic contributions on wider market access issues.	Partially effective in meeting its objectives, but might have achieved more with a higher profile and greater industry consultation. A revamping of the committee in July 1995 could lead to more positive outcomes.

Awareness of the CFEP in the food industry is relatively high. All but one of the large firms interviewed on a face-to-face basis knew of the program and so did 40 per cent of the large and medium firms interviewed in the telephone survey.

Five of the large firms (and another non-firm stakeholder) we interviewed have been directly involved in the CFEP, although one of these had joined very recently. One of the firms reported an increase in exports to Taiwan since the program was launched and was very pleased with its overall results. The other firms (and the non-firm stakeholder) said there were negligible benefits to date, either directly by way of export sales or indirectly through efficiency improvements. One firm noted that the program ‘produced a nice warm feeling but this did not translate into any extra export sales’.

A somewhat different picture emerges if we use data obtained from Clean Food Marketing Australia (CFMA). CFMA has collected data on Australian food exports to Taiwan for 10 of the 18 participants involved in the clean food campaign. The key results are as follows:

- clean food licensee exports to Taiwan increased from \$368m in 1993-94 to \$460m in 1994-95, an increase of 25 per cent; and
- clean food licensee ‘branded’ exports increased from \$122m in 1993-94 to \$190m in 1994-95, an increase of 56 per cent.³¹

These data suggest that the clean food program *might* have had a significant impact on the exports of some of the participating firms and agencies, particularly for those displaying the clean food brand in retail outlets. However, the fact that the firms using the program increased their exports in the target market may be due to other factors — such as an already formed strategy to increase sales in that market (including price changes) or problems faced by exporters from other countries. As well, the fact that there has been growth in exports sporting the logo is a sufficient but far from necessary condition for the success of the program. Hard evidence that the export growth can be traced to the program is missing. The sort of evidence which needs to be gathered to substantiate the case that the program has a positive impact is:

- comparisons of the clean food participants’ export growth in Taiwan in 1994-95 with earlier years;
- comparisons of the clean food participants’ export growth in Taiwan with their export changes in other Asian markets; and
- survey evidence of the recognition and impact of the clean food logo by Taiwanese consumers.

One of the possible economic rationales for the clean food program is, of course, an enhanced reputation of Australian food products, leading to spillover benefits for many firms. What evidence is there that use of the clean food logo by some Australian firms has benefited other Australian firms?

Total Australian food exports to Taiwan increased by only 4 per cent in 1994-95 (current prices). Total processed food exports increased by 4 per cent — highly processed products by 2 per cent and minimally-processed products by 6 per cent.³² This compares unfavourably with the growth of these exports in previous years — for example, Australian processed food exports to Taiwan increased by 12 per cent in 1992-93 and by 32 per cent in 1991-92.

³¹ Clean food ‘branded’ exports are products that are packaged and have a CFMA brand on display when sold to the consumer. An example of a non-branded export is wheat — while the importer knows it as a CFMA product, the final consumer does not. The data for 1994-95 ‘branded’ exports were obtained from six participants.

³² We cannot give a precise increase for unprocessed food exports due to data inadequacies.

The data provided by CFMA indicates that CFMA licensees accounted for almost 90 per cent of Australia's total food exports to Taiwan in 1994-95, up from 74 per cent the previous year. Similarly, CFMA branded licensees increased their market share from 24 per cent of total Australian food exports in 1993-94 to 37 per cent in 1994-95.

Putting all these data together seems to suggest that the clean food campaign is not benefiting non-participating Australian exporters through spillover impacts.³³ Indeed the figures seem to imply that CFMA food products are displacing other Australian food products. However this seems unlikely. We expect that foreign competing products would be mostly displaced — with peripheral displacement of non-logo Australian produce. The reason we cannot be definitive is that we do not know what the counterfactual would have been — we do not know what Australian food exports to Taiwan would have been without the clean food program. They might have been much worse. We also do not know the extent to which the Australian drought affected food exports to Taiwan in 1994-95.

Another measure of the effectiveness of the clean food program in promoting Australian food exports relates to the nature and number of participants involved in the program. Has the program attracted any new exporters? The answer in the case of Taiwan is yes — but only to a very small extent. Nearly all of the 18 participants were previously exporting to the Taiwanese market. Have other firms shown they place a high value on the effectiveness of the clean food logo by signing up with the program? The answer is no — the number of participants signed up for launch of the new Indonesia campaign is less than the 18 currently involved in Taiwan.³⁴ Many of the large firms we interviewed were approached to participate in the CFEP but declined. The most common reasons for not participating were that the Taiwanese market was not considered appropriate, or that the firm's product was not particularly relevant. Other firms thought they could spend the money better elsewhere, even though the CFEP effectively provides a 50 per cent marketing subsidy.

Are there any other benefits not so far taken into consideration? There may still possibly be potential export benefits in the pipeline. Frank Small and Associates (FSA 1994) argues that the clean food program *has* successfully enhanced the reputation of Australian food products with Taiwanese consumers. The Frank Small report outlines other benefits from the program, including the value to Australian industry of cooperative marketing and advertising activities.³⁵ These issues are also taken up by Austrade in its submission to the evaluation:

Through discussions with certain licensees, as well as input from Taiwan, it has been ascertained that two of the greatest outcomes from the trial were greater recognition at the

³³ A possible (but untested) spillover effect may arise from the involvement of several multinational enterprises in the clean food program. The fact that these firms, with their globally-known brands, align themselves with an *Australian* marketing campaign may send strongly positive signals to consumers and help promote Australian products more generally.

³⁴ Although the number of companies participating for the Indonesian launch was apparently higher than the initial launch in Taiwan.

³⁵ See appendix 4 for more details.

trade level of the capabilities of ‘Australia Inc’ as well as significant cost and effectiveness benefits from sharing merchandisers ...

Other benefits may have arisen through the close working relationships developed between CFMA and some of the clean food program participants. According to DPIE, this appears to have resulted in the successful introduction of several new products — including blackberry tartlets, cheeses and lamb.

It is also possible that the cooperative arrangement between the clean food participants themselves may have resulted in other benefits. We are unable to gauge the extent of these, but previous BIE research (BIE 1995) indicates that some of the clean food participants may well have benefited in such areas as improved market knowledge and product development.

In summary there is insufficient evidence to *fully* assess the CFEP’s effectiveness, but enough to make ‘interim’ assessments. There is some evidence that the program has had positive impacts — it appears to have stimulated exports and provided indirect benefits to its participants. On the other hand:

- the bulk of program users were large firms — few SMEs have used the program, although theoretically they face the greatest need for support and the highest transactions costs in organising a joint marketing effort;
- firms using the program interviewed by the evaluation team were, with one exception, sceptical about the program’s benefits;
- there is no evidence of any spillover benefits to Australian firms not involved in the clean food program — which is the major economic rationale for the program;
- the apparent reluctance of new Australian food firms to join the second phase of the program (in Indonesia) is a measure of the limited impact of the program to date and suggests concern about the program as an effective marketing tool; and
- the major positive evidence, the CFMA data relating to the export performance of licensees, did not ask the licensees to separate the influence of the clean food marketing program from other factors — and so remains a doubtful basis for a positive assessment.

5.2.2 Processed Food Market Access Committee

The PFMAC was constituted as part of the Agri-Food Strategy to advise the government on priorities for bilateral trade negotiations and to develop strategies for the food industry to achieve market access objectives. In considering the effectiveness of this initiative we need to examine two main issues:

- the extent to which the committee has brought market access issues before the government and the follow-up to these actions; and

- the extent to which the committee has developed industry strategies for market access and whether these have resulted in positive outcomes.

We were unable to obtain any useful information about the PFMAC from food firms. Only one of the large firms interviewed for the study had any substantial involvement with the committee and most had no contact at all. Agri-Food Council members and other stakeholders interviewed were generally only able to discuss the PFMAC in broad terms, with none believing it had worked well. However, the DFAT and Austrade submissions contained helpful information and comments on the committee.

Awareness of the PFMAC in the food industry is very low. Only 10 per cent of the large and medium firms in the telephone survey recognised the committee. This should be a cause for concern for a body which exists to assist individual firms to deal with specific market access impediments.

Austrade commented that the infrequent meetings of the committee reflected its low profile within the broader industry, but also 'Australian industry's relative lack of sophistication in addressing access issues'. However we note that the PFMAC has recently been attempting to overcome these problems. In July 1995 the committee acknowledged the need for greater industry participation in its activities and invited representation from the National Farmers' Federation and the Australian Food Council. The revamped committee subsequently met in September, November and December 1995 and provided some 'bilateral negotiating action' for DFAT (DFAT submission).

The PFMAC has brought a number of specific market access issues before the government. The vast majority of these originated from industry consultations in the early days of the committee's life, although regular contact with industry stakeholders (particularly SMEs) is continuing. The identified issues have been pursued through a variety of means, including ministerial representations. According to DFAT, the PFMAC can take some credit for several successes:

- changing the Japanese regulations on the amino nitrogen content for grape juice;
- reclassifying infant yoghurt preparations to a zero tariff in Malaysia; and
- obviating the need for special printing for Chinese language on packaging in Indonesia.

Has the PFMAC developed any strategies with industry to achieve market access objectives? DFAT informed the evaluation team that the development by the PFMAC of medium-term negotiating objectives and plans, market by market, is already being put into effect. In addition, DFAT noted that the PFMAC has agreed on a scoping study to obtain an overall picture on the magnitude of the market access issues facing the industry (particularly highly processed foods). The committee intends to make recommendations on a future strategic approach once the scoping study is completed in July/August 1996.

DFAT also notes that the PFMAC has worked closely with AQIS, which has established an International Market Access Project. This project was apparently created in response to the need to coordinate efforts with industry on some of the technical barriers to trade (such as quarantine barriers).

In summary, the PFMAC has had some limited successes in identifying and remedying market access impediments for Australian food firms. The majority of these appear to have been brought to the attention of the committee in its early days, following detailed industry consultations. It appears the committee has also made some small strategic contributions on wider market access issues. The PFMAC appears to have very low recognition amongst agri-food firms. However, the revamping of the committee in July 1995, and its actions since then, indicates a greater commitment to access issues — this may result in more positive outcomes.

5.3 Efficiency improvements

We assessed the impacts of the five on-going strategy components under ‘efficiency improvements’ — the Memorandum of Understanding for Workplace Reform (MOU), the Food Industry Language and Literacy Initiative Program (FILLIP), the Industry Code of Best Practice for Air Freight Export of Perishable Goods, regulatory reform and packaging.³⁶ A summary of the key findings is shown in table 5.3. The results are discussed in more detail below.

5.3.1 The MOU — reforming workplace cultures and work practices?

In announcing the Agri-Food Strategy, the government remarked on the historically slow pace of workplace reform and notable examples of industrial disputation in the food industry (Button and Crean 1992). The MOU was developed to improve workplace flexibility through encouraging workplace change and enterprise bargaining. It operates by securing commitments from management and employees to work jointly to reform work cultures and work practices. The overall objectives of the initiative are to increase labour productivity and international competitiveness.

How effective has the MOU been in meeting these objectives? We approached this assessment by focusing on four impact measures:

- awareness and the number of signatories to the MOU;
- workplace changes for firms who have signed the MOU;
- productivity changes at both the firm and industry level; and

³⁶ A benchmarking program to establish and disseminate information on international best practices was completed in 1993-94. It is not included in this analysis due to the unavailability of data.

- changes in the level of industrial disputes.

Awareness of the MOU by large and medium food firms is a relevant indicator of its impact. The MOU aims to change work cultures and practices within the industry. If non-signatory firms know of the MOU and its objectives this may still result in some positive effects. The telephone survey of food firms undertaken for this study shows a reasonable industry awareness of the MOU. In fact it was one of only three strategy components to be recognised by more than 40 per cent of surveyed firms.

Table 5.3 Impact of efficiency improvement elements

<i>Program/ initiative</i>	<i>Objectives</i>	<i>Impact</i>	<i>Assessment</i>
MOU	To reform work practices and improve workplace flexibility. To increase labour productivity and international competitiveness.	75 food enterprises, covering around 60 per cent of industry employment, have signed the MOU. Very limited impact amongst large firms interviewed, but DIR survey offers some encouragement. Firms unable to quantify any productivity improvements.	Partially effective in meeting objectives. Success essentially limited to focusing attention on workplace reform issues rather than concrete outcomes.
FILLIP	To support workplace reform by providing training for workers with low levels of English language, literacy and numeracy skills. Subsequent improvement in technical skills expected to increase labour productivity.	Evidence of moderate to major impacts amongst firms interviewed. Other evidence also suggests FILLIP is contributing to skills growth in the industry. Reports of productivity increases but unable to quantify.	It appears to be having reasonable success at the firm level and contributing to an increase in industry skill levels. Some anecdotal evidence of productivity increases.
Industry code of best practice for air freight export of perishable goods	To obtain a commitment to greater cooperation and coordination in the air freight export of perishable goods. To implement best practice procedures.	No hard data available yet on the workings of the code.	Too early to assess effectiveness as the code only launched in November 1995. Successful in obtaining commitment of key stakeholders.
Regulatory reform	To maintain the pressure for reform. To reduce business compliance costs through regulatory reform at both commonwealth and state government levels.	No evidence of any direct impacts on regulatory reform. May have played a minor indirect role in the food standards area.	Difficult to assess due to the lobbying nature of council's role. On the available evidence it seems unlikely to have had any major bearing on business compliance costs. Has perhaps exerted some small reform pressures on governments.



Packaging	Closer cooperation between packaging and food companies. Improved packaging efficiencies for food companies.	Some evidence of improved communications between packaging companies and a small number of large food firms. No measure of efficiency improvements.	Limited effectiveness. The packaging initiatives appear to have benefited a small number of large food firms.
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The MOU currently has 93 signatories, including 75 food enterprises and all the major food unions. The food enterprises include some of the largest in the industry (the group of firms which was targeted for the MOU initiative). The MOU signatories might account for as much as 60 per cent of food industry employment, which clearly suggests a solid base for implementing workplace reform in the industry.³⁷

What do we know of MOU inspired workplace changes — changes that may eventually work their way through to productivity improvements? The MOU has been signed by 14 of the large food firms interviewed by the evaluation team. The benefits to the firms have been mixed:

- half said they had received no benefit;
- around a quarter received minor to moderate benefits; and
- around a quarter received major benefits.

Some of the firms claiming no benefits said they had only signed the MOU to be ‘good corporate citizens’, while others had only signed to be eligible for FILLIP funding. The reported benefits were rather vague. For example one respondent said the MOU had focused their firm on the need to be competitive and to look closely at performance impediments. Another firm noted that the MOU provided a useful framework and common ground for communicating with stakeholders. However, most of the firms benefiting to some degree believed they would have done similar things and achieved similar results without the MOU. The major difference the MOU had made was perhaps to make things happen quicker and in a more coordinated fashion.

The BIE study of microeconomic reform in the agri-food industry (BIE 1996a) provides further evidence of the MOU’s low impact. Only 3 per cent of firms believed the workplace reform aspects of the Agri-Food Strategy had made a moderate or major contribution to their changing employee relationships in recent years. A further 8 per cent thought the strategy had been of minor significance.

DIR undertook its own survey of 49 MOU signatories in 1994 (DIR submission). It found that overall the MOU had served as a useful document to promote an understanding of workplace reform and enterprise bargaining. It had achieved reasonable success in focusing

³⁷ This figure is likely to be an overestimate as we have included all the employees in a company group where the MOU has been signed by a subsidiary.

the attention of its signatories on the achievable reform agenda and concrete outcomes. It had also served as a guide for enterprise bargaining. However, the MOU had been less successful as a basis for establishing best practice industrial relations.

DIR also noted that the MOU had dated over the last two years due to its lack of emphasis on enterprise bargaining — at a time when the industrial relations focus has shifted to workplace bargaining. According to DIR, anecdotal evidence indicates that smaller companies may be failing to capitalise on the MOU because it fails to offer practical guidance for workplace bargaining.

In theory, the ‘bottom line’ indicator for measuring the impact of the MOU is labour productivity. In practice, firms found it extremely difficult to make a quantifiable link between the two. None of the 14 large firms interviewed were able to quantify any productivity improvements resulting from the MOU initiative. And while several firms in the telephone survey said they had benefited from the MOU through productivity improvements, none were able to actually quantify these changes.

We noted above that the 75 enterprise MOU signatories could conceivably account for around 60 per cent of food industry employment. On this basis, industry-wide changes in labour productivity might provide a crude estimate of the benefits of the MOU process. In fact, as discussed in chapter 2, labour productivity in Food, beverages and tobacco (FBT) has generally followed the manufacturing industry trend since 1989-90. Of course, many factors are at work behind these aggregate productivity changes — but there is no *prima facie* evidence of the MOU process causing a noticeable jump in industry productivity levels.

Another industry-wide measure possibly having some relationship with changing workplace practices and culture is the level of industrial disputation. The FBT industry in fact performs relatively poorly when compared with the manufacturing industry (more than double the number of working days lost per thousand employees in 1994). In addition, while the average number of days lost for manufacturing has been falling steadily since 1992, the figure for FBT barely changed between 1992 and 1994.

In summary, although 75 food enterprises have signed the MOU, we found it has had a very limited impact amongst large firms interviewed. The DIR survey suggests bigger impacts, but firms were still unable to quantify any productivity improvements. The MOU’s partial success has essentially been limited to focusing attention on workplace reform issues rather than concrete outcomes. DIR notes that the MOU appears to have become dated as the industrial relations focus has shifted to workplace bargaining. It is apparently failing to adequately provide practical guidance on workplace bargaining in individual enterprises.

5.3.2 FILLIP — contributing to skills development?

The rationale for FILLIP was that poorly developed language and literacy skills were constraining the effectiveness of almost half the food industry's workforce (Button and Crean 1992). Workers who are less than fully effective in using production processes act as an impediment to productivity improvements. For example, when production processes change due to new technology or changing workplace structures, workers with language and literacy needs are disadvantaged in learning the required new operational skills — and this can translate to less than optimum productivity.

The focus of FILLIP is training to support the skills development of the workforce. The major objective of FILLIP is to support workplace reform by providing training for workers with low levels of English language, literacy and numeracy skills. Subsequent improvement in technical skills is expected to increase labour productivity. The data for trying to measure the effectiveness of FILLIP in meeting this objectives were obtained from three major sources. These were selected large food firms participating in FILLIP and information supplied by DEETYA and the National Food Industry Training Council (NFITC).

One measure of industry commitment to skills development is the degrees of awareness and participation in FILLIP. In our telephone survey of large and medium food firms we found a relatively low 20 per cent were aware of the program (less than half of those aware of the MOU). FILLIP is currently in its third round of funding. In the first two rounds there were 60 projects funded in 55 sites, with nearly 4000 people receiving some form of training or assessment under the program. This is a rather modest number of employees and suggests that substantial 'demonstration effects' will be required if the bulk of the workers with language and literacy needs are to benefit.³⁸

Seven of the large firms interviewed by the evaluation team had accessed FILLIP. Most rated the overall benefit to their firm as being moderate or major, which is a relatively impressive outcome when compared with assessments of other strategy components. These benefits were intangible changes occurring within the firms but without, as yet, any measurable impacts. None of these firms were able to quantify any productivity improvements flowing from skill enhancement.

The NFITC has evaluated the first two rounds of FILLIP and also collected information on outcomes from the third round.³⁹ The evaluation provides some further evidence of the impacts of the program. According to the NFITC:

- FILLIP addresses the needs for skills training in the food industry;

³⁸ We recognise, of course, that participation in FILLIP is limited by the amount of funds available and that according to the NFITC requests for funding have exceeded the amount of funding available.

³⁹ Although at the time of the evaluation some second round projects were incomplete.

- the flexibility and responsiveness of FILLIP has allowed enterprise priorities to be addressed through individual projects;
- individual participants have gained from FILLIP;
- outcomes from FILLIP have demonstrated considerable skills growth in the industry; and
- the program has in many cases contributed to productivity improvements, although these have not been quantified.

With respect to the latter point, the NFITC notes that the relationship between FILLIP and productivity increases is not as clear as it might be. However, it believes that FILLIP has in many instances contributed to cost savings and efficiencies — and provides anecdotal evidence from firms involved in the program to support this statement. The NFITC also believes that FILLIP has contributed to an environment in which the introduction of new processes aimed at improving productivity — including quality assurance, and organisational restructure — can be implemented.

The DEETYA submission to the current study has little to say on the direct impact of FILLIP — due to the fact it does not administer or monitor the program. However, it offers some comments on FILLIP in respect of the WELL program. DEETYA notes that FILLIP's aims and objectives are similar to WELL. It also states that anecdotal evidence suggests a preference by some applicants for WELL over FILLIP due to WELL's greater flexibility, its less bureaucratic nature, its wider focus and a disinclination by firms to sign the MOU.

In summary, FILLIP appears to be having reasonable success at the firm level and contributing to skills growth in the industry. While we found no quantifiable evidence of the relationship between FILLIP and productivity increases, there is anecdotal evidence that the program is contributing to cost savings and efficiencies.

5.3.3 Air freight best practice code

Transport and distribution was not a part of the original Agri-Food Strategy, but became one of the Agri-Food Council's 'core priorities' following its mid-term review in 1994. The rationale for this was that transport and distribution are significant cost components for the agri-food industry and that opportunities exist to increase efficiencies and reduce these costs (DIST 1994a).

The council's major transport initiative to date has been the code of best practice for the air freight export of perishable goods. It aims to increase efficiency by obtaining a commitment to greater cooperation and coordination by stakeholders in the air freight export of perishable goods. Specifically, it is designed to help them better understand each others' role in the export chain and how to implement best practice procedures throughout the chain.

The air freight issue was first discussed by the Agri-Food Council in late-1993 following industry concerns expressed to the council secretariat. The council did make some progress on this issue prior to the formal launching of the code. A series of high level meetings between key stakeholders in the perishable goods air freight chain was held well in advance of the code launch. These meetings apparently gained a ‘high level of commitment by producers and air freight suppliers to work on a cooperative basis to resolve existing problems ...’ (DIST 1994a).

The study team was unable to find much awareness amongst agri-food firms of the strategy’s transport and distribution component.

Overall, it is too early to assess the effectiveness of the code as it was only launched in November 1995. To date there is no hard data available on the workings of the code. However, it appears to have been successful in obtaining the commitment of key stakeholders to work on a cooperative basis to overcome transport problems. Moreover, the council deserves credit for being the only government agency to have made progress in this previously ignored area. Some other agencies might have been better placed (and certainly better resourced) to deal with the issue — but had failed to do so.

5.3.4 Regulatory reform

Regulatory reform was not spelt out as a priority issue in the original agri-food industries statement. However, the Agri-Food Council devoted some of its time at early meetings to food regulation and subsequently made regulatory reform one of its ‘core priorities’ (DIST 1994a).

The aim has been to reduce business compliance costs through regulatory reform at both federal and state levels. However the council’s role has essentially been limited to that of a lobby group, keeping the issue of regulation before governments and thereby maintaining the pressure for reform. This makes it difficult to assess its effectiveness in meeting the regulatory reform objective.

Some Agri-Food Council members thought the council had been effective as one of a plurality of influences. One member noted that the success in regulatory reform had many owners but also said that the council had emphasised the importance of the issue. Another member believed the council’s regulation efforts had carried some weight.

We were unable to attribute any specific regulatory reform outcome to the Agri-Food Strategy or the work of the Agri-Food Council. One issue the council has dealt with is harmonisation of food standards. In particular, it voiced industry concerns to the government over differing food standards between Australia and New Zealand. A food standards harmonisation treaty has in fact now been agreed between the two countries and is due to come into effect from July 1996. It was agreed within the context of the third annual review of the bilateral Closer Economic Relations Trade Agreement, which also agreed to the establishment of an Australia-New Zealand Food Authority.

It is drawing a long bow to regard the council as being the prime influence in these processes — they were always going to happen as part of the closer relationships developing between the two countries. However, any process of harmonisation requires information from an industry perspective — and the Agri-Food Council appears to have been one of the conduits for this information. In this regard, we note the National Food Authority (NFA) comment in its submission that it had consulted with the council on a number of major issues including the harmonisation of Australian and New Zealand food standards.

As for other matters of food regulation, the Agri-Food Council commissioned a study to report on possible steps to improve the function of AQIS and the NFA. However, the report has apparently only been used for internal consumption.

The vast majority of the large firms interviewed face-to-face by the evaluation team were either unaware or unsure of any benefit to their firms attributable to the work of the council in the area of food regulation. For the few firms that said they benefited, the benefit would appear to be derived from having an industry voice to air their concerns to ministers and government agencies. The council provides a forum for bringing together a common ‘industry’ view on these issues and for presenting these at a high level.

The NFA has a similar view on the Agri-Food Council’s role in regulatory issues, but with specific relevance to the NFA itself. It noted in its submission that the council:

...provides a valuable forum for canvassing input on the effects of the Authority’s activities on industry innovation and development, trade and commerce, and international competitiveness.

It is difficult to draw a summary assessment of the strategy’s regulatory reform initiatives due to the lobbying nature of the council’s role. On the available evidence it seems highly unlikely to have had any major bearing on business compliance costs. In fact we could find no evidence of any direct impacts on regulatory reform. It is possible, however, that the council’s regulatory reform agenda has exerted some small reform pressures on governments.

5.3.5 Packaging

It was observed in the joint statement announcing the Agri-Food Strategy that high quality packaging is a crucial determinant of cost competitiveness and the capacity of firms to differentiate their products. In this context the statement extended and introduced new Policy (By-law) Items relating to the importation of packaging materials.

However, packaging did not become a regular item on the Agri-Food Council agenda until 1994. Industry concern about the cost of local packaging supplies and its impact on international competitiveness prompted the council to act. It formed a working group to

address the cost issues and to facilitate closer cooperation and communications between packaging and food companies.

These two initiatives — the Policy (By-law) Items and the packaging working group — represent the packaging elements of the strategy. How effective have they been in tackling packaging costs? In the case of the Policy (By-law) changes, they seem very likely to have benefited some food firms. However, we were unable to quantify the magnitude of these benefits in this study.

The packaging working group consisted of both packaging and food industry CEOs. A little under 20 per cent of medium to large food firms in the telephone survey were aware of the group. Its major task to date has been a survey of food company CEOs.

The CEO survey apparently provided useful information to the council, but has not resulted in any follow-up action. Benefits have emerged though for a small number of large food firms:

- first, for those firms actually involved in the working group. It seems these arose as part of the process of consultation; and
- second, two other large firms interviewed (not working group members) also believed they had benefited from the strategy's packaging initiatives. These benefits were 'spillover' ones by nature — along the lines of improved communication channels between food firms and packaging companies as a result of the working group consultation process.

In addition, four Agri-Food Council members believed the packaging initiatives had worked well — with the two members on the working group rating it particularly highly.

In summary, we believe the packaging initiatives appear to have by-passed most of the food industry and therefore had limited overall effectiveness. On the other hand, there is some evidence of improved communications between packaging companies and a small number of large food firms. The council was apparently successful in creating the environment for food firms to consult with packaging firms — perhaps reducing costs in some cases.

5.4 Industry integration

We assessed the impacts of three strategy components under industry integration, including two of the strategy's programs. The three components are grower-processor linkages, the Food Quality Program and the Food Industry Networking for Asia Export Program (FINA). A summary of the key findings is shown in table 5.4. The results are discussed in more detail below.

5.4.1 Grower-processor linkages

The objectives of the grower-processor projects have been to encourage best growing practice by building links, improving market signals to farmers and enhancing technology transfer. As well as bringing benefits to the specific industries involved in each project, it was also hoped the projects could be used to demonstrate the main principles of improved grower-processor linkages throughout the agri-food sector.

The effectiveness of the projects can be measured from two major perspectives. First, to what extent have the project groups endured and brought lasting benefits to the industries concerned? Second, have any benefits spread to other agri-food industries? To assess their effectiveness, we consider each of the three projects individually and then draw some overall conclusions.⁴⁰

⁴⁰ Background information on the lead up to the development of the projects is contained in chapter 3.

Table 5.4 Impact of integration elements

<i>Program/ initiative</i>	<i>Objectives</i>	<i>Impact</i>	<i>Assessment</i>
Grower-processor linkages	To encourage best growing practice by building linkages, enhancing technology transfer and improving market signals to farmers to encourage them to better research and service their markets.	To date the project has been limited in scope and its overall impact has been slight. Mixed results for the three individual projects, with few tangible benefits being evident.	Difficult to assess due to variety of stakeholder views. Projects may have had some success in building links, but only limited progress in encouraging best practice. Evidence of some indirect benefits.
Food Industries Networking for Asia Export Program (FINA)	To promote the growth of successful SME food networks exporting to Asia.	None of FINA networks individually assessed. However, previous research indicates that SMEs in food networks (including FINA) are performing well.	Not directly assessed, but on the basis of indirect evidence it appears that FINA may have been effective in creating successful exporting networks.
Food Quality Program	To foster through-chain linkages in the assurance of food quality. To assist enterprises adopting quality as a marketing tool (and as a means to improved efficiency).	Too early to measure any impacts. Positive early feedback from some participants.	Too early to assess.

Tasmanian potatoes

The Agri-Food Council Tasmanian Consultative Group was established in mid-1993 to mediate in a dispute over potato prices. The group adopted a vision for the region to become, within three years, a recognised world leader in best practice vegetable production, processing, marketing and exports to Asia. It set out an action plan covering transport costs, aerial spraying costs, potato storage, harvesting, input costs, the role of new technology and overseeing the implementation of a farm best practice program.

The farm best practice program has enjoyed strong grower support (with over 300 participating farmers). It is targeting an average 20 per cent yield increase over the three years to the end of 1996. Generally, the industry seems pleased with the results of the program to date.

This best practice program seems to be the major tangible success of the Tasmanian potatoes project. This and some of the other initiatives may well have improved the industry's international competitiveness. Other benefits of the potatoes project are a growing realisation of the long-term trade potential of the industry and the introduction of a number of minor innovations.

Despite the efforts of the steering group, the potato price negotiations persisted as a fundamental problem. This culminated in mid-1995 with a major processor announcing

potato price reductions together with stricter quality standards. The project finally lapsed with the sale of the processing firm.

Several of the project participants indicated in interviews that the project had been a clear failure and that there had been a significant deterioration in the level of cooperation between growers and processors. It would seem that the considerable ill-feeling between growers and processors evident at the start of the project has not been effectively resolved by the linkages program.

Goulburn Valley pears

The Pear Industry Steering Group was established early in 1994 to address the industry's declining export position. Major projects completed or in progress under the steering group umbrella include:

- an international benchmarking study of pear production and market information systems;
- establishment and facilitation of quality assurance links between processors/packhouses and their growers;
- a fresh pear export market development strategy;
- packing shed technology and efficiency initiatives;
- oversight of harvest labour strategies;
- negotiation of a code of best practice with shipping lines, railways and trucking companies;
- reform of grower payment systems in packhouses to ensure rewards for quality;
- development of crop forecasts, coolstore stock data, indicative market price information, major market reports and crop marketing reports from major competitors; and
- working with the Australian Horticulture Corporation's Market Access committee on agreed priorities for work on the removal of barriers to entry for fresh Australian pear exports.

These initiatives appear to be appropriate ones for addressing the specific pear export development and the wider grower-processor projects objectives. However, we were unable to assess their individual effectiveness.

According to growers interviewed, the Agri-Food Strategy has played a key role in setting up the framework for communication between the various parts of the value-adding chain for the pear industry. There was a feeling that the local industry would have been reluctant to become involved in the exercise without the profile provided by the federal and state governments. Growers and their representatives also felt that cooperation between growers and processors had improved significantly in the past three years.

Overall, stakeholders involved with the pear project were supportive of the initiative. Some of the gains which have been seen include: improved openness and willingness to communicate; the development and partial adoption of quality assurance systems; and the establishment of vision and direction for the industry. At the same time, interviewees in the Goulburn Valley region could not identify any tangible benefits from the project. They indicated that it was still too early to see these benefits but most were confident they were likely to occur sometime in the future.

Queensland pineapples

The Queensland Pineapple Steering Group met for the first time in May 1994 as a result of Agri-Food Council initiatives identifying the need for a whole-of-industry approach to issues of competitiveness and viability. The objective of the group was to address impediments to improved competitiveness with the hope, *inter alia*, of attaining world best practice in all areas of production and processing.

Two ‘World Best Practice’ working groups were established, one for each of the fresh and processed sectors of the industry. In mid-1995 the ‘fresh’ group produced a marketing and communication strategy, the major feature being the need for the fresh pineapple sector to focus on improved quality and improved customer focus. The processing working group was closely focused on a major processor’s best practice program, which was to run from late-1994 to mid-1996. However, when the processor reduced its intake of canning pineapples and diversified into the fresh pineapple market, the pineapples project was wound up in late-1995 by the mutual agreement of all parties.

What did the project achieve? Notwithstanding the ultimate demise of the project, stakeholders believe the Agri-Food Council’s involvement has brought about a more focused outlook by industry participants. The major suppliers to both the retail and export markets now recognise the need to establish significant relationships with other parts of the chain and develop a quality product. In addition there has been a general recognition that the workshops had initiated some good work on quality, best practice and benchmarking. There has also been some recognition that with better cooperation there is an improved ability to compete.

However, some stakeholders directly involved believe the improvement in the level of cooperation in the industry evident earlier in the life of the project has subsequently fallen significantly. This was due to the competition between the fresh and processed segments of the market. Some described the situation today as a ‘stand-off’ between merchants, growers and chains — with market information being well guarded.

Summary

The grower-processor projects have realised mixed success and appear to have produced only moderate benefits overall. Inevitably, due to narrowness of scope, they have made

little overall contribution to the adoption of best practice and other objectives throughout the agri-food industry. Two of the three projects provided evidence of indirect benefits in the form of better communications and a better focused industry. At the same time, a number of stakeholders provided direct contrary evidence to this view — claiming that there had been a significant deterioration in the level of industry cooperation throughout the life of the grower-processor projects.

5.4.2 Food Quality Program

The aim of the Food Quality Program is to accelerate the uptake of formal quality assurance and a quality management culture within the agri-food industry. It is specifically concerned with fostering through-chain links in the assurance of food quality.

Despite its short life, the program has a reasonable level of recognition within the food industry. Around 30 per cent of large and medium sized firms in the telephone survey indicated their awareness of the Food Quality Program.

We found considerable support amongst stakeholders for a food quality element in the strategy. In addition, interviews with the participants involved in *one* of the program's projects found very positive feedback on the progress to date. A major retailer involved with the project noted that the Food Quality Program provides a catalyst for the industry to obtain commitment from all levels of the chain to promote export market development.

However, as the Food Quality Program is still in the initial stages of development, we were unable to measure any industry impacts or assess the effectiveness of the program.

5.4.3 FINA

The Agri-Food Strategy's networking program was established in 1992-93. FINA was designed to assist SMEs in the food industry to export highly processed products to Asian markets. The objective was to form networks of firms who individually lacked the capabilities or resources to break into new export markets. Both horizontal and vertical networks were eligible for assistance. While we are classifying it here as an 'industry integration' initiative, it clearly also has export market development characteristics.

Nine food networks have been established nationally under the FINA program. The networks have involved growers, processors and distributors. There does not appear to have been any detailed assessment of the FINA program since its inception.

We were unable to undertake a separate evaluation as part of this study. However, a recent BIE study of networks (BIE 1995) included firms in the food processing industry and we can draw on this research to make some observations. This research shows that firms in the Australian food industry have above average numbers of networks when compared with manufacturing firms in general. This can be at least partially explained by relatively

homogenous food products being eminently suitable for sharing production facilities and common international marketing initiatives.

The 1995 BIE study surveyed 27 food industry firms involved in networks, all but four with less than 100 employees. One-third of the firms had received government assistance with their networks.⁴¹ One of the most important benefits of networking to food firms was developing new overseas markets. Two-thirds obtained a benefit in this way, while one-third obtained a 'major' or 'critical benefit' — these proportions were second only to IT&T firms on an industry basis. Other benefits food firms obtained from their networks were improved market knowledge (97 per cent), improved sales/profits (89 per cent) and new domestic customers/suppliers (82 per cent).

One of the FINA networks highlighted in the 1995 BIE study was Australia's Best Foods, a network of 5 medium-sized firms based in South Australia and exporting speciality foods such as honey, jams, pickles and chocolates. The group received FINA funding in 1992 to support formation and facilitation costs, and further funding in 1993 to implement the network's product and marketing strategies for the Japanese market. Individual members of the network would not have been able to undertake the same degree of planning and market research, nor develop the institutional and market contacts, as was possible through acting together. Through the ground work laid by their joint efforts, individual members are also securing major contracts in their own right. Australia's Best Foods is now self-funding, independent of government assistance.

FINA operates on the same basis as AusIndustry's Business Networks Program which commenced in 1994. Accordingly the FINA program will not be renewed when its funding runs out in June 1996. However, on the basis of information provided by food firms involved in networks (including government-assisted ones), we believe FINA has probably been effective in creating some successful exporting networks.

5.5 Innovation

In the joint statement announcing the Agri-Food Strategy (Button and Crean 1992), the government stated its intention to stimulate innovation in the food industry. Both the current levels and fragmentation of innovation were seen as major stumbling blocks to long-term competitiveness.

The joint statement mainly left it to the Agri-Food Council to develop innovation options, although it announced the government's intention to develop a food industry guideline on the 150 per cent R&D tax concession. In the event, we have three innovation components to examine: the guideline, the Australian Food Industry Science Centre (AFISC) and the Australian Food Science and Technology Forum (AFSTF). We will examine these three

⁴¹ However, not necessarily through FINA.

initiatives separately, followed by some general comments relating to industry-wide innovation. A summary of the key findings is shown in table 5.5.

Table 5.5 Impact of innovation elements

<i>Program/ initiative</i>	<i>Objectives</i>	<i>Impact</i>	<i>Assessment</i>
Guideline on 150 per cent tax concession for R&D	To encourage the uptake of the tax concession by food firms.	No discernible impact on large firms or on the level of tax concession claims at the industry level. Some impact possible on a small number of targeted firms.	No evidence of the guideline encouraging significantly greater food industry uptake of the 150 per cent R&D tax concession.
Australian Food Industry Science Centre	A technology cluster to better coordinate and focus research efforts. To provide the impetus to commercialise and use new ideas.	Has benefited a number of firms and achieved a good reputation amongst industry stakeholders.	In the short time it has been operating, the centre appears to have been successful in meeting its objectives.
Australian Food Science and Technology Forum	To provide a strategic direction for food education and research.	No data yet available.	Too early to make an assessment.

5.5.1 The 150 per cent R&D tax concession guideline

The intention to produce a 150 per cent R&D tax concession guideline was announced by the government in its July 1992 statement launching the Agri-Food Strategy. The guideline was developed by DIST (in consultation with others). It was launched at a series of seminars in each state during the second half of 1993. The seminars involved tax consultants and senior industrialists making presentations on the use of the concession to food industry audiences.

If we accept the results of the telephone survey of large and medium firms, the guideline appears to have made a reasonable impact on the food industry. This shows almost 50 per cent of firms aware of the guideline. However we suspect the telephone survey may significantly overstate the actual awareness, as there may have been some confusion amongst firms between the guideline and the 150 per cent R&D concession itself. In this regard, we note the LEK study also showed an awareness factor of 50 per cent for the 150 per cent R&D concession (see section 5.1).

None of the large firms interviewed during the study benefited from the guideline. While a number claimed the concession, they had discovered its existence through other means. This was to be expected for the industry leaders. At the wider industry level, we can check if a discernible increase in the number and/or amount of tax concession claims has occurred in recent years. If so, this may be attributable in some small way to the guideline. In *Taking Stock* (DIST 1994a) it is claimed that ‘...since the release of the guideline, usage of the concession by the food industry has risen substantially’. However, this statement appears to

have been based on a limited sample of food firms. The quantitative evidence shows that both the number of food company claims and the expenditure claimed have been declining as a share of total manufacturing claims since 1992-93 (see appendix 4).

In summary, we have found no evidence to suggest the guideline has encouraged greater food industry uptake of the 150 per cent R&D tax concession or induced additional R&D spending in the food industry. It might have had a relatively small impact amongst firms directly involved with the dissemination seminars (and possibly others via the industry network).

5.5.2 Australian Food Industry Science Centre

The Agri-Food Council endorsed the idea of food technology clusters floated in the joint statement in 1992. The technology cluster concept was developed by the council and taken up by the Victorian government. The first food technology cluster, the Australian Food Industry Science Centre, was eventually established in Werribee (Victoria) in October 1994. The federal government contributed \$1 million to the centre. However, the bulk of the funding has been provided by the Victorian government.

The centre is a facility to undertake applied research and pre-competitive innovation projects. Its aims are to provide the impetus to commercialise and use new ideas. It has become well known during the short period of its existence. The AFISC was the most recognisable of all the strategy components in the telephone survey. Business Victoria's submission to the evaluation contains a Food Victoria paper claims that the centre has already become Australia's premier food research and development institution.

The centre has been accessed by five of the large firms interviewed and received favourable reviews, although only one said it had obtained major benefits. One firm benefited from using the centre's analytical services while another has used the centre for factory trials to develop new products before purchasing new technology. Three of the large firms also rated the *potential* benefits of the centre as being moderate to major. Several medium to large firms in the telephone survey also indicated they had gained major benefits from using the centre.

The AFISC is regarded by the Agri-Food Council and its secretariat as being part of the Agri-Food Strategy and we include it in this assessment. At the same time, it is interesting to note that the Food Victoria strategic directions paper, included as part of the Business Victoria submission, identifies the creation of the AFISC as a Food Victoria achievement. In truth, 'ownership' of the AFISC should probably be jointly shared by the council and the Victorian government. It appears that the strategy and the council sparked the *idea* for technology clusters and the council's Innovation Working Group developed a *strategy* for bringing the idea to reality. At the same time the Victorian government funded the AFISC at Werribee (with a small contribution from the federal government).

The limited information available suggests that the AFISC has been a successful initiative. It has relatively high recognition in the industry and has already benefited a number of firms. Most Agri-Food Council members and Food Victoria also hold the centre in high regard. Overall, in the short time it has been operating, the centre appears to have been successful in meeting its objectives.

5.5.3 Australian Food Science and Technology Forum

The forum is a recent initiative. It was established in August 1995 by the Agri-Food Council, with the support of industry and research providers. Its aim is to provide a strategic direction for food education and research.

It was too early to assess any impacts of the forum during the course of this study. However, we note the view expressed by the CSIRO noting that the forum is expected to effect greater coordination of food R&D and the rationalisation of government R&D structures. It also expects the forum to lead to education and training activities, with an emphasis on priorities set on the basis of the national interest and on future markets.

In summary, no data is yet available to allow an assessment of the forum.

5.5.4 Industry-wide effects

We have looked at the three major innovation components of the strategy, but is there anything we can add about innovation at the industry level? Does the sum of the strategy components show up in changing levels of industry R&D and innovation? Is it possible that the strategy has encouraged a more innovative culture in the food industry?

Unfortunately, the only innovation data available is for the entire period July 1991–July 1994, which does not allow for any assessment of changes. The available R&D data is inconclusive. It shows that food industry R&D expenditure as a share of production increased slightly in 1992-93 and remained stable in 1993-94. This compares with data for manufacturing as a whole which recorded a significant increase in R&D expenditure in 1992-93 followed by a decline in the following year.

Some evidence of a changing innovation culture is provided by CSIRO in its submission to the evaluation. CSIRO highlights the indirect ways the Agri-Food Strategy might be assisting the innovation objectives of the food industry:

The strategy has served to highlight that innovation and R&D can provide a significant competitive edge for companies. ...It is clear that the strategy has significantly increased the awareness of food industry chief executives of the importance of innovation and food R&D.

At the same time, CSIRO also notes that it is unclear whether the strategy has contributed to a better allocation of scarce research dollars or an increased uptake of food R&D outcomes.

Overall, there is little in the way of hard data to indicate that the strategy's innovation component has had a significant impact on food industry innovation and R&D expenditure.

5.6 Overall assessment

In this section we provide an overall assessment of the Agri-Food Strategy programs and initiatives. The assessment is limited to the impacts and effectiveness of the strategy components. Questions of appropriateness are dealt with in chapter 4. The question of whether the strategy components should be continued and, if so, the *changes* required to improving their effectiveness, is considered in chapter 8.

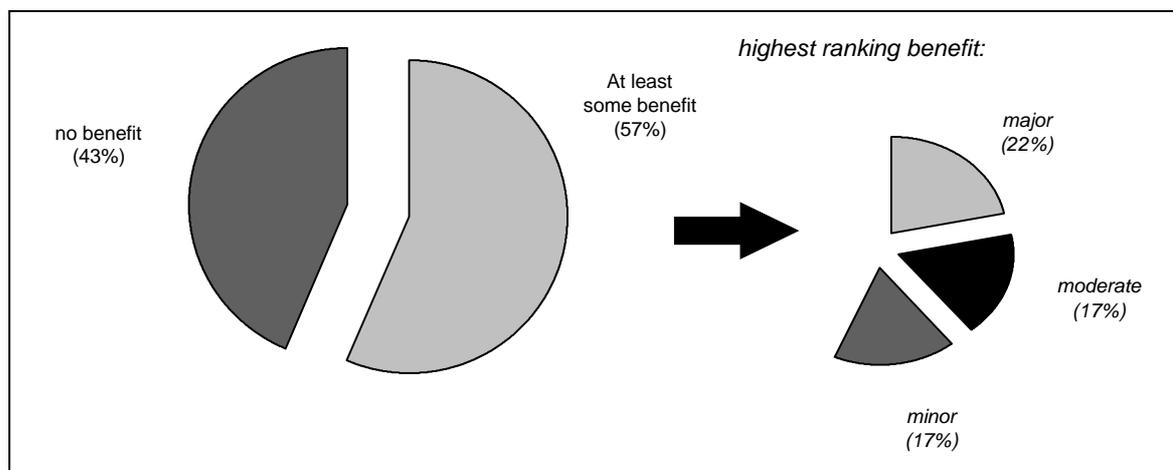
We commence this assessment by looking at the impacts of the strategy components at an aggregated level. In the face-to-face interviews conducted during the evaluation, large food firms were asked to state if they obtained any benefits from their involvement in strategy programs or initiatives and to classify any benefits as either major, moderate or minor.⁴²

Almost 60 per cent of the firms involved with the strategy components obtained *some* form of benefit (figure 5.3). In addition, around one-third of firms benefited from more than one strategy program or initiative. Most of the benefits gained were considered to be minor or moderate ones — only 22 per cent of firms believed they had benefited to a major extent from specific strategy programs or initiatives. No particular strategy component was identified as distinctively more beneficial than other components. Approximately 40 per cent of firms stated they had failed to benefit at all from their involvement with a strategy component.

Figure 5.3 can give a misleading negative perspective on the overall impact of the agri-food initiatives, because it does not take account of the scale of the resources expended under the strategy compared to the scale of the industry as a whole. Thus consider the relatively small number of producers who obtained 'major benefits' from the strategy. These firms accounted for around \$2 billion of sales in 1994-95, of which value-added might have represented about \$700 million (based on overall industry data). If the 'major benefits' received by these producers translated into a productivity increase of say, 2.5 per cent each, then the return from just these firms would be around \$17.5 million. This is sufficient to cover the cost of the entire strategy and make the programs worthwhile.⁴³

⁴² See appendix 4 for the 'scores' for individual strategy components.

⁴³ In fact, the Agri-Food Strategy might only have to obtain a permanent productivity gain of about 1/50 of a percentage point in the agri-food industry to eventually produce a 100 per cent rate of return. See appendix 8. Note, however that in producing these calculations we are making an assumption that a productivity gain in a particular industry represents a gain in national welfare. While this is normally the case, there are circumstances when it is not true (for example, the productivity of one sector might be at the expense of productivity elsewhere, or the productivity might be gained at the expense of allocative efficiency — as in the exercise of market power).

Figure 5.3 Overall benefit to firms from Agri-Food Strategy components

Source: BIE/ABARE interviews.

What can we say more specifically about the impact and effectiveness of individual strategy programs and initiatives, taking all factors into account (not just the views of participating firms)? The strategy elements fall into two broad categories:

- programs and initiatives which have large target groups and fairly wide objectives, such as the MOU, FILLIP, and the regulation and packaging initiatives. Relatively modest resources have been expended on these programs. When the targets are large, but the instruments are very small, it is usually difficult to quantify the benefits or to detect marked changes in industry performance — an elephant will probably not respond to a tiny pin-prick; and
- programs and initiatives which have very specific target groups and narrower foci, such as the grower-processor linkages and the air-freight code of best practice. Here, resources expended have more closely matched the scale of the problems. But improvements in these areas — like Tasmanian potatoes — cannot make a visible impact on all of industry performance.

The two strategy components which appear to have performed best are the innovation initiative, AFISC, and the networking program, FINA. However, we qualify these favourable assessments by noting that:

- the idea for AFISC was generated by the council but it has been primarily funded by the Victorian government — so that it is unclear to what extent its success should be traced to the Agri-Food Strategy. Moreover, it has received a far greater amount of resources than other Agri-Food Strategy components — which has clearly contributed to its high recognition and relative success; and
- we were unable to specifically assess any of the FINA networks as part of this evaluation. Instead we relied on data from a 1995 BIE study on networks which included firms in the food industry. However, these data provide reasonable circumstantial evidence that FINA has had favourable impacts and been effective in meeting its objectives.

The assessment for the three other strategy programs — which account for around 80 per cent of total Agri-Food Strategy funding — provides mixed results:

- FILLIP appears to be having reasonable success at the firm level and contributing to skills growth in the industry. While we found no quantifiable evidence of the relationship between FILLIP and productivity increases, there is anecdotal evidence that the program has contributed to cost savings and efficiencies;
- we found little evidence that the Clean Food Export Program had increased exports for the six Taiwan campaign participants we interviewed, but other data indicates that ten of the clean food licensees, as a group, increased their exports to Taiwan by 25 per cent in 1994-95. Furthermore, six CFMA branded licensees, as a group, increased exports by 56 per cent in the same period. However, these statistics do not separate the influence of the clean food marketing program from other factors — and so remain a doubtful basis for a positive assessment. There is some evidence that the CFEP has provided indirect benefits to its participants. On the other hand, the program has had no apparent spillover benefits for other Australian food exports to Taiwan; and
- it is far too early to make a reliable assessment of the effectiveness of the Food Quality Program.

The other high profile strategy component, the MOU, has had a limited impact amongst the large food firms interviewed and has produced few concrete outcomes (such as productivity improvements). It has had some success in raising the profile of workplace reform issues but appears to have become dated as the industrial relations focus has shifted to workplace bargaining. It is failing to adequately provide practical guidance on workplace bargaining in individual enterprises.

The remaining strategy components have had only minor impacts on the whole, although with some relatively significant achievements in their midst:

- the Processed Food Market Access Committee, for example, has had some limited successes in identifying and remedying market access impediments for Australian food firms. Moreover, the revamping of the committee in mid-1995 and its work since suggests that more significant achievements may occur in the future; and
- the grower-processor projects have realised few tangible benefits overall, but the Tasmanian potatoes best practice program (part of one of the grower-processor projects) provides a good example of industry improvement.

Other strategy initiatives are too early to evaluate — the code of best practice for the air freight export of perishable goods and the Australian Food Science and Technology Forum. Both were launched in the second half of 1995.

The fact that overall impacts on industry performance have been small is neither surprising nor necessarily symptomatic of policy failure. The scale of the resources applied through the strategy elements to solve the problems besetting the industry is tiny in comparison with the scale of resources that are committed in the industry as a whole. Small investments

typically reap small absolute gains. However, several of the strategy elements have still managed to succeed in modest ways and are likely to show net benefits.

On the other hand, the Agri-Food Strategy established an ambitious objective of making a discernible difference to industry performance. The evidence from our assessment of individual programs and initiatives suggests that this objective has not been met. But before drawing any final conclusions, we need to examine the impact of the strategy as a whole.

6 Effectiveness and efficiency of the overall strategy

In the previous chapter we considered the separate impacts and effectiveness of the individual Agri-Food Strategy components. We turn now to try and assess the effectiveness of the strategy as a ‘strategy’. This is not just a case of attempting to balance the results of the assessments of the individual strategy components to reach some kind of bottom line. One of the rationales for an industry strategy is that the benefits to the industry may be greater than the sum of the constituent programs and other components. Accordingly, measuring the performance of the ‘strategy’ requires a wider assessment of the industry impacts.

We have approached the task of evaluating the impacts and effectiveness of the strategy as a ‘strategy’ by assessing how it has performed against the stated objectives in the terms of reference for the study (see appendix 1). Accordingly, the sections to this chapter assess the effectiveness of the Agri-Food Strategy against the following objectives:

- facilitating the reorientation of the agri-food industry to a more outward orientated perspective, particularly with regard to Asia, and improving its export performance (section 6.1);
- identifying and removing impediments to the international competitiveness of the industry, including those affecting the production, processing, marketing, transport and distribution of food (section 6.2);
- facilitating increased and better cooperation and coordination within the industry (section 6.3); and
- facilitating increased and better coordinated investment by the industry in innovation, research and development (section 6.4).

We also deal with questions of efficiency in section 6.5 before concluding the chapter with an overall assessment of the effectiveness of the strategy (section 6.6).

6.1 Export performance and outward orientation

Encouraging added value and bringing about a substantial increase in highly processed food exports was a key motivation behind the decision to implement the Agri-Food

Strategy. Accordingly, it merits special attention as a measure of the strategy's effectiveness.

Finding the benchmarks for gauging the food industry's export performance in recent years is difficult. We decided on several ways of examining the export growth issue. First, there is the very specific \$7 billion target for highly processed food exports stated in the joint statement announcing the Agri-Food Strategy (Button and Crean 1992). Second, there are the general food industry export performance indicators discussed in chapter 2 — such as changing export propensities and export market penetration. Third, and critically, we are interested in what the major agri-food firms say are the *causes* of any growth in highly processed exports. This will provide a direct indication of the effects of the strategy in inducing export growth.

6.1.1 The \$7 billion export target

In the joint statement of July 1992 it was noted that 'within a decade exports of highly processed foods could be over \$7 billion per annum in real terms' (Button and Crean 1992).⁴⁴ This target was determined by assuming the growth in exports (in real terms) would gradually increase from 6 per cent per year in 1991-92 to 18 per cent per annum in 2001-02 (DITAC 1991). The much higher growth rates towards the end of the period are presumably based on an export culture developing and new markets being opened.

Notwithstanding the reasoning behind incremental export growth rates, another way of looking at the \$7 billion target is to calculate the *average* annual growth rate required if it is to be achieved. For Australia to achieve the export target of over \$7 billion per annum, exports of highly processed food and beverages need to increase in *real* terms by 12.1 per cent every year (on average) over the next seven years.

This required growth rate is substantially above the forecast export growth rates discussed earlier in the report.⁴⁵ Monash University and Syntec Economic Services (Monash/Syntec 1995) forecast that annual agri-food exports growth (including both highly and minimally processed) will peak at around 9 per cent in 1997-98. After that growth is expected to gradually fall away to annual growth rates of around 5 per cent near the end of the decade.

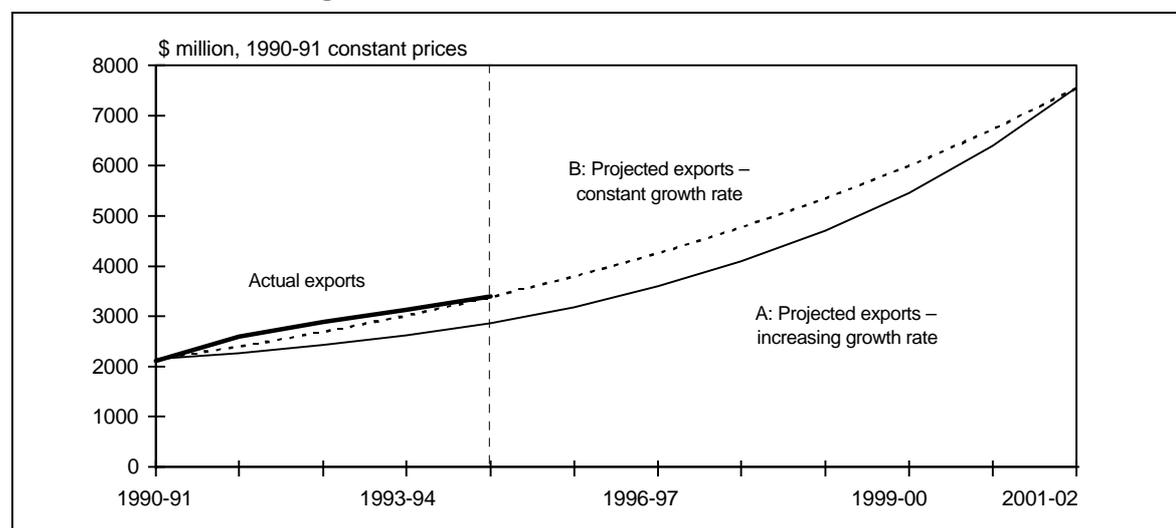
The latest data, however, suggest that Australia's highly processed food export performance may be currently on track to meet the \$7 billion target (figure 6.1). To date, Australia's actual export performance has been above the forecast export path (which is illustrated by line A in figure 6.1). It is also approximately on target if we assume that the

⁴⁴ The original statement referred to 'highly processed' exports, while subsequent literature sometimes refers to 'high value-added' exports. The difference is discussed in appendix 6. We use the highly processed definition for assessing performance against the target.

⁴⁵ See section 2.4 in chapter 2.

target level of real exports is to be achieved assuming a *constant* growth rate (line B in figure 6.1).

Figure 6.1 Real exports of highly processed food and beverages — actual and target levels



Note: The deflators used in compiling the chart are shown in appendix 6.

Source: DFAT Stars database, ABS unpublished working estimates and DITAC (1991).

However, the recent export performance needs to be qualified by the fact that export growth between 1990-91 and 1994-95 has been mainly driven by a large 23 per cent increase in exports in 1991-92 — the year *before* the strategy was announced. The growth rates in the subsequent years have been below the average target rate (12.1 per cent) — being 11.3 per cent, 8.3 per cent and 8.4 per cent respectively for 1992-93, 1993-94 and 1994-95.

In other words, there is no evidence of the steady incremental export increases which would be expected if the Agri-Food Strategy was increasingly biting in its effect. Export performance since the inception of the strategy will need to be improved for the target to be met.

Forecasts for food exports show the magnitude of this task. Figure 2.4 in chapter 2 shows the growth rate of all agri-food exports (that is, both highly and minimally processed) climbing to around 9 per cent per annum by 1997-98, but then falling away over the following four years. These growth rates would not be sufficient to meet the \$7 billion target. However, it should be pointed out that these forecasts shadow the general manufacturing forecasts and have not apparently taken any special food industry factors into account.

In sum we can say that the export performance of highly processed foods is *currently* on track to meet the \$7 billion per annum target by 2001-02, but this only because of an exceptional export performance in 1991-92 (before the Agri-Food Strategy commenced).

There is no evidence to date of an accelerating pace of export orientation anticipated at the inception of the strategy. To remain on target over the next seven years the industry will have to achieve higher growth rates (averaging around 12 per cent per annum in real terms).

Moreover, the \$7 billion target has been determined arbitrarily. It begs the question of what would it really mean if it were actually to be achieved. Clearly, by itself, it would not necessarily mean the food industry (or the strategy) had been highly successful. In the next section we consider some other export measures which will help to place the target in a broader context. More importantly, these measures may establish whether there are any causal links between the strategy and improved food industry export performance.

6.1.2 General export performance indicators

There are several other indicators to gauge export performance since the commencement of the Agri-Food Strategy:⁴⁶

- the share of processed food exports in manufactured exports;
- changes in highly processed food exports;
- changes in highly processed food exports *relative* to other manufactured exports;
- changes in export *propensity*; and
- export market *penetration* in target markets.

In 1991-92, processed food exports accounted for 24.2 per cent of Australian manufactured exports. In 1994-95 this proportion was exactly the same. In other words, over the course of the Agri-Food Strategy the processed food industry has been unable to lift its share of manufacturing industry exports. However, it would have risen slightly but for the relatively poor performance of minimally-processed food exports.

Recent growth in Australian highly processed food exports in fact appears quite impressive. Currently, around two-thirds of Australia's processed food exports go to APEC countries. The highly processed food component of these exports to APEC have grown at an annual rate of around 11 per cent since 1991-92, a faster rate of growth than in the previous three year period.

However, a comparison of highly processed food exports with other high value-added exports indicates that rates of export growth of highly processed foods to APEC are well below those of non-food elaborately transformed manufactured exports. This poorer performance by food includes the three year period since 1991-92, when the annual growth of non-food manufactures increased at an annual rate of around 16 per cent.

⁴⁶ Some of the data in this section is drawn from the description of the recent trade performance of the agri-food industry in chapter 2.

Export propensity is the proportion of an industry's sales which are exported. The food industry is currently in line with manufacturing industries in general in exporting around 25 per cent of its products. The export propensity has increased gradually for food since the late 1980s, whereas a more rapid increase for non-food manufactures occurred at the beginning of the 1990s.

For food exports to APEC countries, the export propensity was actually *lower* in 1994-95 than 1991-92. This contrasts with the data for non-food manufactures — no other manufacturing industry had a lower export propensity in 1994-95 than 1991-92. However, 1994-95 was not a good year for food with highly processed food exports to APEC only growing by 4.6 per cent (compared with 17 per cent the previous year). In addition, minimally processed food exports to APEC declined by 7 per cent. The severe drought will have had some influence in limiting supplies of raw materials for processing.

We also compared recent growth of exports to APEC countries from Australia, the US and Western Europe. Due to data comparability problems, we were only able to do this for a selection of processed food exports (dairy products, fish and fish preparations, sugar, sugar preparations and honey, feeding stuff for animals and beverages). The data reveal very similar export growth rates for Australia, US and Western Europe in the late 1980s. But in the most recent period (1992-94), Australia has enjoyed much higher growth rates in exports to APEC than its competitors (see figure 2.12).

Overall, the export performance of the food industry since the Agri-Food Strategy commenced is generally unremarkable compared to other manufacturing industries. The recent growth in highly processed food exports to APEC countries only looks high when viewed in isolation.

It may be that a common underlying set of factors explain the increased levels of highly processed food exports *and* other manufacturing exports in recent years — with little role for the Agri-Food Strategy. These might include increased overseas demand for high value-added products, exchange rate changes, a generic cultural change towards exporting, and the increased productivity of Australian industry.

6.1.3 What do agri-food firms say about export growth?

So far we have been looking at only aggregate data on the food industry's export performance — at best, a crude tool, when so many factors shape export performance. We need to specifically assess the extent to which the strategy induced export growth in the agri-food industry.

We did this by asking firms to estimate the impact of the strategy on their exports. The type of large firms we interviewed dominate the food export trade and are the ones expected by the strategy to drive the export performance of the industry. To what do they attribute recent changes in their own export growth?

The firm interviews reveal that a variety of factors are at work in explaining increased export sales in recent years. These include:

- lower costs and increased efficiency;
- increased price competitiveness;
- lower trade barriers;
- new infrastructure in place in Asia; and
- company focus on export opportunities.

The Agri-Food Strategy was perceived by some firms (around 15 per cent) as a minor contributory factor to improved export performance. But on the whole we did not find much evidence at the *firm level* of the strategy being either directly or indirectly responsible for firms' export increases.

It may be of course that these firms have failed to recognise some of the strategy's more subtle influences on their export performance, or that some of the benefits may be realised later. However, there is no escaping the overall conclusion that the majority of the largest food firms (around 85 per cent) do not attribute recent export growth to the Agri-Food Strategy.

6.1.4 A more outward-oriented perspective?

At the subjective level, we obtained some anecdotal evidence at the face-to-face interviews that numerous large food firms were increasingly looking to export markets as part of their overall market strategies. One said it was changing from an 'export by default' strategy to one much more heavily focused on export growth targets. Others had made a deliberate decision to pursue opportunities in the APEC region by purchasing exporting companies. One large firm specifically mentioned the Agri-Food Strategy as affecting the more positive way it now regarded export markets. But for others, other factors were seen to be driving the changes.

Both the CSIRO and Austrade submissions comment on outward orientation. CSIRO considers that the agri-food industry has become more outward looking, particularly the production as opposed to the processing sector. However it questions how much of this change is due to the strategy. Austrade observes that the agri-food industry now has a heightened awareness of exporting, although still lagging behind the 'export to survive' culture adopted by countries such as New Zealand. Austrade also believes the continuing presence of the Agri-Food Strategy and the council will be an appropriate vehicle to assist in moving closer to the goal of establishing 'Australia Inc' overseas.

The acid test of the outward orientation of an industry is its *actual* export propensity. We find (see chapter 2 and section 6.1.4 for more details) that the export propensity of processed food products in Australia has increased only marginally in recent years — from

around 22 per cent in 1988-89, to 24 per cent in 1991-92 and 25 per cent in 1994-95. And in any case, the evidence from the earlier discussion suggests that this is very unlikely to be due to the influence of the strategy itself.

6.2 Dealing with impediments to international competitiveness

The strategy was intended to search and destroy impediments to international competitiveness in the food industry. We analyse these twin targets separately. Ultimately though, the success of this aspect of the strategy lies in removing the most significant impediments to industry performance.

6.2.1 Search: the identification of impediments

The various components included in the original Agri-Food Strategy, announced in 1992, were targeted at removing impediments to industry development. The initiatives were the response to several studies of the agri-food industry.⁴⁷ These involved widespread industry consultations and the participation of major stakeholders.

The report of the food processing reference group (DITAC 1991) — which was the most influential in forming the basis for the strategy — identified three groups of impediments:

- those arising from the international trading environment;
- those resulting from the Australian business environment; and
- those internal to the food processing industry itself.

The strategy reflected the concerns of stakeholders at the time and attempted to deal with the impediments they identified. With this in mind, it is difficult not to conclude that the original strategy was ‘effective in *identifying* impediments to international competitiveness’. But has the strategy kept on evolving since its inception and identified other impediments?

The original strategy has been modified from time to time to include new elements. The Agri-Food Council has identified and acted on two particular industry concerns which could be regarded as impediments to industry competitiveness. The first was the cost of local packaging supplies and its impact on international competitiveness. The second was restrictions to access to air freight for the export of perishable goods.

In addition, the Food Quality Program (announced in *Working Nation* 1994) was added to the suite of programs and initiatives included in the Agri-Food Strategy. This program was

⁴⁷ Most notably, an industry-government working group report to the Prime Minister’s Science Council and the food processing reference group which reported to Senator Button (DITAC 1991).

established in response to concerns that a responsible approach to quality was necessary for the food industry to maintain its competitive advantage and achieve its export targets. Although this program was not developed by the council, it could be argued that it may never have been developed in the absence of the government focus on the food industry and without the context of a strategy.

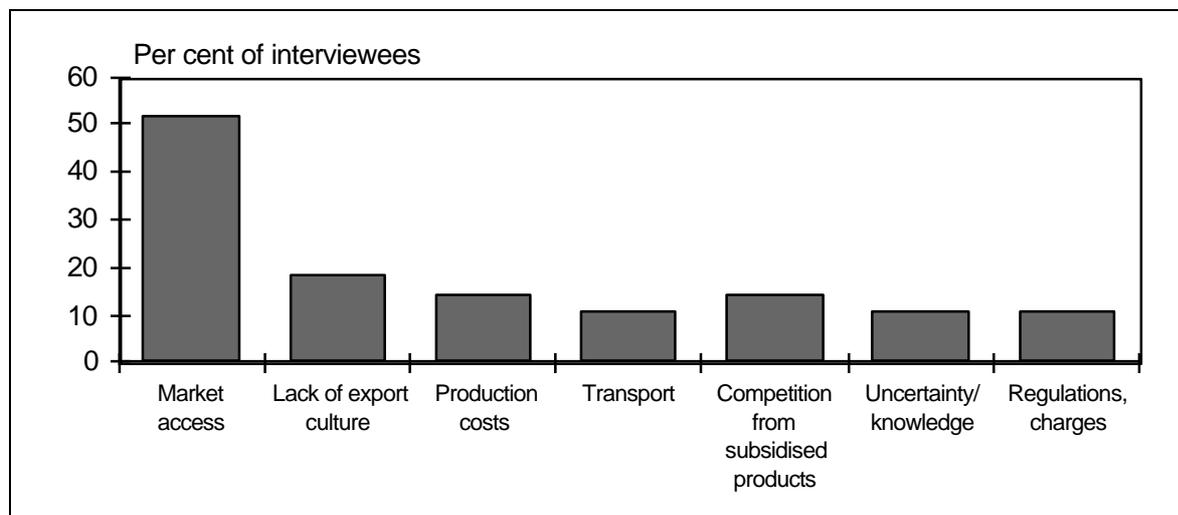
So, *on the surface*, we can say the strategy appears to have identified important impediments both at the time of its inception and as it has evolved. But two important questions remain concerning the relevance of the identified impediments. First, have the impediments identified really been important ones? Second, has the strategy left out important impediments?

As part of this study we asked agri-food industry firms to nominate the major impediments to exporting. We did this with both the very large firms at the face-to-face interviews and the medium to large firms in the telephone survey.

The impediments identified by the firms at the face-to-face interviews are shown in figure 6.2. Obtaining access to overseas markets is easily the most prominent impediment to exporting. It is an issue affecting firms across the food industry spectrum — from fruit and vegetable processors to confectionery firms. Both tariff and non-tariff barriers are important.

A variety of other issues serve as export impediments to a lesser degree. Several firms put forward arguments that a cultural change by Australian managers is still needed. They argued that managers do not take exporting seriously enough, they do not have an exporting mind set or they consider export as an afterthought to domestic sales. Other noted impediments are transport costs, regulations, uncertainty/lack of knowledge and competition from subsidised products.

Figure 6.2 Impediments to exporting — large firms



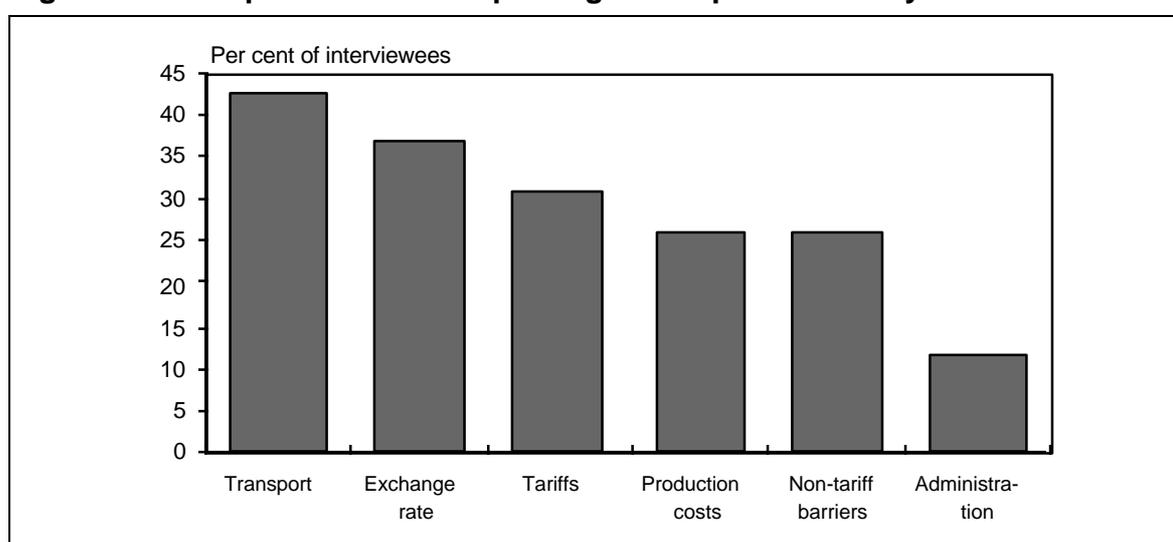
Note: Percentages add up to more than one hundred as most firms identified several impediments.

Source: BIE/ABARE interviews. Number interviewed: 27 firms.

The medium and large firms in the telephone survey were asked to nominate impediments to exporting to countries in the Asia-Pacific region (figure 6.3):

- over 40 per cent of firms nominated transport costs (and availability) as one of the most important impediments;
- however, combining tariffs and non-tariff barriers under a ‘market access’ banner indicates that around 55 per cent of firms regard this as the key impediment;
- production costs and ‘regulatory/administrative’ burdens appear as lesser evils; and
- exchange rate variability was seen as an impediment by over one-third of firms.

Figure 6.3 Impediments to exporting — telephone survey



Note: Transport is predominantly transport costs, but also availability. Administration includes regulations, AQIS, licensing, documentation and inspections. Percentages add up to more than one hundred as most firms identified several impediments.

Source: BIE/ABARE interviews.

What do these views tell us about the effectiveness of the Agri-Food Strategy in identifying impediments to international competitiveness? Most of the identified impediments have been picked up in some way. The biggest overall issue, market access, is an integral part of the strategy although not very prominent. It has mainly been addressed through the work of the Processed Food Market Access Committee, which has low recognition in the industry and limited success. A somewhat broader definition of ‘market access’ might also include the strategy’s export development initiatives (Clean Food Export Program and Food Quality Program).

Transport is one of the secondary issues for the very largest firms but heads the list of impediments for other firms. This could signal for the latter group a heightened sense of competition in overseas markets — margins are tight and an efficient transport infrastructure is therefore seen as critical. The Agri-Food Strategy has sought to deal with transport issues only to a limited extent and its major initiative (the air freight best practice code) has only recently been announced. However, in a broader sense the Agri-Food

Council has also taken a recent interest in microeconomic reform issues (which includes transport).

The other important exporting impediments — lack of an export culture and exchange rate movements — are issues not specifically addressed by the strategy. The survey evidence suggests that an export orientation is underdeveloped for some firms. While much of the rationale behind the strategy and its elements lies in developing an export culture amongst agri-food firms, it has not been a particular focus of council work.

Dealing with exchange rate risk is clearly a problem for many firms. But it is not a matter which fits naturally under an industry strategy dealing with industry-specific impediments. Exchange risk is generic to all exporters across all sectors. In any case, the grounds for government assistance are weak — exchange rate risk is much like other business risks and there are well developed insurance markets which enable firms to limit their short to medium term exposure.

CSIRO's submission has concerns with overseas ownership, raw material suppliers and high production costs as impediments to international competitiveness:

Australia's processed food industry is largely overseas-owned, so that strategies for Australian companies are subordinated to global strategies of parent companies.

Among the other major impediments to industry competitiveness

- raw material suppliers (agricultural produce) who are not generally geared to supplying according to exacting specifications;
- the propensity of the raw material suppliers to the processing industry to switch from export to domestic markets as prices change, thus inhibiting building strong relationships with Asian suppliers; and
- high production costs. In some cases, especially with convenience foods, production run length has been very short and has contributed to high production costs in older plants where equipment was installed to be operated with single shifts of five day weeks (CSIRO submission).

Numerous reports relating to the food industry in recent years have addressed, *inter alia*, impediments to international competitiveness. Two of the most prominent were the *Competitiveness of Australian Industry, Report No 1, The Processed Food Industry* (AATS&E 1994) and *Food into Asia: The Next Steps* (PM&C 1994).

The former, which was based on a survey of CEOs in the processed food industry, identified various export performance impediments worthy of government attention. These included an unattractive investment climate and taxation regime, indirect taxes and charges, under-performance by AQIS and NFA, bilateral market access issues, lack of information on government assistance programs and the pace of microeconomic reform. The latter report discussed a range of issues but noted three particular impediments amenable to

government attention: competition in input costs, labour market flexibility and market access.

In conclusion, the strategy has been successful in identifying impediments to international competitiveness in the food industry. Importantly, the strategy has emphasised the overarching significance of efficiency, best practice and increased productivity as means to raise competitiveness in the food industry.

6.2.2 Destroy: the removal of impediments

There are only a few examples of the Agri-Food Strategy directly removing impediments to international competitiveness. Changes to the by-laws affecting the importation of packaging materials and equipment were announced as part of the original strategy initiatives. In addition, the Processed Food Market Access Committee appears to have had two notable successes. It was instrumental in removing an import ban on fruit and vegetable juice mixtures in Thailand and in removing import licensing restrictions on agricultural and meat products in the Philippines (*Taking Stock*, DIST 1994a).

But the complete removal of impediments is generally an unrealistic aspiration. The nature of most of the impediments to international competitiveness discussed above does not easily allow for their elimination. It makes more sense to judge the strategy's performance in *reducing* impediments to competitiveness. This translates into assessing how successful it has been with its various programs and initiatives.

The impact of the strategy elements on particular impediments was assessed in chapter 5. Varying degrees of success are evident amongst the four major strategy groups — none are strongly identified with reducing impediments to competitiveness, but there have been modest overall achievements.

The extent to which the strategy has been successful in removing food industry impediments is discussed further in the assessment of the Agri-Food Council in chapter 7.

6.3 Cooperation and coordination within the industry

The agri-food industry is a diverse one. If it is to grow and prosper and produce greater levels of highly processed products, it will require a substantial degree of cooperation and coordination between the industry participants.

A key objective of the Agri-Food Strategy is better cooperation between industry participants. The joint statement (Button and Crean 1992) stated that:

strengthened and effective working relationships between growers, processors, packagers and employee representatives can then be used to build strategic alliances and construct creative and practical solutions to problems that arise with industry reform.

There are two aspects to this objective. The first is at the ‘grass roots level’ with growers, processors and other firms having to work more closely together to produce internationally competitive products and more exports. The second is at a more strategic level with better cooperation sought between growers, firms and employee representatives to develop common goals for the future.

The food processing reference group which framed the Agri-Food Strategy was very conscious of the historically poor level of cooperation along the food industry value chain (DITAC 1991). It noted that the agricultural industry has tended to be geared to export markets while the food processing industry has been focused on the domestic market. An improved export orientation would depend on overcoming the fragmentation in the value chain.

The journey from paddock to plate can involve considerable planning, protracted negotiations and many decisions — and provide plenty of scope for information deficiencies and communications breakdowns. Cooperative behaviour along the value chain and in horizontal arrangements can generate sizeable benefits — as the BIE (1995) found in its empirical study of linkages in manufacturing. Cooperation can boost productivity and efficiency by:

- aiding firm learning, by sharing information about markets, products, processes and best practice management;
- overcoming cultural inertia (such as low export proclivities or tolerance of inefficient processes);
- allowing firms to combine resources so as to overcome problems of scale or scope (such as marketing effort); and
- facilitating coordination of production up and down a chain of fragmented producers. For example, a better quality potato chip may require different potatoes, different picking practices, and different distribution and warehousing practices. An arm’s length approach is unlikely to find the optimal solution to bringing all parts of the vertical chain together in the quickest way, once it is acknowledged that not all producers in the chain are perfectly efficient.

Most of the strategy programs and initiatives contain a significant element of cooperation and coordination by industry participants (box 6.1). What this shows is that a wide variety of policy tools have been applied to try to improve industry cooperation and coordination. How well these tools have worked in terms of concrete industry outcomes is assessed in the discussion of the impacts of the various programs and initiatives (see chapter 5).

Whether individual strategy elements are successful to date or not, it is doubtful that the degree of industry cooperation produced by the Agri-Food Strategy would have otherwise occurred. There appears to have been little recognition of a processed food industry in Australia prior to the strategy. This has now changed.

Box 6.1 Cooperation and coordination within strategy components

- Clean Food Marketing Australia Ltd is jointly owned by the federal government, the National Farmers' Federation and the Grocery Manufacturers of Australia. The clean food program itself entails various degrees of cooperation amongst the licensees, including sharing merchandisers and in-store product samplers;
- the Food Quality Program assists groups of enterprises in developing quality strategies. It is specifically concerned with fostering through-chain linkages in the assurance of food quality;
- the grower-processor linkages projects are specifically aimed at industry integration;
- the Processed Food Market Access Committee comprises government representatives from DFAT, DIST, DPIE, Austrade and AQIS and industry representation through the NFF and the Australian Food Council;
- the strategy's SME networking program, FINA, involves bringing together growers, processors and distributors to work jointly in producing products for export to Asian markets;
- in the innovation area, the Australian Food Industry Science Centre is a food technology cluster involving the interaction of industry and public sector research. In addition, the Australia Food Science and Technology Forum is aimed at greater coordination of food research, development, education and training activities;
- the MOU on workplace reform is about employers and employees in the food industry working more closely together and providing a framework for enterprise productivity negotiations;
- the industry code of best practice for air freight export of perishable goods is aimed at engendering a commitment to greater cooperation and coordination by key stakeholders in the chain; and
- the packaging and regulatory reform elements have brought together key stakeholders for discussions on industry reform.

Austrade believes the strategy (and the Agri-Food Council) can take credit for helping to accelerate a new mind set (but not for creating it). In its submission Austrade noted the significant advances that had been made in how agri-food companies view their industry:

The division that previously existed between pre and post-farmgate issues is gradually disappearing. Companies now see the need to maximise every element of the value chain in order for them to succeed in international markets. This involves either controlling or having influence over each element.

The recent formation of the Australian Food Council also provides sound evidence that the industry is maturing and accepts the need for a common voice. It can be argued that the

Australian Food Council would not have been formed (or at least not so soon) without the impetus provided by the strategy.

There is an impression then that the fragmented industry at the beginning of the 1990s may be less fragmented today. However, there is undoubtedly a danger in making generalisations based on the experiences of a relatively small number of industry stakeholders. The fact is that the majority of agri-food firms are still unaware of the Agri-Food Strategy programs and initiatives. They have not been involved with the strategy and therefore arguably cannot feel any greater sense of 'industry belonging' than they did five years ago. Industry cooperation and coordination has almost certainly increased and become better through the strategy. But this may still represent a hollow achievement for many agri-food firms.

6.4 Investment by the industry in innovation and R&D

The joint statement announcing the Agri-Food Strategy (Button and Crean 1992) regarded the commitment of the food processing industry to investment in research and development as being 'very disappointing'. The latest available data at the time (1988-89) showed the industry's R&D expenditure to be:

a mere 0.7 per cent of value-added, compared with approximately 1.3 per cent in the US, 2 per cent in Japan and Sweden and more than 2 per cent in the Netherlands (Button and Crean 1992, p 13).

The joint statement argued that this pattern had to be reversed for Australia to achieve international competitiveness in the food processing industry. It also regarded the industry's approach to innovation, particularly pre-competitive research, as being too fragmented.

Three questions need to be posed to evaluate the effectiveness of the strategy in dealing with its innovation and R&D objectives:

- have the levels of innovation and R&D in the food industry increased?
- is innovation and R&D in the food industry now better coordinated than before? and
- to what extent is the strategy responsible for facilitating any changes?

These questions are dealt with in other parts of the report — and suggest limited impacts by the strategy on innovation, bar the establishment of the Australian Food Industry Science Centre and possibly the Australian Food Science and Technology Forum (established in August 1995).

6.5 Efficiency aspects

Efficiency is conceptually easy to measure: it is the ratio of program outputs to program inputs. That is where the simplicity finishes. It is relatively easy to identify the inputs — such as dollars of government expenditure — but much harder to identify the outputs. In particular, there may be:

- many outputs which introduces problems of aggregation to a composite output measure; and
- unobservable or intangible outputs, such as a ‘better cooperative culture’.

It is also important to note that a program could be efficient, in the sense that it might achieve its objectives with few resources, but nevertheless economically unjustifiable because these objectives were not sensible. Efficiency measures simply provide an indication of whether there is scope for improvement, given that the objectives of a program are sensible (or ‘appropriate’).

As we were not undertaking full evaluations of each of a multiplicity of program elements under the Agri-Food Strategy, we were unable to produce full efficiency measures for the program. But we were able to develop some fuzzy indicators which tell us something of the efficiency of the strategy and whether the strategy’s results are satisfactory in relation to the resources expended.

6.5.1 Perceptions of bureaucrats

The first indicator is the first-hand descriptions by bureaucrats in different portfolios of their perceptions of the efficient utilisation of resources.⁴⁸ This covers issues such as coordination between departments, the processes involved and the relationship between inputs and outputs.

The view of the two central agencies involved with the strategy, DIST and DPIE, was that the strategy had resulted in an ‘efficiency dividend’ due to better coordination between government departments. Better working relationships had developed and officers had come to have a better understanding of other departments’ roles. The bottom line was better advice to ministers and more effective program delivery. DIST and DPIE officials also noted that the improved coordination and closer working relationships had resulted in positive spillovers in their dealings with non-strategy programs and other matters.

There was also a view amongst departmental officials that the Agri-Food Council and its secretariat had been given a relatively small amount of resources to administer the strategy — and that the corresponding outputs achieved were quite impressive by comparison.

⁴⁸ Of course, program administrators may provide an excessively rosy picture of the administration of a program they are responsible for. On the other hand, we asked for the views of administrators in a range of departments — and there was therefore scope for cross-departmental criticism.

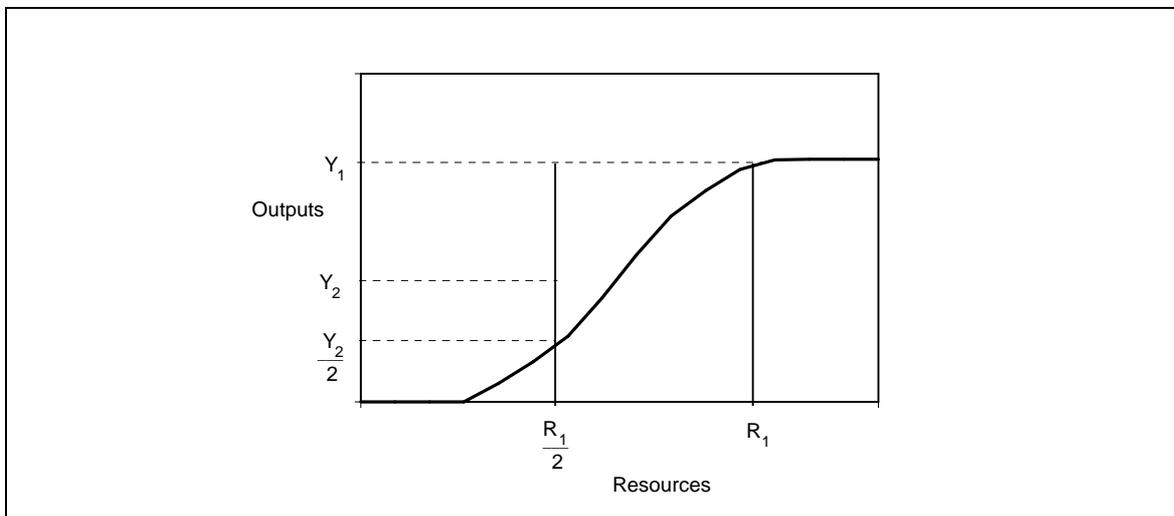
However, this situation was to an extent helped by the fact that members of the council gave their valuable time for free, which has the effect of reducing the true cost of the inputs involved.

Most bureaucrats believed the council/secretariat/working group processes had worked quite well, although there were suggestions of an over-reliance on the role of the secretariat. It was also indicated that the effectiveness and efficiency of some of the working groups had been critically dependent on the individuals concerned.

6.5.2 Adequacy of resourcing

The adequacy of resourcing for each of the program elements is an often neglected but important indicator of efficiency. If there are many programs and few resources, then the resourcing per program can be too modest. Figure 6.4 indicates the potential costs to efficiency from dilution of resources across too many programs. Imagine a policy maker has a choice of either having one program with resourcing equal to R_1 or two programs each with $R_1 / 2$ of resources. If they choose just one program, they get outputs of Y_1 . However, if they choose two programs, they get an output of Y_2 (an output of $Y_2 / 2$ for each). Y_2 is much less than Y_1 .

Figure 6.4 Resourcing dilution and efficiency



Why? There are two reasons. First, for any program, there is a minimum of resources needed before any output is achieved. This is because there are considerable fixed costs in establishing a program: gathering information, initial design, achieving a legislative mandate, setting out guidelines, communicating the existence of the program and so on. Second, there may be economies of scale in a program. It may take a certain critical mass of resources before enough firms know about the program and uptake accelerates. Or it may take a certain level of subsidy before firms respond to a program. Of course, ultimately, there may be a region where there are diseconomies of scale — as shown in

figure 6.4. The goal for policy makers is to make judgements about the optimal resourcing and number of separate programs.

Were all the Agri-Food Strategy components sufficiently resourced to meet their objectives? We know that over 80 per cent of strategy funding went to the four programs — CFEP, FILLIP, FINA and Food Quality. This left few resources to devote to the other strategy components, many of which would have achieved higher outputs with a larger budget allocation and greater industry exposure. The generally poor industry awareness of strategy components provides circumstantial evidence that targets have been missed and that some components have suffered from inadequate resources.

There is evidence too that the strategy programs could have achieved significantly higher outputs with more resources. For example, the NFITC informed the study team that requests for funding in all four FILLIP rounds have exceeded the amount of funding available, thus restricting greater participation. It is likely too that the CFEP would have been more effective if a greater amount of resources had been devoted to individual market campaigns. Furthermore, the CFMA and firms interviewed for the evaluation indicated that the low level of funding for the clean food program effectively limited it to the smaller Asian markets. Over 20 per cent of Australia's food and beverages exports (by value) are directed towards Japan, but the clean food logo is not promoted in the Japanese market due to the expense of doing so.

The overall impression is that the Agri-Food Strategy — and the Agri-Food Council — tried to do too much and spread resources too thinly. In terms of the discussion above this may well mean a dilution of resources on fixed costs and a failure to benefit from economies of scale —with the kind of efficiency loss demonstrated in figure 6.4. This picture of the strategy suggests other efficiency losses — from the council's operational perspective. The council's energy has been dissipated across the numerous programs and initiatives under the strategy umbrella, rather than focused on a more manageable number. Trying to cover too many issues may have led the council to devote too many resources to diagnosing problems and not enough to provide sufficient solutions and outcomes (see chapter 7).

6.5.3 Administrative costs per program user

The third efficiency indicator relates to the cost of providing each firm with assistance. It is measured as the administrative dollars spent per program user. High administrative costs per firm suggest some inefficiencies in processing information and administering a program. It may be due to scale effects (for example, the program is too small, or too large), inefficient administrative practices such as poor information gathering, poor coordination between departments, or poor management practices.

We collected information for the four Agri-Food Strategy programs and the results are shown in table 6.1. The table shows estimates of the administrative costs per firm involved



with the program, as well as the administration costs as a proportion of total program funding. The figures need to be regarded as indicative only and comparisons between the programs should be treated with some caution.⁴⁹

Table 6.1 Strategy programs — administrative costs per program user

<i>Program</i>	<i>Admin costs per firm</i>	<i>Admin costs as a proportion of total program funding</i>
	\$	%
CFEP ^a	15 139 ^b	7.4
FILLIP ^c	5 054+ ^d	15.4
FINA ^e	843	12.5
Food Quality ^c	4 615	11.7

a To June 1995. Data assumed to relate only to the 18 licences for the Taiwan campaign. Administration costs are underestimated, as they exclude CFMA costs. **b** Per licensee. **c** To date. **d** Estimate is administrative costs per FILLIP project. A number of firms were involved with several projects. Also cases of subsidiaries of the same firm being involved in various FILLIP projects. **e** Per network.

Source: Estimates based on information provided by Agri-Food Council secretariat and NFITC.

The key administrative costs per firm vary widely between the four programs, with FINA looking impressive at less than \$1000 per firm. The Food Quality Program, which also brings several firms together in each of its projects, records a considerably higher cost per firm of \$4615. At the same time, the administration of both programs uses approximately the same proportions of total program expenditure (around 12 per cent).

The low administration costs per user for FINA probably reflects the fact that the program administrators are able to deal primarily with network facilitators or lead firms in the networks. From the government's perspective, it appears to be an efficient method for providing assistance to firms. The Food Quality Program provides assistance to around the same number of firms as FINA, but costs over five times as much to do so. However, it typically provides much larger sums of money to assisted project groups than is provided to FINA's networks. It also has a very thorough application and assessment process, including the involvement of a Food Quality Advisory Committee. This committee's roles also include project monitoring and post-project follow-up.

The administrative costs per firm for FILLIP is greater than \$5054. We were unable to be more precise with this figure due to the fact that the data we obtained were based on FILLIP *projects*. Costs per firm were impossible to estimate because a number of firms were involved with several FILLIP projects. In addition, there are cases of subsidiaries of the same firm being involved in various FILLIP projects. FILLIP has the highest administrative costs per firm of the three enterprise improvement programs in the Agri-Food Strategy — which could be explained in part by its one-to-one operating structure.

⁴⁹ The 'administration costs' are the estimated running costs of the relevant program areas in DPIE and DIST (including the NFITC in the case of FILLIP). Any other costs which might be associated with the program's administration are excluded.

However, FILLIP also has the highest administration costs as a proportion of total program funding.

The data for the CFEP have to be viewed in a different light to the other three programs in table 6.1. Unlike the others, CFEP is not an enterprise improvement program with a focus on assisting individual firms. It is an export promotion program with the aim of building on Australia's competitive advantage in food production.

The administrative costs for the clean food program are for the period to June 1995 and are therefore assumed to relate only to the 18 licensees involved in the Taiwan campaign. This will overestimate the administrative cost per licensee, as a proportion of these funds would have been given over to developing the Indonesian strategy. On the other hand, the total administration costs for clean food are significantly underestimated as they do not take account of CFMA administration costs (CFMA is jointly owned by the federal government, the National Farmers' Federation and the Grocery Manufacturers of Australia). The CFMA administration costs were unavailable to the study team.

We were unable to fully assess the strategy programs against this criterion due to absence of comparable data from other industry programs outside the Agri-Food Strategy. Accordingly, we do not know how good or bad these figures really are in the broad scheme of things. *We hope that such information will be more readily available in the future — to serve as benchmarks and act as a spur to efficiency improvements.*

6.5.4 Productivity improvements

The fourth efficiency indicator is the productivity 'acid' test. In many program evaluations it is hard to measure the impact of firms' efficiencies or other tangible benefits produced by a program. But the question can be inverted. Instead the question is posed: what is the productivity performance required to finance the investment by the government in a program?

For example, suppose an industry has 1 billion dollars in gross product and a program aimed at enhancing efficiency involves expenditures of \$20 million. A one-off productivity increase of 2 per cent is required to just finance the program. A secondary set of questions is then posed. Is it likely that the program achieved a productivity gain of this magnitude? Have the methods used in the evaluation the power to detect these sorts of magnitudes?

In the case of the processed food and beverages industry, its gross product in 1992-93 was around \$12.9 billion. Accordingly, a one-off productivity increase of only 0.14 per cent would be sufficient to finance the entire cost of the Agri-Food Strategy (a little over \$17.6 million). Moreover, if we examine the possibility of the *permanent* productivity increases which might be induced by the strategy, even smaller productivity gains would yield even better returns. For example, the Agri-Food Strategy might only have to obtain a permanent productivity gain of about 1/50 of a percentage point in the agri-food industry to eventually produce a 100 per cent rate of return (see appendix 8).

We have been unable to quantify any agri-food industry productivity improvements attributable to the strategy. But there is certainly a strong possibility that the strategy might have induced a one-off productivity improvement of at least 0.14 per cent (that is, around 1/7th of a percentage point).

Data for the three years to 1994-95 suggest an *overall* increase in productivity in the Food, beverages and tobacco industry of around 8 per cent. At the same time, we know that around 60 per cent of the (very large) firms involved with the strategy's programs and initiatives received some benefit from their involvement (and 22 per cent reported major benefits).⁵⁰ This provides reasonable grounds for assuming that enterprise and industry improvements flowing from the Agri-Food Strategy may well have amounted to an industry productivity increase of at least 0.14 per cent.

6.5.5 Economies of scope

The fifth efficiency indicator is the potential for economies of scope. Just as there can be program economies of scale (where an increase in the resources of a program produces an even greater set of benefits), there can also be economies from the joint application of programs. For example, a program which provided businesses with better financial and business planning tools might go hand in hand with a reform in financial markets that made finance more accessible. The benefits from the simultaneous implementation of the packages is greater than the sum of the benefits produced from their individual implementation.

We noted in chapter 4 that the idea of a sectoral strategy is to draw firms into programs — such as best practice, networking, literacy — which are linked together in a cohesive way. There is little evidence to suggest the Agri-Food Strategy has worked well in this regard. The various programs and initiatives have not been cohesively linked together. On the contrary, the strategy has tended to serve as a 'label' for a collection of disparate components which have hardly been coordinated at all. Only a few individual strategy components have links with others — FILLIP and MOU are the only obvious examples. This is a far cry from the notion of each strategy component being systematically linked to others.

The Agri-Food Strategy has also not had the benefit of simultaneous implementation of the programs and initiatives under its umbrella. The strategy components have been introduced at various times in the past four years (see chapter 3). This piecemeal timing approach has further worked against any economies of scope that may have been available.

⁵⁰ See section 5.6 in chapter 5.

6.5.6 Efficiency summary

We believe that the Agri-Food Strategy has aimed to achieve too much with too few resources. This has probably meant that efficiency has suffered in some cases through a failure to achieve economies of scale. It may also have suffered from a lack of overall coordination. On the other hand, the strategy has probably achieved the industry productivity gain required to cover its financial cost and appears to have improved coordination between government departments.

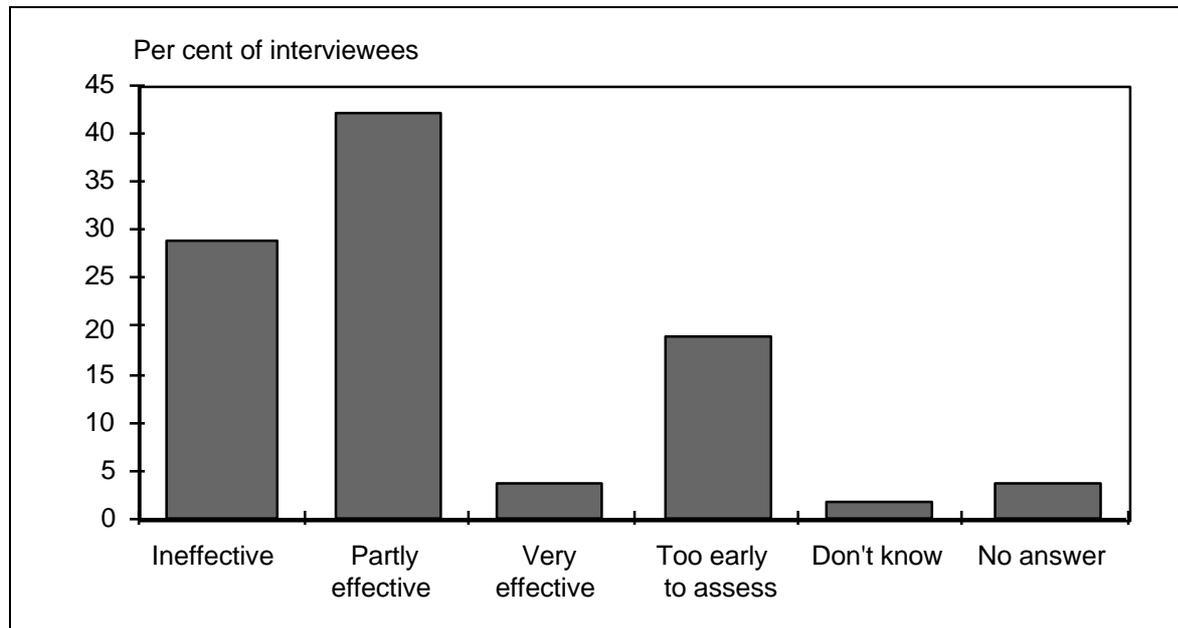
6.6 Overall assessment

The assessment of the individual Agri-Food Strategy components (see chapter 5) was mixed. This has clear implications for the overall assessment of the strategy. But we must also take into account that the value of the strategy to agri-food industry stakeholders may be greater than the sum of the parts. Indeed, this is the prime justification for industry-specific government assistance (see chapter 4). What can we say about the performance of the Agri-Food Strategy as a ‘strategy’?

As was the case with the strategy components in chapter 5, we refer to the views of the firms in the industry. We asked the large agri-food firms at the face-to-face interviews for a bottom line appraisal of the strategy as a whole. The results are shown in figure 6.5.

Firms assessed the *overall* benefits of the Agri-Food Strategy as being relatively modest. The two most common responses were ineffective (28 per cent) and partly effective (43 per cent). Only 5 per cent of firms thought the strategy had been very effective for their firms. Around 20 per cent of firms believe it is still too early to make an overall assessment.

Figure 6.5 Overall effectiveness of the Agri-Food Strategy to firms



Source: BIE/ABARE interviews. Number interviewed: 27 firms.

The views of the large firms on the overall impact of the strategy match reasonably well with their assessment of the individual strategy components (summarised in figure 5.4). Thus, 57 per cent of firms received some form of benefit from a strategy program or initiative and 50 per cent of firms believed the strategy had been either partly or very effective. This indicates that to a broad extent firms may have formed views on the overall effectiveness of the strategy based on their individual experiences with specific strategy components.

In terms of the overall assessment it is important to emphasise that only those firms which have been involved in the strategy were interviewed. If it is considered that the firms involved should have received the majority of the benefits from the strategy components, it might be expected that the interviews should be biased toward a favourable result (as compared to a more random survey across all agri-food firms). This suggests that the benefits to the rest of the sector are likely to have been even more modest.

Assessing the effectiveness of the strategy in meeting its specific objectives we found:

- exports of highly processed products increased by around 40 per cent between 1991-92 and 1994-95. This performance has been above the forecast path to achieve the strategy's \$7 billion per annum export target by 2001-02. However, to achieve the target will require ever increasing annual rates of export growth. There is little evidence to support the notion that the strategy will assist in this regard. The recent growth in highly processed food exports in fact compares unfavourably with growth in high value-added exports of other Australian manufacturing industries. Moreover, we found little convincing evidence amongst the large agri-food firms targeted by the strategy that the strategy had contributed to recent export increases;

- the strategy has generally been quite successful in *identifying* impediments to international competitiveness. Importantly, it has emphasised the overarching significance of efficiency, best practice and increased productivity as means to raise competitiveness in the food industry. We do not believe the strategy could reasonably have been expected to *remove* all impediments to competitiveness. But in addressing impediments through the individual programs and initiatives it has achieved some limited successes;
- most of the strategy components contain a significant element of cooperation and coordination by industry participants. It is doubtful this level of cooperation would have occurred without the strategy. At the same time the majority of agri-food industry firms have not been involved with the strategy and are unaware of its programs and initiatives; and
- the Agri-Food Strategy has given greater prominence to innovation and R&D issues in the food industry. It has assisted in bringing parties together and continues to do so with its recent initiative, the Australian Food Science and Technology Forum. However at the sharp end of this assessment, there is little hard evidence that the strategy has contributed in a significant way to overall food industry innovation and R&D.

We conclude that the Agri-Food Strategy has been partly effective in achieving its objectives. But it has not yet contributed to any significant impacts on industry performance indicators, such as exports, productivity and R&D expenditure. It also appears to have brought only limited benefits to those firms directly involved with strategy programs and initiatives.

On the other hand, the strategy has improved some of the processes, mechanisms and relationships in the agri-food industry in a way which may ultimately contribute to better industry performance. Benefits such as engendering greater industry cooperation and addressing specific impediments to international competitiveness are sometimes intangible and usually unquantifiable. But they are benefits nevertheless and they are probably making an indirect contribution to overall industry performance. Furthermore, it can be argued that the strategy has really only been running for a short period of time and that its full impact is yet to be felt by the agri-food industry.

Critically too, the results to date can give a misleading negative perspective on the overall impact of the Agri-Food Strategy — because they do not take account of the scale of the resources expended under the strategy compared to the scale of the industry as a whole. The effectiveness of the strategy needs to be viewed in the context that it has only involved a relatively small amount of resources. It would take very modest productivity improvements amongst the targeted large food firms for the strategy to pay its way.

We cannot therefore say that the Agri-Food Strategy has been an absolute success or failure. What we can say is that it has had some successes and some failures — and been partially effective.



Finally, from an efficiency perspective, the Agri-Food Strategy perhaps aimed to achieve too much with too few resources. This suggests that efficiency may have suffered from a failure to achieve economies of scale. It has also suffered more generally from lack of overall coordination of the programs. On the other hand, the strategy has probably achieved the industry productivity gain required to cover its financial cost and appears to have improved coordination between government departments.

7 Assessment of the Agri-Food Council

The Agri-Food Council ('the council') has been labelled the centrepiece of the Agri-Food Strategy. It was created to give effect to the strategy initiatives and to be the main vehicle for generating industry commitment to an international focus.

This chapter is about assessing the council's performance. We have approached this issue from three angles. Section 7.1 looks at the council's recognition in the agri-food industry, its contact with industry participants and its overall level of support. Section 7.2 is a judgement of the council's performance against its *specific* functions. Section 7.3 is a broader assessment of the council's performance in overseeing the Agri-Food Strategy and giving effect to its initiatives, and the focus of its work program. The chapter concludes (section 7.4) by drawing together the analysis in the previous three sections and presenting an overall assessment of the Agri-Food Council's performance.

7.1 Overview of industry awareness, contact and support

As a first step in assessing the Agri-Food Council's performance, we test its degree of recognition and understanding within the industry and also the extent to which industry stakeholders have had contact with the council.

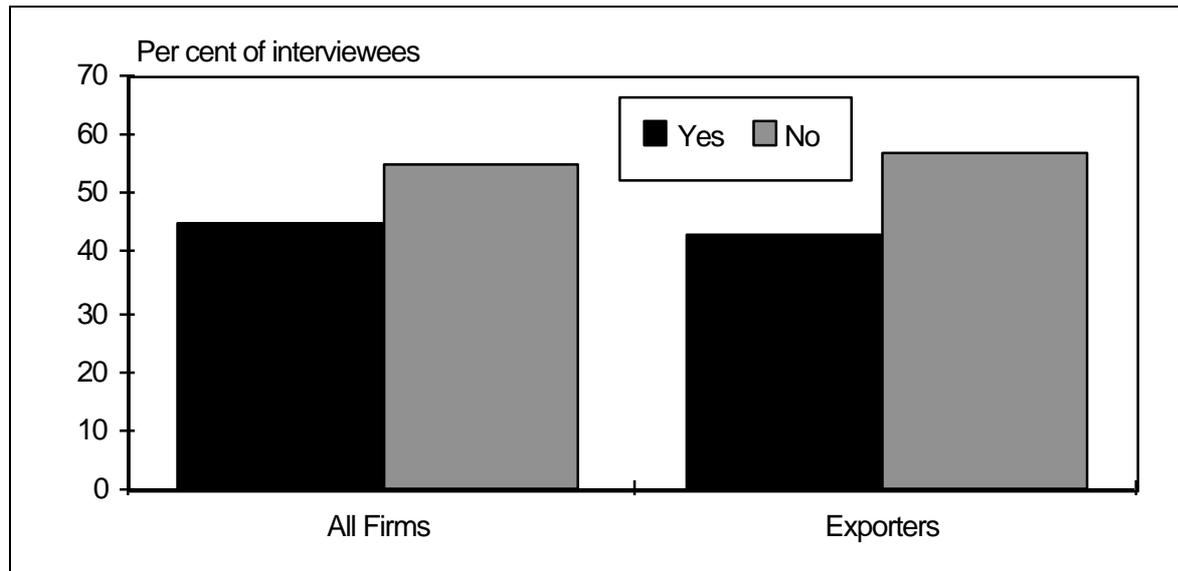
While such matters are clearly not wholly within the control of council members, they nevertheless provide a proxy measure of how well the concept of the Agri-Food Council has been 'sold' to the agri-food industry.

7.1.1 Awareness of the council

Firms and 'other' industry stakeholders (such as industry associations and government departments) involved in face-to-face interviews were naturally all aware of the council. They were selected for interview on the basis of their involvement with the Agri-Food Strategy.

Consequently, to obtain a wider industry perspective on awareness we conducted a telephone survey of 95 medium to large agri-food firms.⁵¹ The large and medium firms in the industry appear to demonstrate a fairly low awareness of the council, with less than half (45 per cent) aware of its existence (figure 7.1).

Figure 7.1 Awareness of the Agri-Food Council



Source: BIE telephone survey. Number surveyed = 95.

In view of the focus of the council on international competitiveness and exporting, we might have expected to have seen a better recognition factor amongst the firms in the sample (87 per cent of which were exporters). Interestingly, as figure 7.1 shows, when the few non-exporters are taken out of the picture there is in fact a slightly *lower* degree of awareness apparent.

Although the survey seems to suggest a relatively poor awareness of the council, this in fact may not necessarily be the case. The program awareness comparisons in chapter 5 suggest that a recognition factor around 50 per cent is reasonable. While the council is not a program it is closely associated with the strategy's programs (and other initiatives).

These data may suggest that industry awareness of the Agri-Food Council (at 45 per cent) is not so bad as first appears. It remains a matter for judgement, however, whether a body representing all the major constituencies within the industry should expect to be more well known by the CEOs of the industry's large and medium-sized firms.

The council's lack of recognition could have a number of causes, including weak communications with the industry. This is taken up later in the chapter, but one objective measure of the prominence of the council is the amount of publicity received by the council in the Australian media. Table 7.1 shows the number of articles appearing in the *Australian*

⁵¹ See chapter 1 and appendix 2 for a description of the telephone survey.

Financial Review in 1995 which mention the Agri-Food Council and other industry organisations. The council received two mentions (both relating to the air freight best practice code), which pales in comparison with other bodies associated with the food industry.⁵² Clearly, food firms would have more chance of being aware of the council and its work if it received more publicity in the print media.

Table 7.1 Australian Financial Review articles mentioning the Agri-Food Council and other organisations, 1995

	<i>Number</i>
Australian Chamber of Commerce and Industry	117
National Farmers' Federation	102
Business Council of Australia	66
Australian Meat and Livestock Corporation	26
Australian Chamber of Manufactures	21
Australian Manufacturing Council	18
Grains Council of Australia	18
National Food Authority	12
NSW Chamber of Commerce	11
Cattle Council of Australia	10
Australian Dairy Industry Council	10
Australian Horticultural Corporation	6
Australian Dairy Corporation	5
Australian Food Council	5
Agri-Food Council	2

Source: Australian Financial Review.

7.1.2 Understanding of the council's role

Simple awareness of the Agri-Food Council is one thing, an understanding of its role another. A survey of food company CEOs conducted in late-1993 found that one and a half years after the announcement of the strategy, many were not very clear about the role of the Agri-Food Council, the strategy, or the way in which the reforms would affect their businesses (AATS&E 1994).

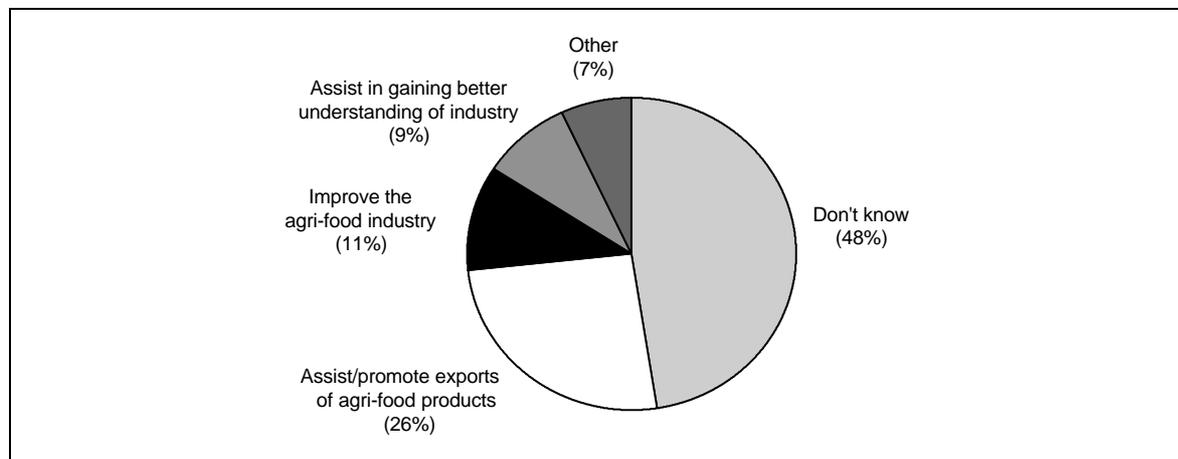
For the respondents to our telephone survey who were aware of the council's existence, we tested their knowledge of its *raison d'être*. Respondents were asked to state what they believed was the major role of the council.

⁵² The term 'Agri-Food Strategy' failed to receive any mentions in the *Australian Financial Review* during 1995.

The answers to this question are shown in figure 7.2. The results can be summarised as follows:

- around a quarter of the firms nominated providing assistance with, or promoting, agri-food exports;
- a further fifth of firms had some notion that the council had a brief to improve the agri-food industry or to assist stakeholders to gain a better understanding of the industry; and
- the remaining firms either said they did not know what the council did (48 per cent) or offered other answers (7 per cent). These other answers included such items as ‘coordinating research’ and ‘making government policies more coherent’.

Figure 7.2 Understanding of the Agri-Food Council’s role



Source: BIE telephone survey. Number surveyed = 43.

The data in figure 7.2 provide cause for concern. Half of the firms aware of the council’s existence do not know its role. This puts a bit of a different light on the awareness results discussed above. Although 45 per cent of the large and medium-sized firms surveyed are aware of council, only around 20 per cent of these firms have a reasonable understanding of what the council is about. It comes as no surprise that the vast majority of this 20 per cent have had some involvement with an Agri-Food Strategy component.

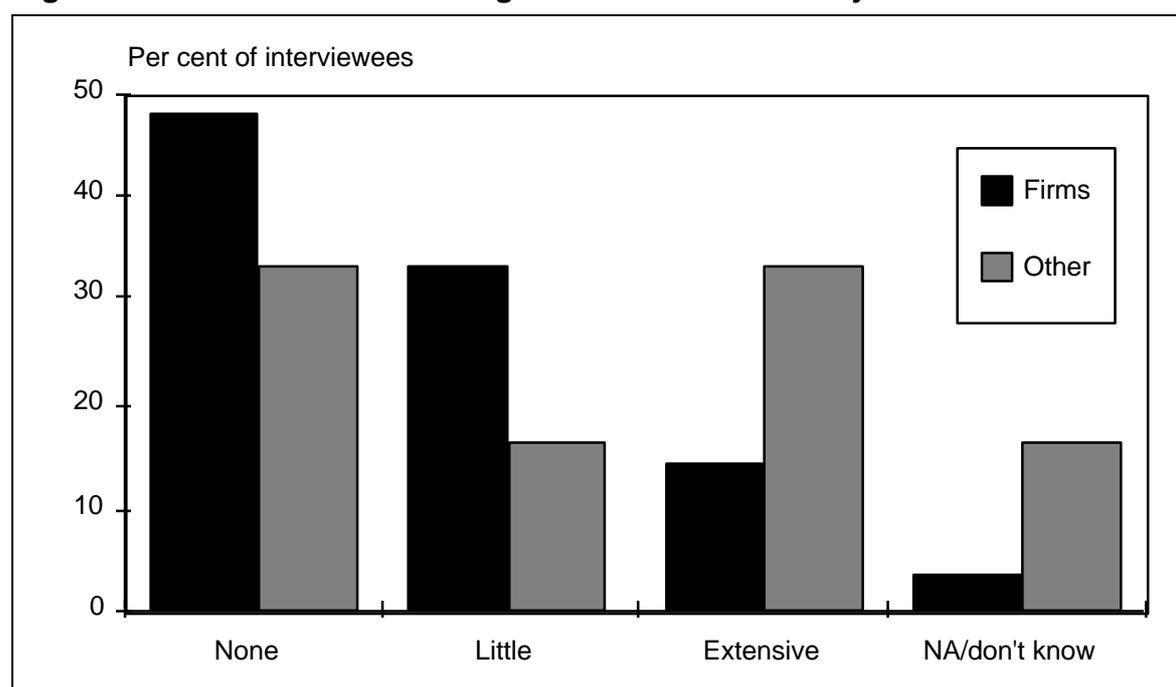
7.1.3 Contact between industry and the council

The extent of the council’s contact with firms might provide some clues to the poor understanding of its role.⁵³ It will also tell us something about the council’s effectiveness at generating industry commitment to the Agri-Food Strategy.

⁵³ An assessment of the council’s performance in disseminating information and serving as an avenue for firms to raise concerns is also highly relevant to the low understanding of its role. This is discussed in section 7.2 below.

We first consider the large firms and other stakeholders involved in the face-to-face interviews. These are the firms specifically targeted by the strategy and directly involved with some of its programs or other elements. The majority of large firms interviewed could recall no contact with the Agri-Food Council in the previous 12 months (figure 7.3). Around two-fifths reported some contact with council members, although this was generally of an informal nature or was the result of associations other than through the Agri-Food Council.

Figure 7.3 Contact with the Agri-Food Council — major stakeholders^a



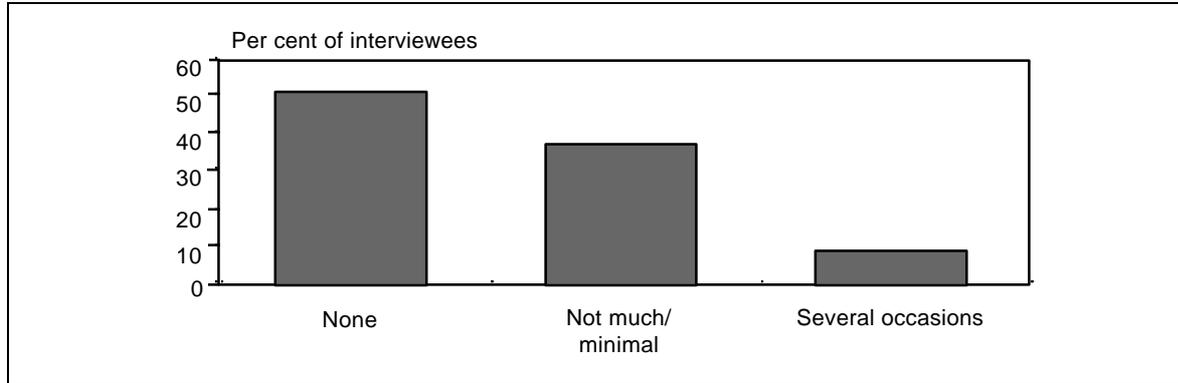
^a Contact over past 12 months.

Source: BIE/ABARE interviews. Number interviewed: 27 firms, 12 other stakeholders.

Industry and grower associations, government departments and unions were slightly more likely than firms to have been in contact with the council. Given significant common interest issues, however, the numbers might have been expected to be higher than reported. Some large firms involved with the strategy would like to increase the frequency of contact with the council. Around 50 per cent of firms would like more contact, although some noted they would want this ‘only if it added value’ and ‘was not just for the sake of contact’.

Turning to the large and medium-sized firms in the telephone survey, only a handful of these firms are aware of the council’s existence and have had regular contact with the council (figure 7.4). The vast majority of firms who are aware of the council have had little or no contact. In common with the targeted large firms, a substantial number (over 60 per cent) would like more contact with the council.

Figure 7.4 Contact with the Agri-Food Council — large and medium-sized firms (telephone survey)^a



^a Per cent of firms aware of the council having contact over past 12 months.

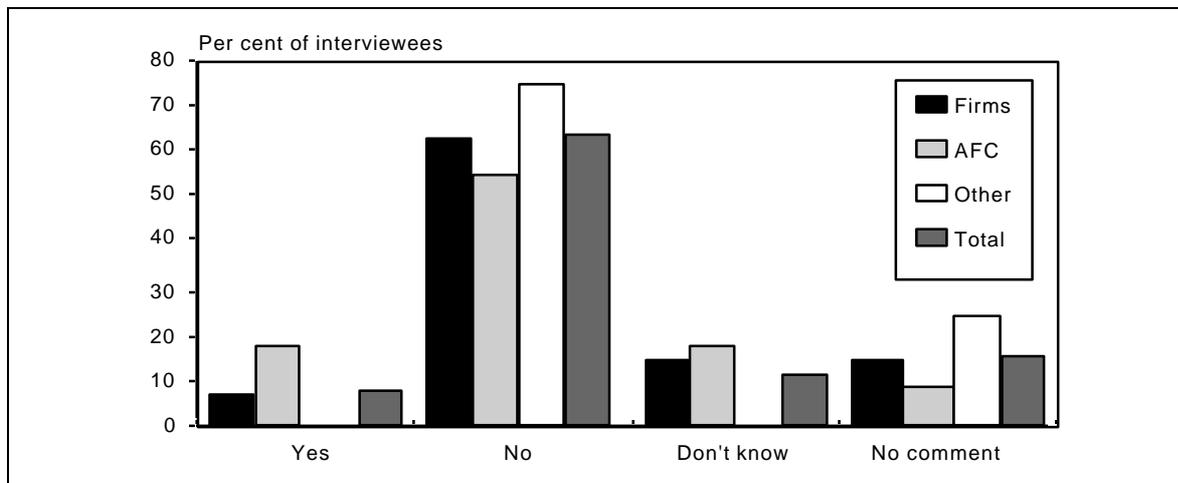
Source: BIE telephone survey. Number surveyed = 43.

7.1.4 Industry support for the council

The majority of firms in the agri-food industry appear to have both limited contact and understanding of the council’s role. Yet they know enough about the council to express a desire for some (or more) contact. This implicit form of *general* industry support for the council is backed up by the *major* stakeholders more directly involved with the Agri-Food Strategy — those who are more certain about the council’s role.

Few stakeholders interviewed or surveyed would be happy to see the council disappear. A clear majority of stakeholders (around two-thirds) believe that no other body could undertake the council’s role and do a better job (figure 7.5). This view is held fairly consistently across all three groups.

Figure 7.5 Could the role and functions of the Agri-Food Council be better performed by other agencies?



Source: BIE/ABARE interviews. Number interviewed: 27 firms, 11 Agri-Food Council members, 12 other stakeholders.

In other words, there is sufficient evidence available to indicate that the Agri-Food Council carries the *broad* support of the industry. Most of the medium to large firms would like to become more involved with the council and its work. Moreover, most of the council's major stakeholders to date support its role and function vis-a-vis other bodies. But we turn now to examine how well the council is performing in undertaking its specific functions — from the perspective of this same group of major stakeholders.

7.2 Performance of the Agri-Food Council against its functions

The Agri-Food Council's performance was evaluated against its four principal functions (DIST 1994a):

- to forge common purpose and lead change;
- to focus efforts to identify and remove impediments at both government and industry levels;
- to encourage the adoption of best practice; and
- to target and coordinate programs across portfolios.

In addition, the evaluation team asked stakeholders to appraise the performance of the council in relation to its communication and consultation roles, namely:

- dissemination of information by the council; and
- the council as an avenue for stakeholders to raise matters and concerns.

While perhaps not regarded as 'core' functions, appropriate consultation and communication between the council and industry stakeholders can be legitimately seen as important functions of a peak industry body.

7.2.1 Forging common purpose and leading change

In framing the Agri-Food Strategy, two of the key problems identified by the government were a lack of common purpose amongst the diversified groups making up the agri-food industry and the lack of an industry export culture.

The Agri-Food Council was established to give effect to the whole strategy, but addressing these particular challenges lies at the core of its tasks. The joint statement announcing the Agri-Food Strategy noted that the council would:

...provide the leadership to generate the commitment necessary from all stakeholders to make the changes and resolve the range of complex issues critical to improving international competitiveness (Button and Crean 1992, p. 20).

The joint statement also identified the most important of the council's functions as:

...promoting closer and more effective links between growers, processors, packagers and employee representatives (Button and Crean 1992, p. 20).

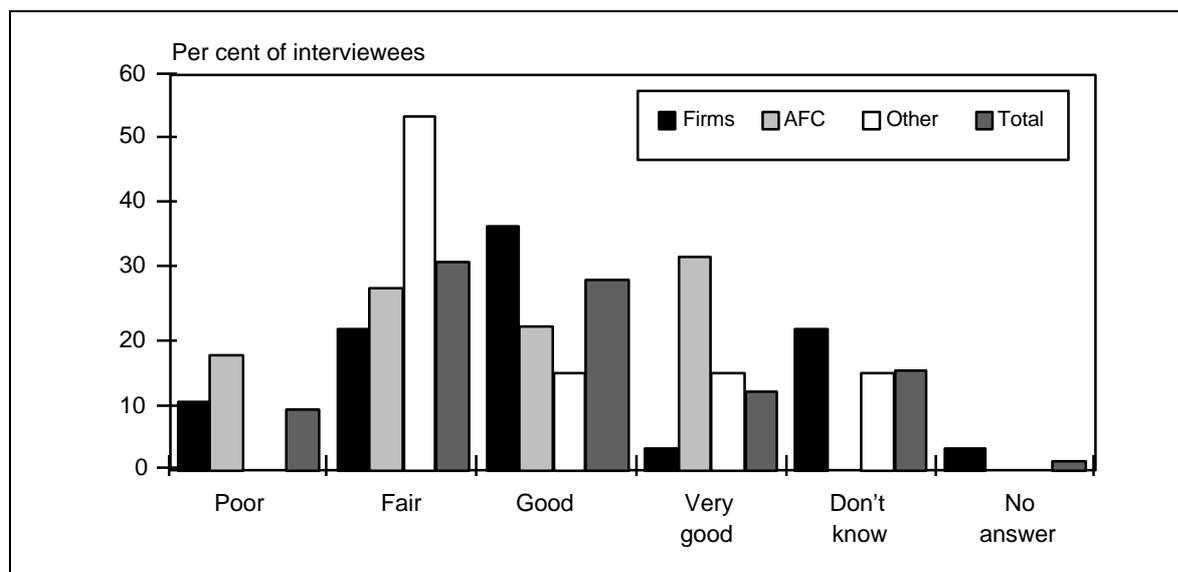
Clearly, the role of the council in leadership and getting the industry to work together for a common goal are at the forefront of its functions. Accordingly, its performance in these areas should be assigned a strong weighting in the overall evaluation of council functions.

The views of industry stakeholders are shown in figure 7.6. The council is seen to be doing a worthwhile job in providing leadership and forging a common purpose in the agri-food industry. Around 55 per cent of council members think the council is doing a good or very good job. This compares with around 40 per cent of firms. Council members are more inclined to believe they are doing a very good job than firms and other stakeholders.

Only a handful of stakeholders (10 per cent) rated the council's performance as poor. Interestingly, a relatively higher proportion of council members than firms (and non-firm stakeholders) think the council is performing poorly in the leadership stakes. The majority of other non-firm stakeholders think the council is only managing a fair performance, although none were prepared to give a 'poor' rating.

Overall more than 70 per cent of stakeholders interviewed considered the council to have served a positive leadership role. But the fact that one-fifth of large firms don't know how well the council has done in this important task appears somewhat disconcerting. However, we shall see below that this proportion of 'don't knows' is relatively *low* when compared with the rating of other council functions.

Figure 7.6 Council performance — leadership and forging a common purpose



Source: BIE/ABARE interviews. Number interviewed: 27 firms, 11 Agri-Food Council members, 12 other stakeholders.

7.2.2 Focusing efforts to identify and remove impediments at both government and industry levels

The various components included in the original Agri-Food Strategy announced in 1992 were targeted at removing identified impediments — specific strategy initiatives were developed to directly address identified impediments.

The Agri-Food Council's role here then was clearly one of *focusing efforts* to remove the *already identified* impediments. To help give effect to the strategy, the council had an important selling job to do. It was responsible for informing industry participants of various impediments, mobilising support for the strategy measures and motivating firms to become actively involved in the industry development programs.

Accordingly, we have one clear criteria for judging the council — how well it has focused efforts in the industry to remove established impediments. But the council was not expected to work entirely around a static 1992 agenda. It was also expected to behave in a dynamic way and use its expertise to identify other industry impediments and to devise strategies for dealing with them.

The council's attempts to focus efforts related to individual strategy components are outlined in chapter 3.⁵⁴ Most of its work has been aimed at removing impediments has revolved around impediments identified at the outset of the Agri-Food Strategy. However, the council has also made some notable interventions in specific areas to deal with impediments which only became apparent in the course of its work (for example, in packaging and the air freight of perishable goods).

What are stakeholders views on the success of the council in focusing efforts to identify and remove industry development impediments? The results of the face-to-face interviews are shown in figure 7.7. The council's work in identifying and addressing impediments is regarded as fair to good overall — less favourably than in its leadership role. The most common rating for both firms and council members is 'fair' (one-third of firms and a high three-fifths of council members).

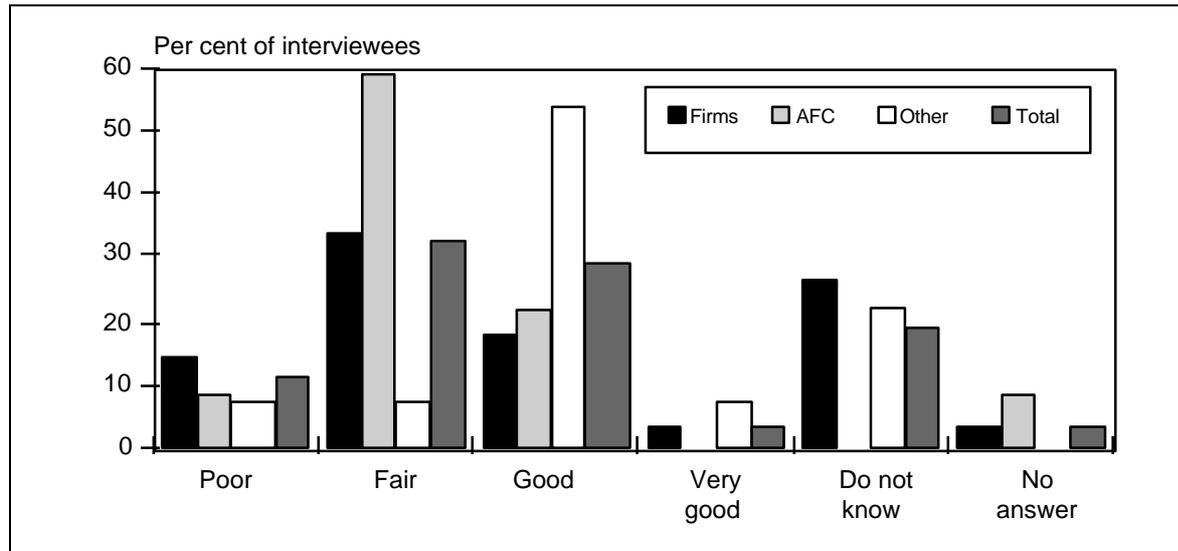
Only around a quarter of firms and council members believe the council is doing a good or very good job in this area. Only one firm gave a very good score and, in contrast to the leadership function, none of the council members were able to rate the council as very good at dealing with impediments. 'Other stakeholders' are considerably more impressed with the council's ability to identify and address impediments than council members and firms. A majority thought the council to be doing at least a good job.

Austrade noted in its submission to the evaluation that the council had shown a willingness to actively address and resolve impediments. Similarly, the Pet Food Industry Association

⁵⁴ See also the discussion in chapter 6 of the effectiveness of the *strategy* in identifying and removing industry impediments.

of Australia noted in its submission that the council had provided a cooperative basis for addressing impediments to international competitiveness. CSIRO believes that while the council has been successful in identifying factors which contribute to industry effectiveness, it seems to have had limited influence in changing industry practice (with particular respect to the production of value-added foods and their marketing).

Figure 7.7 Council performance — addressing impediments to industry performance



Source: BIE/ABARE interviews. Number interviewed: 27 firms, 11 Agri-Food Council members, 12 other stakeholders.

7.2.3 Encouraging the adoption of best practice

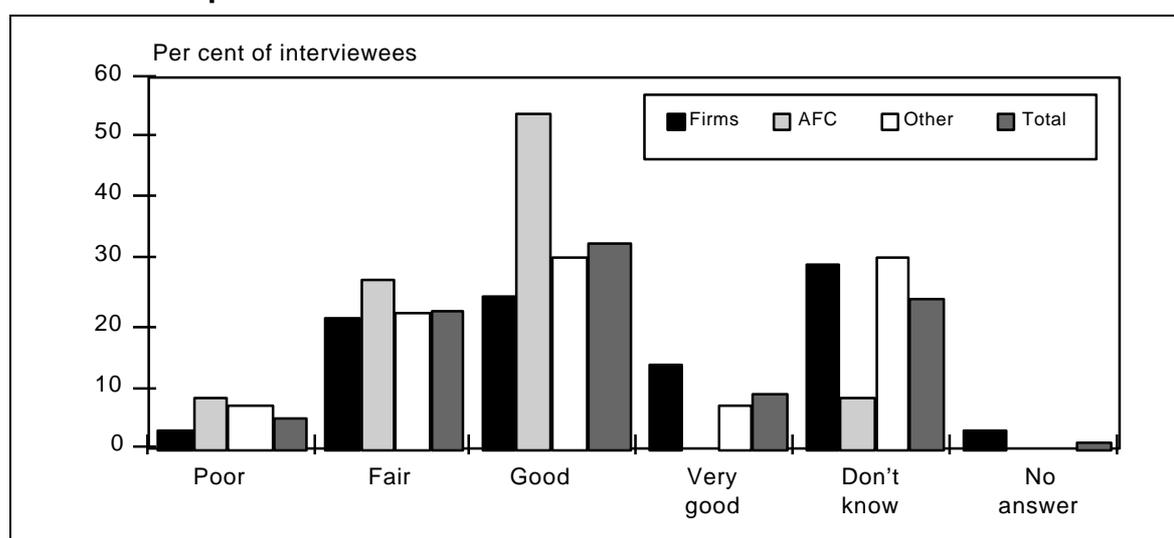
The council's role in encouraging best practice was not specifically spelt out at the time of its formation. However, its best practice function was implicit given the objective of the Agri-Food Strategy to '...develop an efficient and profitable Australian food industry which produces high quality, safe and nutritious products...' (Button and Crean 1992).

The nature of some of the specific strategy components also clearly indicate best practice as a major goal:

- code of best practice for air freight export of perishable goods;
- the Food Quality Program;
- the benchmarking program;
- grower-processor linkages;
- packaging; and
- workplace reform and training.

The council has been one of the principal vehicles for driving these changes and has apparently been doing it well. According to stakeholders, encouraging the adoption of best practice emerges as the function performed most effectively by the council (figure 7.8).

Figure 7.8 Council performance — encouraging the adoption of best practice



Source: BIE/ABARE interviews. Number interviewed: 27 firms, 11 Agri-Food Council members, 12 other stakeholders.

Around 40 per cent of firms, 55 per cent of council members and 40 per cent of other stakeholders rated the council as good or very good. Interestingly, council members are the only stakeholder group not to register a 'very good' rating. In contrast, encouraging best practice also turns out to be the only council function assessed where more than one firm gives the council a very good rating — with four firms (or 15 per cent) giving the highest rating.

Equally positive is the very *low* number of stakeholders who are unimpressed by the council's performance in this area. Only three stakeholders (one from each category) thought the council performed poorly at encouraging best practice. This is the lowest number of 'poor' ratings across all the assessed council functions.

7.2.4 Targeting and coordinating programs across portfolios

The joint statement (Button and Crean 1992) announcing the Agri-Food Strategy specifically flagged the council's targeting and coordination role:

[The strategy measures]... are designed to deliver an environment in which the processing of high value-added foods in Australia is internationally competitive. This will be achieved by removing impediments to industry development and by more effectively targeting and integrating existing government programs ... The main vehicle for pursuing these changes will be a new Agri-Food Council.

The Australian food industry was, and still is, diverse and relatively fragmented. Many government programs relate to the groups of food industry participants along the value-adding chain. These include programs introduced as part of the Agri-Food Strategy as well as numerous other programs managed by different government departments and agencies.

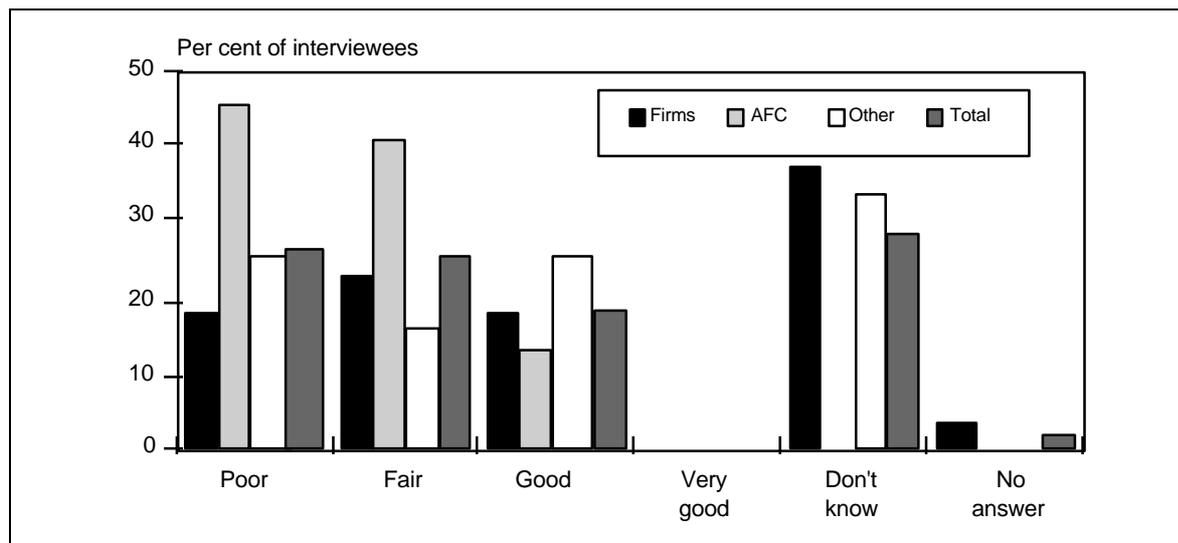
The task of effectively targeting and coordinating these programs is a challenging one. According to stakeholders, the council could be doing a lot better at meeting this challenge (figure 7.9). The council could be considered as relatively unsuccessful in this area on three counts:

- a quarter of all stakeholders believe it is actually performing poorly;
- approximately one third of firms and ‘other’ stakeholders *do not know* how well the council is performing; and
- no stakeholders rate the council’s performance as very good.

Almost half (45 per cent) of the council believes it is doing poorly (compared with 20 per cent of firms and 25 per cent of other stakeholders). The council’s targeting and coordination role is the *only* council function failing to obtain at least one ‘very good’ rating from stakeholders.

The proportion of firms (37 per cent) and other stakeholders (33 per cent) who don’t know how well the council is targeting and coordinating programs is very high. They represent the highest levels of ignorance of performance across all the council functions.

Figure 7.9 Council performance — targeting and coordinating programs across portfolios



Source: BIE/ABARE interviews. Number interviewed: 27 firms, 11 Agri-Food Council members, 12 other stakeholders.

In many respects it is not surprising that so many firms and other stakeholders were unable to comment on the council’s targeting and coordination role. It is a somewhat ‘hidden’

function, difficult for outsiders to observe and assess. Furthermore, this is accentuated by the fact that the execution of this function is to a large extent beyond the capabilities of the Agri-Food Council. The council does not have executive control over funded programs and accordingly its power to target and coordinate most programs is tempered.

The council's role is essentially limited to looking at the big picture from above and advising on how things can be brought together to achieve the best outcomes. But clearly it cannot *control* the outcomes. It can only provide information to the administering departments on the effectiveness, targeting, overlap and coordination of the disparate programs which address the agri-food industry.

7.2.5 Communicating and consulting with industry

Disseminating information

Disseminating information is not regarded as one of the four 'core' functions of the council, but can be argued to be an important function of a peak industry body. Ensuring that firms, and other stakeholders, are aware of Agri-Food Strategy initiatives and other council deliberations is an important requirement in building the momentum towards change.

The council, in conjunction with the secretariat, has taken a number of steps to sell the strategy message. Council members have taken it upon themselves or organised others to provide strategy details to industry. Often this has been a necessary requirement to progress issues, for example the MOU on workplace reform. But in other cases it has been done to inform industry of relevant matters, such as releasing its commissioned report on packaging (DIST 1995a). Some council members have also played a role in promoting the strategy in public fora.

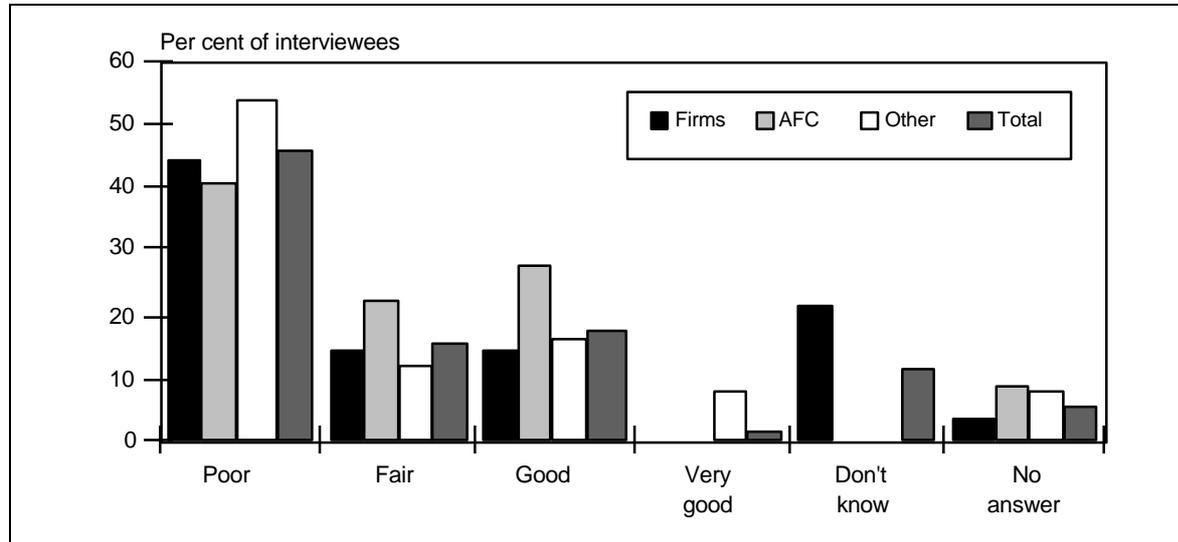
In the earlier stages of the strategy, the secretariat visited a large number of firms and other industry participants to explain the strategy and its constituent programs. This was later backed up by an information kit which contained details of the strategy programs and initiatives.

The council's major public information release was the *Taking Stock* pamphlet (DIST 1994a). This was a mid-term report on the Agri-Food Strategy which was compiled by the secretariat. It detailed council membership and its functions, the priorities of the council and the achievements of the strategy to date.

Stakeholders' assessment of council's performance in disseminating information is reported in figure 7.10. Almost half of all stakeholders (including 40 per cent of council members) believe the council is performing poorly in this area — making it the least satisfactory aspect of the council's work. None of the stakeholders interviewed thought the council to be doing a 'very good' job and less than one-fifth of stakeholders rated the

council as ‘good’. Council members took a less harsh perspective than firms and others, with 27 per cent indicating they had managed a good performance in disseminating information (compared with 15 per cent of firms and 17 per cent of other stakeholders).

Figure 7.10 Council performance — disseminating information



Source: BIE/ABARE interviews. Number interviewed: 27 firms, 11 Agri-Food Council members, 12 other stakeholders.

Interestingly, relatively few firms (22 per cent) and only one ‘other’ stakeholder sit on the fence by saying they don’t know how well the council is performing this task. These numbers represent the lowest proportions of ‘don’t knows’ across all the council functions. Industry participants have a clear view that this role requires improvement.

Perhaps if stakeholders had been asked this question in 1993 (or even 1994) when the strategy was relatively new and being promoted, the results might have been more positive. On the other hand, *Taking Stock* has been released in the past 12 months or so and the strategy information kit has been continuously available.

The Agri-Food Council has not been blind to the need for effective communications. In 1994, the council undertook a mid-term review to assess achievements to date and to determine future directions. A secretariat report to the council concluded, *inter alia*, that there may be a need to more effectively communicate the strategy and the work of the council to the agri-food sector.

The secretariat suggested a cohesive and systematic communications strategy including:

- production of a regular newsletter;
- more publicity for council meetings;
- council members routinely raising council and its work in public speaking engagements; and

- arranging sessions at conferences about the council and its work.

Council deliberations over the proposed communications strategy are unclear, but in the event the communications strategy was only partially implemented. The council also agreed to publish the mid-term review (as *Taking Stock*) as a way of communicating council work to the industry.

An avenue for raising matters and concerns

As part of its communication and consultation role, a leading industry body should also be able to listen to the industry. That is, if the council is to perform effectively, participants from all the different industry constituencies should feel that they can go to council members to express concerns or raise matters.

To do this, industry participants have to acknowledge the council's responsibilities in this area and have access to council members. There are a number of ways firms and others can have issues raised with the council. Most commonly, they can write to the council or the secretariat or raise specific matters in discussion with individual council or secretariat members.

Sometimes this might be done with the express purpose of bringing matters to the council's attention. More often than not, however, council members and the secretariat will hear about particular issues which are of concern to industry participants and then decide to alert the full council.

The council secretariat has acted in this way on several occasions. Having been consulted by firms on specific issues, the secretariat has subsequently raised issues of sufficient relevance and importance with the council. Prominent examples of this process, and which resulted in council initiatives down the track, relate to the transport of perishable goods and concerns over packaging costs.

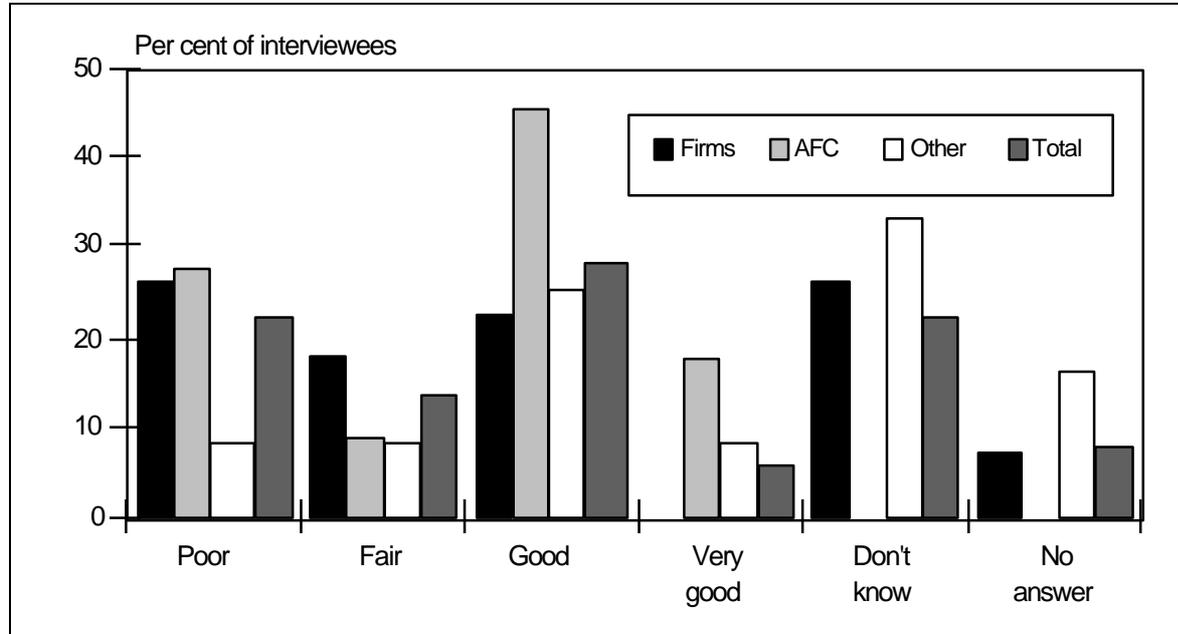
The results of an assessment of the council as a *receptacle* for information from industry are shown in figure 7.11. Stakeholders were asked to rate the council's performance as an avenue for firms to raise ideas, concerns and suggestions about industry impediments.

Just over a quarter of firms and council members rated performance on this criterion as poor. On the other hand, a sizeable group of stakeholders still regarded performance as good. Council members are slightly more inclined to take a positive view, with around two-thirds believing the council performs to a good or very good standard. This contrasts with around one-fifth of firms and one-third of other stakeholders. Many firms (26 per cent) and 'other' stakeholders (33 per cent) were unable to rate the council's performance.

Our overall assessment of council's performance in *both providing and receiving information* is that it appears weak. Council members own impressions of the council's consultations with the industry support this view. Most observed that the degree of

consultation was inadequate. Only one council member believed there was sufficient consultation already.

Figure 7.11 Council performance — avenue for raising matters and concerns



Source: BIE/ABARE interviews. Number interviewed: 27 firms, 11 Agri-Food Council members, 12 other stakeholders.

Several factors were put forward by council members as explanations for the perceived insufficient contact with industry. One member noted that there was simply not enough time left over after taking care of his own firm’s activities to consult more fully with other industry members about council work. Another firm representative on council thought two-way communication is weak because ‘not many people know about the council’.

Firms too regard an increase in consultation and more effective communication as one of the most pressing changes required by council. In addition to the firm responses noted in this section, firms also rated better consultation and communication as *the* most important change required in the way the council operates.

Finally, some state government departments indicated they would appreciate greater consultation with the council and being kept informed of council and strategy developments.

7.3 Broader performance of the Agri-Food Council

The third section of this chapter goes beyond the specific functions of the Agri-Food Council and provides a broader assessment of the council's performance in overseeing the Agri-Food Strategy and giving effect to its initiatives. Included in this assessment are:

- the effectiveness of council in developing and implementing strategy programs and components;
- the focus of the council's work program (including priority setting); and
- whether the council has *operated* in the best way to generally give effect to the strategy programs and components.

7.3.1 Effectiveness in developing and implementing strategy programs and initiatives

The Agri-Food Council was created to give effect to the Agri-Food Strategy. It was to be the vehicle to drive the industry changes and to oversee the various programs and components which together make up the industry development package.

It is impossible to evaluate the strategy without reference to the council's input. Conversely, the influential role of the council in giving effect to some strategy components is an important measure of the council's success.

It has to be recognised though that in most instances the council has had severe limitations placed on it by its lack of executive powers. The council may play a useful advisory role for the government on program structures, contents, directions and so on. But ultimately programs falling under the strategy umbrella are controlled by ministers and government agencies. In these circumstances, the assessment of the programs (see chapter 5) hardly reflects on the council at all. While the council had influence, the relative success or failure of the programs was beyond its control.

Briefly, we can note here *specific* roles played by the council which can be considered to have made significant impacts in relation to strategy components.

Export market development

The council appears to have played a significant role in the early stages of the strategy's clean food initiative. It guided the development of the Clean Food Export Program, mainly through its working group established for this purpose. A substantial number of industry representatives were 'co-opted' to serve on the working group. Following the launch of the pilot campaign in Taiwan, and the establishment of Clean Food Marketing Australia Ltd, the council's role became more one of an interested observer, providing advice and comments as developments occurred.



Grower-processor linkages

The Agri-Food Strategy provided the vehicle for three grower-processor linkage projects. A council working group was formed in 1992 to look at ways of encouraging cooperation. The working group developed principles for improving linkages and the council established three projects at the industry level to encourage a consensus approach to industry problems. Individual council members became closely involved in progressing these projects.

Workplace reform

The Memorandum of Understanding on Workplace Reform (MOU) for the food industry was developed by a council working group. The working group consisted of council, employer and union representatives. The council members played an influential role in achieving agreement amongst major industry parties.

The official launch of the MOU was co-sponsored by the Agri-Food Council, the Australian Chamber of Manufactures, the ACTU, the Chamber of Manufactures of NSW, the MTIA and VECCI.

The council working group developed a dissemination and information strategy for the MOU. It also developed projects to assist MOU signatories to implement the principles of the MOU.

Innovation

The July 1992 statement announced the development of specific food industry guidelines to encourage uptake of the 150 per cent R&D tax concession. Council members worked with DIST and tax consultants to produce the guidelines which were later disseminated throughout the industry.

An innovation working group, consisting of three council members was established in 1992. It was later supplemented by several industry representatives. Following consultations with industry stakeholders, the working group supported the concept of food technology clusters to better link and focus industry and public sector research. Subsequently, the federal government contributed funds towards the first technology cluster in Australia (at Werribee in Victoria).

A recent initiative of the council has been the Australian Food Science and Technology Forum, established in 1995. The forum is to provide a strategic direction for food education and research and is convened by a council member.

Packaging

As a result of industry concerns, the council established a packaging working group in 1994 to facilitate cooperation between packaging and food companies. The working group

included council members, packagers, food companies and the Australian Horticultural Council. The key initiative of the working group was an industry survey on packaging and its effect on international competitiveness.

There has been little follow up to the survey to date, although the working group intends to undertake a number of actions including the production and dissemination of best practice case studies.

Transport

Industry concerns prompted the council to establish a working group to look at improving air freight for perishable goods. Following some initial work, the council brought together key industry stakeholders for discussions and formed an industry working group.

This working group produced the *Industry Code of Best Practice for Air Freight Export of Perishable Goods*, launched in 1995.

7.3.2 Focus of the council's work program

The council's work program has been diverse over the past 3 to 4 years. This is self-evident from the issues discussed in this and earlier chapters, but is also demonstrated by the large number of agenda items for each council meeting (usually around 11-12 items).

Agri-food is a very large industry with a lot of different interests and a number of impediments to improved performance. In overseeing the Agri-Food Strategy, the council has covered many aspects affecting the industry — from workplace reform to microeconomic reform, from linkages and networks to air freight and packaging and so on.

All this has meant the council's work program has been comprehensive. It does not appear to have singled out specific issues for special attention or priority. Rather than trying to make an impact in so many areas of the industry at the same time, would the council have been better served by focusing on only one or two issues?

At this point we should recall some history. The major reason for the council trying to bring together so many constituent parts is of course the Agri-Food Strategy. That is what the council was set up to do — to give effect to the strategy. This encompasses all the programs and components specified at the inception of the strategy as well as those (like the Food Quality Program and microeconomic reform) which have since been added. It is not a simple task to keep an eye on, and take a close interest in, numerous diverse strategy elements and simultaneously be very 'focused'.

This issue is compounded by the council's role in taking initiatives to address industry impediments. The council has been expected to identify new or developing problems in the industry and to deal with them. We saw in the previous section how council has done this in various areas.

So could the council have been more focused while at the same time managing a detailed strategy and taking on new programs and initiatives? Should the council have perhaps tried to pick a few priorities where its leverage and effectiveness would have been great, talked through all the issues and made large efforts to really drive through significant reforms?

Council itself has been conscious of the difficulties of balancing a multi-itemed work program with a more specific council focus. At the time of its mid-term review it discussed possible actions to deal with the dilemma. In the event, council agreed on a small number of ‘core priorities’ to guide its future work (DIST 1994a). These were:

- export development and market access;
- regulatory reform;
- transport and distribution;
- packaging; and
- workplace reform and training.

Despite this attempt to focus better the work of the council, little would appear to have changed in the past 12 months. The council is still handling large numbers of agenda items and spreading itself over the entire strategy spectrum.

There appears to be a perception in the industry that the council has been lacking focus. Firms have found it difficult to absorb and understand all that is included and going on under the strategy umbrella. In fact, one of the principal changes large firms said they would like to see would be for the council to develop clear goals and to focus on a few vital issues.

It may be the case that greater use of targets, milestones and performance indicators might have assisted the council in better focusing on strategy component outcomes. This in turn might have brought the entire work program into sharper focus, notwithstanding its size and complexity.

Alternatively, it may be the case that the council can never expect to be successful in focusing its work program while it oversees so many programs and components. If stakeholders would like to see a more focused council, with clearer goals and working towards one or two priorities, it is hard to avoid the conclusion that the council will have to shed some of its current responsibilities.

7.3.3 Operation of the council

The final section in our assessment of the Agri-Food Council looks at its performance from an operational standpoint. How well has the council functioned operationally? Could it have been better?

We briefly consider four criteria:

- the working group system;
- frequency of council meetings;
- conduct of meetings and decision making; and
- council's relationship with its secretariat.

The working group system

The operational functions of the council rely heavily on a system of working groups.⁵⁵ Working groups sometimes consist solely of council members (supported by the secretariat), but usually also consist of other industry representatives. In this respect they are an important element in getting stakeholders involved in the council's work.

Whereas the full council will discuss issues and decide appropriate action, the working groups develop and implement initiatives. The working groups have been the 'engines' of the council and in many respects important determinants of the council's success in implementing the Agri-Food Strategy.

The effectiveness of the various working groups is discussed in section 7.3.1, and more broadly in the context of the Agri-Food Strategy assessment in chapters 5 and 6 and appendix 4. On the whole, they appeared to have worked quite well. The success of specific working groups is to some extent dependent on the enthusiasm and skills of the particular council members involved, as well as the complexity of the task at hand.

Council members' own views on the working groups are mixed. One view is that the working groups are essential and generally doing a good job. The alternative view is that they are too many in number and often ineffective.

A government official who has been involved with the strategy observed that the strength of interest of the people on the working groups was very important. Another official commented similarly that the success of particular groups depended on how well council members led those groups and the strength of their desire to solve specific problems.

Frequency of council meetings

Council meetings have been held three to four times a year on average. Could council be more effective by meeting more or less often?

As with all bodies of this nature there are competing issues to balance. Meetings held too infrequently face the risk of becoming too formalised and the work program losing momentum. Important issues can back up too much and might even have 'come and gone'

⁵⁵ See chapter 3 for a full description of the working groups.

before the council has a chance to address them. On the other hand, meetings held too frequently may leave insufficient time for substantive developments to occur between meetings. There is also the risk that influential and busy industry leaders may find it difficult to fit all the meetings into their schedule.

Council members were asked their views on this matter. The current arrangements are generally considered satisfactory, with perhaps a view that meetings be slightly more frequent.

Several members observed that the frequency of meetings was satisfactory, but the time set aside for the meetings was insufficient. This did not allow full discussion of the matters before the council. Another member suggested the need for flexibility so that the council could call special meetings when important issues arise.

Overall, the schedule of 3 to 4 council meetings per annum seems appropriate.

Conduct of meetings and decision making

Is the way the meetings are conducted conducive to getting the best out of the council?

A peak industry body consisting of experienced and influential industry players needs to be given ample opportunity to bring its members' expertise to the table. Time is again clearly relevant here, but not just the time for the entire meeting. The time allowed for discussion of individual agenda items is equally important. If there are too many issues on the agenda, there may be inadequate time for each item.

There is also the question of the openness of discussion and the liveliness of debate. Expert members are wanted for such things as their innovative qualities and their problem solving abilities. An advisory council should not be a forum for 'set pieces', but rather a forum for full and frank discussion. A less rigid and more informal approach will have more chance of drawing out all the expertise around the table.

Opinions vary amongst council members about the nature of council meetings:

- one council member noted how meetings always seemed to be rushed making it difficult to talk issues out;
- another member thought that the council was becoming too 'robotic';
- several council members noted that the insufficient opportunity for full and frank discussion meant that council was having to rely more heavily on the secretariat and the papers it prepared; and
- one other factor which might be restricting free and full debate at council meetings is the presence of non-council members.

With respect to the latter point, it is common practice for numerous officials from DIST and DPIE to attend council meetings along with ministerial advisers. Several council members observed they would prefer just to have council members and a ‘note taker’ in the room if possible, but otherwise to severely limit the attendance of outsiders.

Council’s relationship with its secretariat

The council is dependent on its secretariat in a number of ways. The secretariat organises meetings, prepares papers and briefs, and liaises with firms and other industry stakeholders. It also monitors developments relating to the strategy and its individual components and keeps council informed.

There is clearly the potential for a confusion of roles under the present system, whereby the secretariat serves ministers (in their DIST or DPIE roles) but also serves the council (which includes ministers). The confusion is heightened by the secretariat writing council papers and then briefing ministers on the same papers.

The current secretariat arrangements received mixed reviews from stakeholders. Some thought the system was working quite well, others expressed concern about the influence of the secretariat on decision making.

We are left with the impression that the secretariat is driving a lot of the council’s work, for example:

- by placing issues on the agenda of council meetings;
- by proposing actions in council papers, which are subsequently adopted more often than not; and
- by being ‘members’ (in a support role) of the council’s working groups.

The prominent role of the secretariat has probably contributed to a ‘set piece’ approach to council meetings in recent times (rather than the free and frank discussion highly desirable in bodies of this kind). However, the fact that the secretariat has apparently driven much of the council’s work is not of the secretariat’s own making. We believe it has been obliged to take on many of its duties due to a lack of action on the council’s part. The council’s progress in undertaking its work program would have been significantly hampered without the secretariat’s guiding influence.

7.4 Overall assessment

We have examined the performance of the Agri-Food Council against three principal criteria:

- industry awareness and contact with the council;

- council's success in carrying out its specific functions; and
- a broader assessment of council's performance in giving effect to the Agri-Food Strategy.

We found that the council has a recognition problem. Awareness of the council's existence is not very high in the industry (45 per cent of medium to large firms). Industry understanding of the council's role is poor, with half of the medium to large food firms surveyed having no idea what the council does. The very limited contact occurring between firms and the council members is presumably contributing to this situation.

As for the specific functions of council:

- the council is seen by key industry stakeholders to be performing best at encouraging the adoption of best practice, with half of all stakeholders believing it is doing a good or very good job in this area;
- the council is also seen to be performing reasonably well in providing leadership and forging a common industry purpose, and in addressing industry impediments;
- the council rates less well in targeting and coordinating programs across portfolios and as an avenue for firms to raise concerns; and
- the council does badly at disseminating information, with around half of all stakeholders (including 40 per cent of council members) rating the council's performance as 'poor'.

The most important functions of the council — as stated when the Agri-Food Strategy was announced — are providing leadership and forging a common purpose amongst industry participants. This suggests that this should be given relatively more weight in our assessment of the council. In fact the council is performing this role quite satisfactorily according to stakeholders most closely involved with the strategy.

In the broader context, we found that the council has operated reasonably well. The working groups have provided the backbone for council's operations and through these groups council has made some significant contributions to industry development. At the same time both the working groups and the full council appeared to have often been over-reliant on the council secretariat to drive things along.

Other matters giving some cause for concern amongst council members are the limited time available at council meetings for discussion of agenda items and declining opportunities for full and frank exchange of views. One reason for these concerns would seem to be the large number of issues falling within the council's domain and the consequently often crowded meeting agendas. The number of programs and initiatives the council 'manages' under the strategy umbrella has perhaps led to a dissipation of energy across these programs and contributed to a lack of focus.

There is, in fact, a fairly widespread perception across the agri-food industry that the council has suffered from a lack of focus, particularly in the past year or so. In overseeing the Agri-Food Strategy it has perhaps tried to do too much and spread its resources too thinly. Of course, as with the related topic of targeting and coordinating programs, it can be argued that the council has been restricted in what it could do. The majority of the programs and components which come under the strategy umbrella have been ‘given’ to the council by the government (either when the strategy was announced or subsequently). This works against focus because the council is ‘required’ to oversee a wide range of issues.

In summary, the council has clearly demonstrated some strengths but also some weaknesses. It has performed quite well in carrying out its principal ‘core’ functions, has satisfactorily developed some Agri-Food Strategy initiatives and can also point to a number of industry development initiatives of its own.⁵⁶ On the other hand, the council has neglected some of the detail which underpins the strategy and its own work. Industry awareness and understanding of council’s role, contact and consultation with stakeholders and dissemination of information are all weak spots. In addition, there is a perception that council is not as focused as it might have been.

⁵⁶ The *usefulness* of these initiatives is another matter of course. This is discussed in the assessment of the strategy components in chapters 5 and 6 and appendix 4.

8 Conclusions and future options

We have made an assessment of the Agri-Food Strategy components, the strategy as a ‘strategy’ and the Agri-Food Council. This leaves three major issues to resolve, the future of the strategy components, the future of the current strategy and the future of the council.

In this chapter we first consider several options for the strategy itself (section 8.1). Section 8.2 examines the future role and structure of the Agri-Food Council, including comments on the council’s priorities and work program. Finally, we examine appropriate directions for the individual programs and components comprising the current Agri-Food Strategy (section 8.3).

8.1 Options for the Agri-Food Strategy

8.1.1 Setting the scene

Throughout this report we have distinguished between the individual programs and initiatives under the strategy umbrella, and the strategy itself. An industry strategy is the *coordination* of a *complete set* of disparate resources to *systematically* and *significantly* increase the capabilities of an industry. Each component of such a strategy has a link to other components — to draw an analogy, the artillery is not used in isolation from the air force, infantry or tanks.

If a strategy is defined this way, then the Agri-Food Strategy is incomplete. It has lacked links between its components and a coordinated plan of attack on the agri-food industry’s impediments. The strategy has applied a limited set of policies and these have not significantly increased the capabilities of the industry. Moreover, although the programs and initiatives falling under the strategy have addressed an important, but ad hoc, set of issues affecting the industry, their diffusion to firms, especially SMEs, has been weak.

But we should not be too hasty in labelling the Agri-Food Strategy as a ‘failure’. Overall expenditure under the strategy amounts to an average \$4.4 million per year over the four years of the strategy. This is dwarfed by the size of the processed food and beverages industry which had a turnover of just over \$36 billion in 1992-93 — in subsidy terms it is roughly equivalent to 34 *cents* per 1000 *dollars* of value-added, or 12 cents per 1000 dollars of turnover.

Sometimes of course, a small amount of carefully allocated funding and effort can generate large long-term changes. But this usually occurs only when they achieve large institutional reforms (such as micro reform or market access in key areas relevant to the industry), kick start self-propagating market mechanisms or transform the ‘culture’ of enterprises. The aggregate performance statistics for the industry suggest that the strategy has not had this effect to date.

The Agri-Food Strategy established an *ambitious objective* of making a discernible difference to industry performance. But government programs with lofty aspirations not matched by resources — such as the Agri-Food Strategy — are destined to fall short of their objectives. Given the heterogeneity of activities, the vast differences in the nature of problems facing different firms along the value chain, and the sheer size of the industry — for example, some 3322 firms and 156 483 employees in 1992-93 — the resources allocated could not realistically have hoped to spark large improvements in the Australian agri-food industry.

8.1.2 The four options for the Agri-Food Strategy

There are four general options for the strategy:

- sustain in current form;
- increase financing to provide more extensive coverage of the industry with a set of interdependent strategically focused programs;
- eliminate; or
- alter the form of the strategy.

What would be wrong with continuing the strategy in something like its current form? After all, the fact that the ‘strategy’ is not a genuine strategy — a semantic observation at best — does not justify its elimination. Moreover, as noted above, the fact that we find scarcely visible impacts from the strategy *is just what we would expect*. Indeed, if we had found large impacts, we would have to be highly sceptical of the methodology of the evaluation. Why? Even if there are large net benefits from the strategy, they would be scarcely visible simply because of the massive scale of the industry compared to the resources injected via the strategy. For example, for the strategy to produce a 100 per cent rate of return it needs only to obtain a permanent productivity gain of about 1/50th of a percentage point in the agri-food industry (see appendix 8).

On the other hand, there are several factors working against maintaining the existing approach. The fact is the strategy has tended to serve as a ‘label’ for a collection of disparate components which have hardly been coordinated at all. It appears to have brought only limited benefits to those firms directly involved with strategy programs and initiatives. Furthermore, some of the individual programs and initiatives do not appear to be working

well or are inappropriate. Overall, the strategy has not achieved the potential envisaged at its commencement and is still not well recognised within the agri-food industry.

We observed above that the limited resourcing involved with the existing Agri-Food Strategy was always unlikely to spark large, visible improvements in the agri-food industry. What then of a much more resource-intensive strategy? It could be argued that if more resources were provided then the returns could be greater and more apparent.

We believe the option for increased funding has limited viability and appropriateness:

- we are uncertain that many elements of the existing strategy have really been effective;
- there are strong arguments — on efficiency and other grounds — that assistance, where appropriate at all, should be provided to firms across all sectors. A big spending sectoral approach would need to establish an incontrovertible case for deviating from this norm; and
- pragmatically, government budget constraints dictate modest and carefully targeted expenditures.

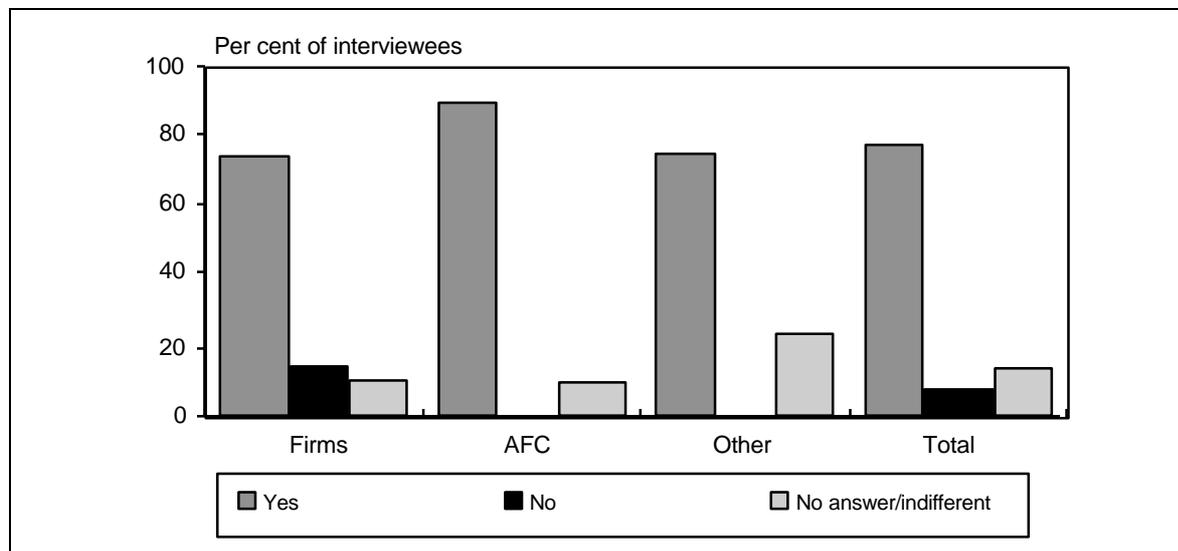
These arguments suggest that either adaptation or elimination are options to consider. We believe that a modified Agri-Food Strategy is the preferred option. Although we do not favour a high profile, resource-intensive assistance package for the agri-food industry, there are several grounds for favouring the continuation of some form of strategic approach to the agri-food industry's needs:

- while the existing Agri-Food Strategy has not been a 'proper' strategy — in the sense that it has not been systematic and coordinated — this is not to say that such an action plan could not be formulated;
- many argue that a coordinated government/industry strategy is necessary to drive change — including a suite of micro reforms — and position the industry to take full advantage of future possibilities;
- there is strong industry support for continuation of an agri-food industry strategy. Almost 80 per cent of stakeholders believe the current strategy should be extended beyond 1996 (figure 8.1). All but one of the council members think so and so do approximately three-quarters of firms and other stakeholders. All but one of the firms advocating termination had very little involvement with the council and the strategy;
- there are a common set of 'through-chain' issues in the agri-food industry which suggest there may be considerable benefits from a 'whole of industry' approach that brings parties together. In part, firms see the strategy as an affirmation by government of the industry's importance — which in turn underwrites reform. To some extent it also unites firms and others in the industry and gives them a sense of common purpose. Many stakeholders expressed concern that the industry progress achieved in recent years would lose momentum or even stall completely in the absence of a strategy. Around 30 per cent of firms consider the termination of the strategy would have a very detrimental/detrimental effect on their own firms (figure 8.2). Also

(paradoxically) around 50 per cent of firms believe there would be very detrimental/detrimental effects on the food industry as a whole if the strategy was scrapped (figure 8.3). There could be a number of possible explanations for this contradiction (see box 8.1); and

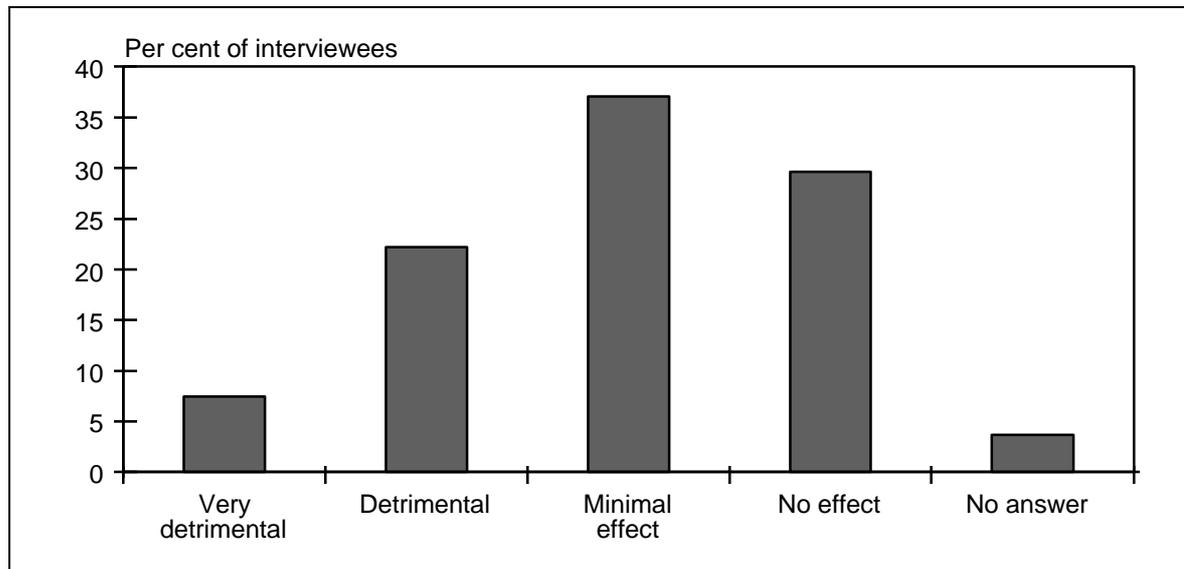
- the idea of the strategy and of augmenting cooperation requires learning by all stakeholders. This is an intangible and gradual process which can nevertheless provide long-term benefits in the form of greater efficiency and higher productivity. A cultural change towards a more competitive and a more export-oriented industry *may* be slowly occurring as a result of the strategy, but is also hard to detect.

Figure 8.1 Should the current Agri-Food Strategy be extended?



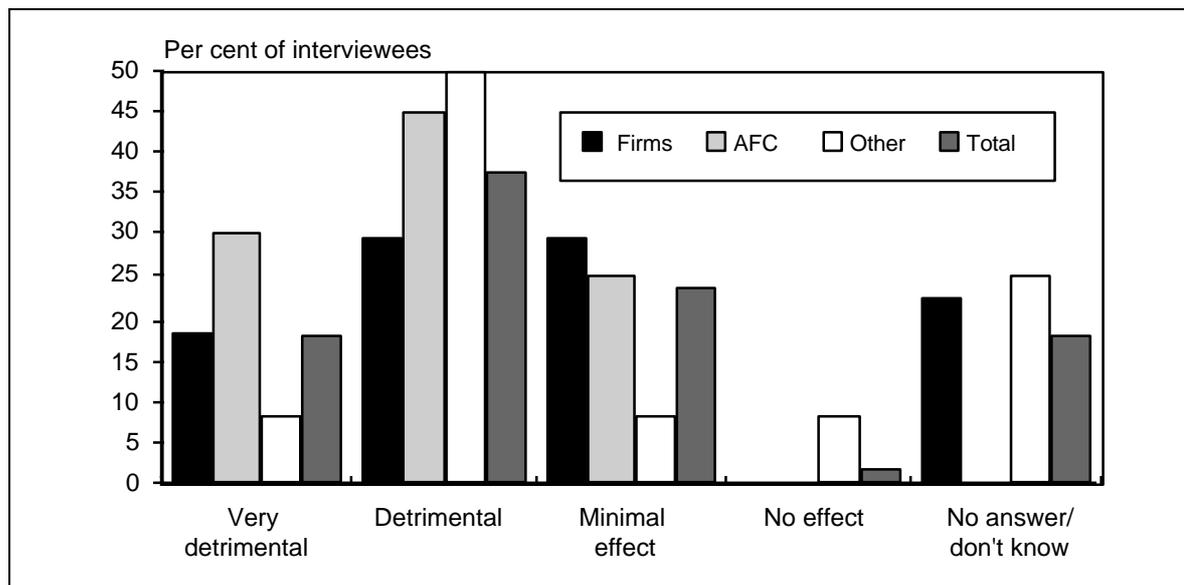
Source: BIE/ABARE interviews. Number interviewed: 27 firms, 11 Agri-Food Council members, 12 other s.

Figure 8.2 Effect on firms if the strategy is terminated



Source: BIE/ABARE interviews. Number of firms interviewed = 27.

Figure 8.3 Effect on food industry if the strategy is terminated



Source: BIE/ABARE interviews. Number interviewed: 27 firms, 11 Agri-Food Council members, 12 other s.

Box 8.1 Why firms might assess the strategy benefits differently for themselves and the industry as a whole

There appears to be a contradiction between figures 8.2 and 8.3 (and also figure 6.5). On the one hand, a majority of large agri-food firms involved with the strategy say it is having only a limited impact on their performance — and it would do little harm to their firms if it was terminated. On the other hand though, a bout half of the firms adopt a different position when wearing their ‘industry hats’ — they think terminating the strategy would be

a retrograde step. How can we explain this difference? The contradiction may emerge because firms do not perceive the benefits to the industry as a whole. Or perhaps, the contradiction is really illusory:

- the *framing* of the question may affect the conceptual framework firms use to answer the question. Firms may require tangible business outcomes to say that a program has been good for their own firm, but give a greater weight to intangibles (such as better cooperation, market access successes or microeconomic reform) when looking at the impact of a policy on the industry as a whole; or
- the disparate answers may reflect an aggregation problem. Each firm may expect to lose a small absolute benefit if the strategy was eliminated — but across all firms the absolute value of these aggregated benefits could be very great. For example, if the average firm lost 1/2 per cent of value-added as a result of termination of the strategy, this would amount to \$20 000 for the average firm (a relatively modest absolute amount) but \$64 million for the industry as a whole (a large absolute amount).

Regardless of why the answers vary, the fact that a *minimum* of one in three firms perceive termination of the strategy as detrimental is still notable.

8.1.3 A modified Agri-Food Strategy

The re-configured Agri-Food Strategy we are suggesting should be seen as something completely separate to the current strategy with its early 1990s agenda. The intention is to move away from a sectoral strategy containing numerous government-funded programs and projects. Rather, the modified strategy would be a parsimonious one with the prime objective of identifying micro reform impediments and options throughout the food chain — with the aim of producing welfare-enhancing improvements. The strategy would contain three main elements.

Reform of government infrastructure and institutions

The strategy could concentrate on the reform of government institutions which affect the industry. The role of government (state and federal) in the agri-food industry is pervasive — much more extensive than most other industries, covering areas as diverse as:

- the science system (with its substantial research capabilities in agriculture);⁵⁷
- infrastructure within the control of government (such as ports, rail and water);
- the intellectual property system;
- the industrial relations system;
- regulatory burden (labelling, food quality laws);
- competition policy;

⁵⁷ See BIE (1996b).

- import barriers;
- institutions in agriculture (Cooperatives and Statutory Marketing Authorities);
- government services (AQIS, Customs);
- the training system; and
- market access.

Filmer and Dao (1994) show that the agri-food industry reaps some of the biggest output gains from microeconomic reform — well in excess of the gains available to the Australian economy as a whole.⁵⁸ A strategic examination of how the web of government institutions and policies impedes or enhances the industry’s capabilities could produce large gains — and involve little actual expenditure. While there is already an impetus for generalised reform, the Agri-Food Council could be used as an industry panel of informed business people who can identify the **priority** areas for reform and a **systematic** and **highly specific** agenda (including timing and mechanisms).

Ensuring industry policy is relevant to the agri-food industry

Just as modern software packages exploit shared coding to provide software solutions for specific problems, industry policy for a particular sector can use general business improvement programs as resources. These resources can generally be organised on a generic basis (for example, a program which hastens or diffuses workplace reform for *all* firms rather than separate initiatives for each industry) — but this may not always be the case. The Agri-Food Council would aim to ensure that these generic programs are *recognised* in the agri-food industry and that they are *appropriate* to its needs. If there are idiosyncratic features of an industry that demand a particular government program, then the strategy could expose these gaps — but duplication of programs provided to non agri-food companies would be avoided. This would automatically avoid overlap, such as occurs with the FILLIP program.

Changing industry culture and attitudes

Industries have cultures, borne of history, personalities and economic environments. It has been claimed that the agri-food industry has languished because it has had a domestic focus, a poor innovation record and a weak capacity for cooperation along the value-added chain. While government business policies can have a role in changing the incentives of managers by altering the economic environment, there is also a potential role for industry-based action (for example, the industrial ‘round tables’ that the Strategic Industrial Research Foundation has established). The Agri-Food Council could look at industry-based initiatives for changing the culture of the past.

⁵⁸ See table 2.3 in chapter 2.

It should be emphasised that in helping drive such a reform agenda we believe two overarching principles are appropriate:

- gains in efficiency and performance in the agri-food industry should be sought which are not at the expense of economic efficiency elsewhere in the economy; and
- possible changes to any regulatory or institutional arrangements affecting the agri-food industry should involve public and transparent consultation.

8.2 A revitalised Agri-Food Council

The modified Agri-Food Strategy outlined above clearly implies a continuing role for the Agri-Food Council — but it is not its current role. The council will become the ‘core’ of the strategy, rather than the programs and projects which make up the current strategy. This will require the council to take a more active role in driving the agenda and implementing change.

In this section we discuss the possible role of the council and its future priorities and work program. We then determine that to meet its objectives and to effectively perform its proposed new functions, the council is likely to require some changes to its structure, operations and support. There are a number of matters requiring clarification and change — such as council membership and secretariat arrangements — and we discuss possible options for consideration.

8.2.1 Future roles of the council

We have proposed a modified Agri-Food Strategy which relies heavily on the council as a panel of highly knowledgeable and informed people familiar with the agri-food industry. But the council will not exist just to implement the three planks of the modified Agri-Food Strategy (box 8.2). The council could also still have an important advisory role to play in responding to specific ministerial requests relating to agri-food policies or programs. Moreover, to maximise the contributions of these experts, we believe the council should outline its vision for developing the agri-food industry, and, emanating from that, write a more detailed agenda and work program. In addition to these two major roles, we believe the new council should keep in touch with existing strategy programs and initiatives.

Box 8.2 Future roles of the Agri-Food Council

Implementing the modified Agri-Food Strategy

- reform government infrastructure and institutions which affect the performance of the agri-food industry;
- change the culture of the agri-food industry; and

- assess the need for industry-specific government programs.
- Developing future directions for the agri-food industry*
- develop a vision and agenda for the future of the food industry;
 - outline impediments to be tackled and develop innovative ideas and initiatives;
 - undertake its own research through its secretariat and consultancies ; and
 - prioritise issues and bring them to the notice of ministers .
- Ongoing advisory role*
- advise the government on policy proposals;
 - provide feedback to the government on policies and programs; and
 - advise the government as required on specific issues.
- Continuing involvement with current strategy elements*
- receive reports/updates;
 - provide feedback; and
 - provide a 'sanity check' for proposed changes to existing programs.

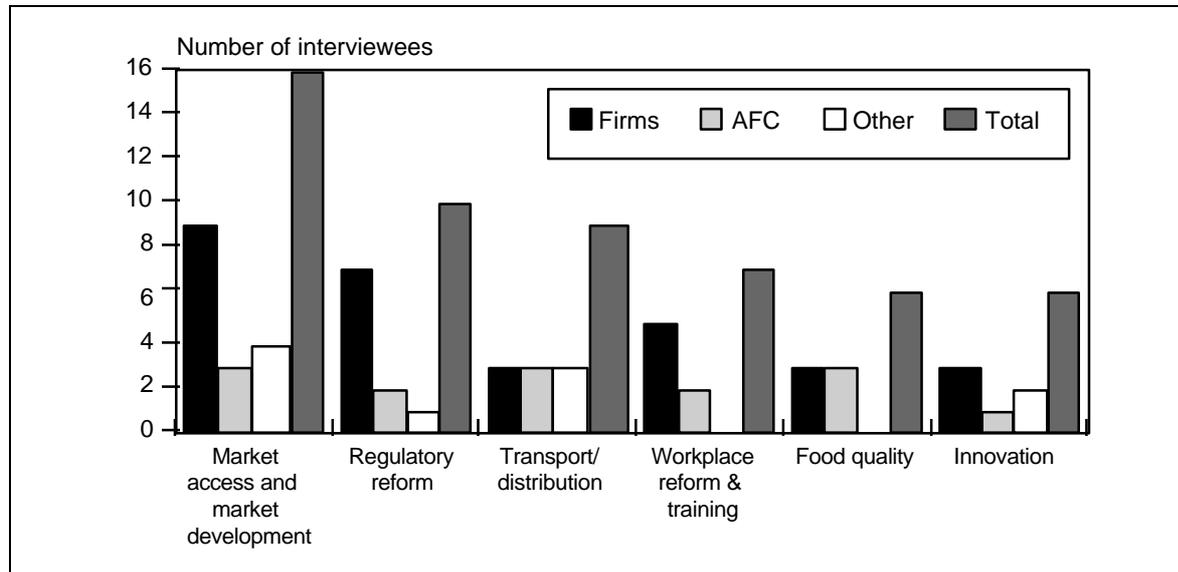
8.2.2 Future directions and priorities

The revamped Agri-Food Council will have a 'core' responsibility to implement the modified Agri-Food Strategy. But it will also have considerable freedom to develop its own agenda for the future of the agri-food industry and to prioritise industry issues for the government's consideration.

We noted above that the underlying principle of the modified Agri-Food Strategy would be to concentrate on micro reform issues relevant to the agri-food industry with an emphasis on identifying options throughout the food chain. We believe this principle should also apply to the council's more general role in developing future directions for the industry. But what specific matters might be included in the council's plans?

Stakeholders expressed their views on future industry priorities during face-to-face interviews (figure 8.4). In line with the major impediment to export growth identified by large firms, the most important issue for the council to address is seen to be market access and market development. Regulatory reform and transport/distribution matters are next in line, the former being of particular concern to firms. Existing strategy components not identified in the top six priorities are grower-processor linkages, packaging and networks.

Figure 8.4 Suggested future priorities for the Agri-Food Council — stakeholder views



Source: BIE/ABARE interviews. Number interviewed: 27 firms, 11 Agri-Food Council members, 12 other stakeholders.

The medium to large firms in the telephone survey were not specifically asked about ‘future priorities’ of the council, but their major exporting impediments are generally consistent with the priority issues for the very large firms shown in figure 8.4.

We believe it is up to the revamped council to come up with its own ideas on future directions and research priorities — stakeholders’ views will be only one of many considerations the council will need to take into account. One way the council might approach this task is to come up with a draft work program within a short period of time (say 3 months), including a systematic plan of action, resources, goals, milestones, performance indicators and so on. The council could then publicly release the draft program and consult widely with industry stakeholders.

We are not making any of our own specific recommendations for the council’s work program and priorities — other than the fact that the council should pay due heed to our recommended modified Agri-Food Strategy. But even there, the particular infrastructure reform issues to be targeted, for example, are for the informed experts on the council to determine.

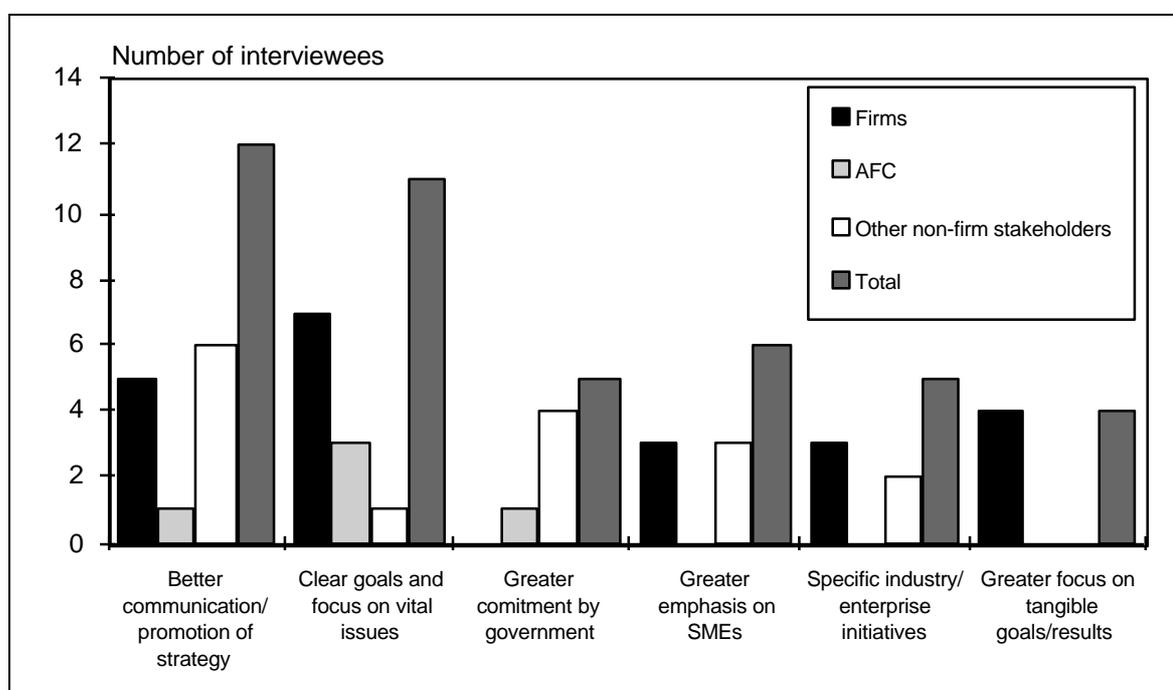
However, in light of the insights gained in conducting this evaluation we would suggest the following comments be considered by the council in developing its agenda and work program:

- first, council should resolve to tackle only one or two key issues at a time, rather than spreading its resources too thinly and widely. The need for more focus came out clearly from the assessment of the council in chapter 7, where it was noted that council’s performance had apparently suffered from spreading its resources too thinly

and too widely. A greater focus on vital issues and tangible results is also high on the stakeholders 'wish list' of changes regarding the current strategy (see figure 8.5);

- second, council should seek to address issues *specific to the food industry* where it may be able to make a difference. It should be cautious about taking on issues where its expertise and influence are less obvious;
- third, in developing an industry agenda or 'vision' council should consider the needs of all firms and not just the large to very large firms. While council (and the government) may ultimately decide to target the largest firms for greatest attention, it should see what measures might be available to assist the SMEs which comprise the bulk of the industry;
- fourth, a reduced emphasis on export success for its own sake might be appropriate and could help shift the focus away from the largest producers. Export growth should not necessarily be seen as a final goal but rather as a tool of industry policy. Such matters as increased productivity, innovation and learning-by-doing can be more legitimately regarded as the ultimate goals of policy; and
- finally, in developing its work program and priorities the council should clearly set out goals, achievable outcomes, milestones and performance measures. This will serve the dual functions of focusing council members' planning and allowing (down the track) a critical assessment of council's contribution to industry development.

Figure 8.5 Required changes to the Agri-Food Strategy — stakeholder views



Source: BIE/ABARE interviews. Number interviewed: 27 firms, 11 Agri-Food Council members, 12 other stakeholders.

8.2.3 The revamped Agri-Food Council — structure, operations and support

To meet its objectives and to effectively perform its proposed new functions, the council is likely to require some changes to its structure, operations and support (administrative, financial and communicative).

In considering these changes, we have a picture of where the new council should fit — as part of the governmental process and as an important industry body. The objectives in proposing these reforms can be summarised as follows:

- to maximise the contribution of a group of expert and eminent people;
- that the critical, independent and expert advice on food industry issues provided by the council to ministers will lead to better policies and industry outcomes; and
- that the council will liaise effectively with industry participants. This would include ‘two-way’ liaison with firms, other industry constituencies, government departments and other government agencies.

There are a number of matters requiring clarification and possible change. These relate to council membership, ministerial representation, chairing arrangements, meetings and working groups, secretariat arrangements, communications and consultation, and resources and funding.

We will discuss these matters below. But while we have informed views, based on the current evaluation, we recognise that our comparative advantage does not lie in organisational design. Accordingly, we present some *options* for change rather than firm recommendations. Other key stakeholders, including importantly the council members themselves, should have their say in what *they* think will work best.

A key principle guiding the proposed new arrangements is that all the major participants in the agri-food through-chain are fully represented and consulted — from growers and producers through to packagers and retailers. This will help to ensure that the council’s deliberations are aimed at benefiting the entire industry (and the nation) and not just the special interests of certain industry players.

Council membership

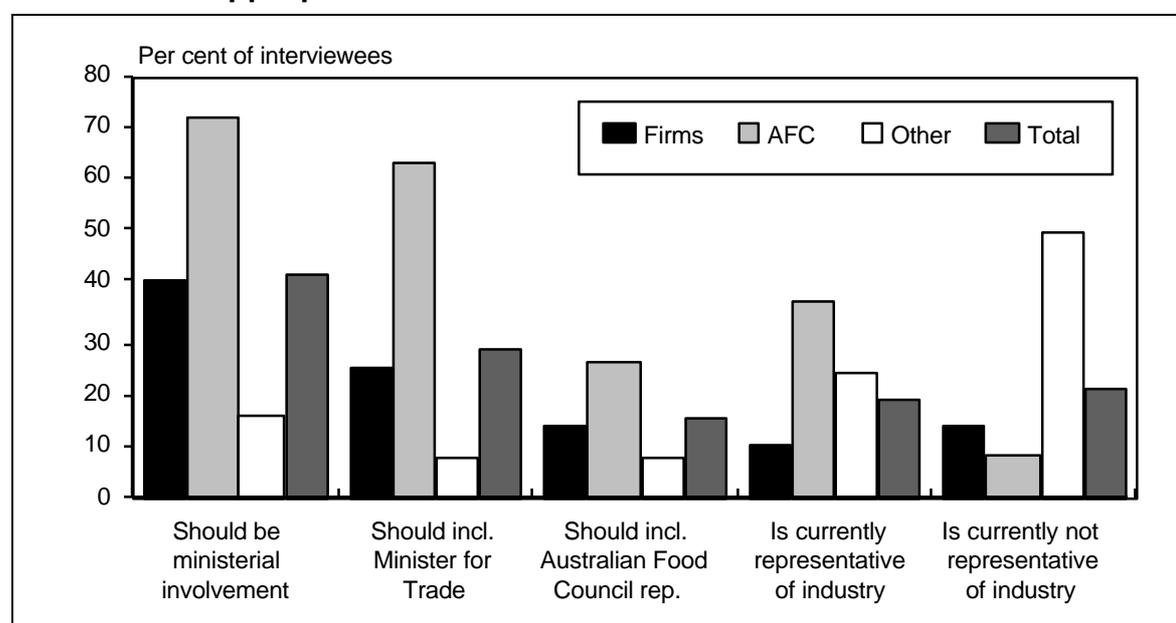
Key tasks of the new council will include implementing the modified Agri-Food Strategy, developing future directions for the agri-food industry, policy and program advice to the government, and liaising with food industry participants. This will require a broad representation of industry if the council is to be fully effective. Ministers need to be sure they are receiving views from across the industry spectrum.

Stakeholders interviewed during the evaluation are fairly evenly split in voicing their opinions on the extent to which the *current* council is representative of the food industry (figure 8.6). The most negative comments in this regard came from the ‘other’ stakeholders group, which includes state government departments, industry associations and unions. Some other stakeholders (and several firms) regard the current arrangements as a ‘club’ of eminent members, with the major benefits of the council being largely confined to the members. A number of other stakeholders would also like to see broader representation to include, for example, state governments, consumer groups or more SMEs.

In establishing peak bodies such as the Agri-Food Council, there can always be debate on whether the aim should be to try and recruit the most able individuals in the industry or recruit on an ‘industry representation’ basis. The former approach can result in certain interest groups being left out in the cold, while the latter may bar some influential and talented industry leaders.

Ideally, council members should be influential and capable with resources to muster. We think the new council will operate most effectively if it is set up to be representative of key industry players, rather than consisting of key individuals. There will be a greater prospect for deliverables if the resources of the various organisations represented on the council can be mobilised in a coordinated and focused way.

Figure 8.6 Is the current composition of the Agri-Food Council appropriate?



Source: BIE/ABARE interviews. Number interviewed: 27 firms, 11 Agri-Food Council members, 12 other stakeholders.

While this would probably mean a slightly more ‘institutionalised’ approach to membership than currently exists, we also recognise a certain validity of the approach favouring council members being appointed on the basis of individual merits rather than

whom they represent. Therefore, while we believe the representative basis for membership should predominate, there should also be scope for ministers to appoint one or two additional council members ‘without portfolio’. These members would be appointed for their individual talents, experience and influence in the industry.

We do not think many changes in the membership structure will be desirable or necessary. The envisaged new council might have a slightly expanded membership to pick up wider industry constituencies, although we do not see this as a problem for a non-executive body.

In accordance with the desire for industry-wide consultation and broadness, we suggest council membership could include representatives from the bodies listed in box 8.3 — along with any other individuals appointed at the government’s discretion.

There are other alternatives to council membership which may merit consideration. One would be the inclusion of a Chamber of Manufactures representative from one of the states to provide improved representation of SME interests on the council. This would be in line with the structure of the agri-food industry and would also be consistent with the views of some firms and ‘other’ stakeholders calling out for a greater SME focus by the council.

‘Appropriate’ state representation on the Agri-Food Council was a matter of concern to some state government departments. We do not believe council members should be explicitly appointed on a ‘state of origin’ basis as this may not gel with the aim of promoting the *Australian* agri-food industry. However, some sensitivity to state representation might be considered at the time of future appointments.

Box 8.3 Possible (non-ministerial) membership of new Agri- Food Council

- Australian Food Council
- Australian Supermarkets Institute (or similar retailers’ representative)
- National Farmers’ Federation
- Packaging Council
- two large Australian-owned food companies
- two multinational food companies
- two SME food companies
- science & technology expert
- ACTU
- other individuals (at ministers’ discretion).

One other possibility would be to add more representatives from the primary industries, such as the Australian Horticultural Corporation and the Australian Meat and Livestock

Corporation. The National Farmers' Federation representative on the council is currently looking after matters up to the farm gate. Adding other primary interests to the council could be regarded as recognition of the fact that value-adding can involve more than just food processing. It would also be consistent with encouraging growth in exports of these products to Asian markets.

In view of the more representative basis of the new council, we would suggest that consideration be given to allowing alternates to attend full council meetings. Another condition of council membership which could be reviewed is the duration of appointments (including the possibility of introducing fixed terms rather than the unlimited duration that currently exists).

Ministerial representation

Stakeholders value highly having DIST and DPIE ministerial representation on the council. Non-ministerial council members think it is essential to be able to make face-to-face contact with ministers on a regular basis to discuss industry development issues. Several noted they would not have the same interest in serving on the council without ministerial presence. Many large firms involved with the Agri-Food Strategy also stressed the importance of ministerial representation on the council. Some indicated that it gave industry an important signal about the government's priorities.

The requirement for ministers to be members of the council attracted substantial comment at the face-to-face interviews (see figure 8.6):

- council members are the most keen to have ministerial representation and around 65 per cent would like to see the Minister for Trade included on a permanent basis; and
- around 40 per cent of the firms interviewed also stressed the importance of ministers sitting on the council, while 25 per cent specifically nominated the Minister for Trade.

The interest in the Minister for Trade is apparently tied up with the importance attached by stakeholders to market access. Market access certainly comes across as a key impediment facing Australian food exporters and something they would like the council to act on (see section 8.2.2).

The Minister for Trade has already attended some council meetings to discuss trade and market issues. Other ministers have also attended council meetings to discuss relevant portfolio concerns. This system appears to have worked well. It raises questions whether the council's objectives and role require the Minister for Trade to attend on a permanent basis.

Notwithstanding the views expressed by stakeholders, we are not convinced that the current ministerial representation (DIST and DPIE) should be changed:

- it would add an extra bureaucratic arm to the council and its work which already has to cope with joint administration by DIST and DPIE; and
- the council is only a small voice in the choir on market access issues. It has had little success to date and there is probably little it can do unless it focuses on highly specific issues that are inadequately covered elsewhere.

Chairing arrangements

There are three options for the chairing arrangements for the revamped council:

- joint ministerial chairs;
- non-ministerial council member; and
- independent chair.

As noted, there is high industry regard for the industry minister and the primary industry minister serving as joint chairs of the council. It is a system which appears to have worked reasonably well, but which would be complicated by the addition of the trade minister to the council (see previous section). Three joint-chairs could be rather cumbersome and lead to administrative and coordination problems.

One possibility would be to appoint a non-ministerial council member to chair the council. To some extent this system already occurs on an unofficial basis. Ministers have wide and varied portfolios and can only devote so much time to the processed food aspects of those portfolios. It has therefore appropriately fallen to certain council members to adopt a leadership role (outside the formal council context) in order for some issues to be progressed.

While such an informal arrangement could conceivably still work in the future, it will become increasingly difficult. Having an industry representative in the chair may have a number of advantages. The proposed new role for the council places a strong emphasis on developing an industry agenda and priority setting, as well as providing policy advice to the government. To be effective, this is likely to require one or possibly two individual council members to take a strong leadership role to drive the council's work program — to coordinate the council's 'reform agenda' and to coordinate responses to ministerial requests. The non-ministerial council leader would also be responsible for ensuring council liaises more closely with its secretariat (see below) and addresses targets and performance indicators.

It may well be the case, of course, that the time-consuming nature of these additional tasks might prevent existing council members from being fully effective in the chairing role. Another alternative in this case would be to bring in an independent chair from beyond the current council membership. An independent chair could be difficult to find, however, as the person would have to meet certain requirements — for example, have broad industry support and sufficient time available to discharge the chair's duties.

In sum, a non-ministerial or independent chair would still give council members (and indeed the entire industry) all the advantages of ministerial representation on the council, but may also be able to make the council a more effective body.

Meetings and working groups

Council currently meets 3 to 4 times per annum and we believe this will remain appropriate in the future. The system of working groups has worked quite well under the current arrangements with groups being formed to look after specific Agri-Food Strategy components. However, this system may prove to be less appropriate as a means of getting council's work done under its new roles.

Implementing the three planks of the modified strategy would appear to be amenable to the working groups system — but council's work in its other roles may not always fall so readily into neat segments. While there may still be some role for working groups to undertake initial assessments and research, the full council will need to work much more as a single unit. Moreover, the working group system appears to have placed too much onus on the secretariat to drive issues and perform tasks. This would be inappropriate for the new council with its higher profile and additional responsibilities.

It was noted in the previous section that a non-ministerial chair would have certain advantages in the future. Much of these derive from the additional work that will have to take place outside formal council meetings. A lot of this work will require only the chair to work in a coordination or liaison role with the council secretariat. However, there will also be occasions when all non-ministerial council members should be involved.

Clearly, some of the proposed council functions do not require ministerial involvement at every stage. Indeed it would sometimes be inappropriate to have ministers involved. Examples of council functions which would not always require ministers are:

- discussing policy matters requested by government;
- developing views and advice for ministerial action;
- providing urgent feedback in response to ministerial requests; and
- discussing such matters as council's work program, priorities, research issues, industry liaison, targets, and performance indicators (that is, all the things which go towards making the council fully effective).

In other words, it will be extremely useful to ministers if non-ministerial members have already had some discussion of certain issues prior to full council meetings. This will almost certainly make the council a more effective body and will assist with problems associated with the enormous time constraints placed on ministers.

Such a system has in fact already been tried to a limited extent. Non-ministerial members have recently had several telephone hook-ups to discuss matters associated with the future

council work program. These occurred immediately prior to, and then following, the November 1995 council meeting. The meetings were apparently highly successful.

This informal two-tiered approach will in no way diminish the status and operations of full council meetings. At these meetings members will be still be able to put their views to ministers and feed directly into the policy process. Indeed it is vital to the effectiveness of the council that it operates as a forum for full and frank discussion to draw out all the expertise around the table.

Secretariat arrangements

In chapter 7 we observed the possible confusion of roles under the present system, whereby the secretariat serves ministers (in their DIST or DPIE roles) but also serves the council (which includes ministers). We also noted the influence of the secretariat on council work and its impact on council decision making.

We believe it is vital that the council has effective control over its administrative support infrastructure. The problems with existing arrangements, and the requirements of the proposed new structure, suggest that close consideration be given to establishing an independent secretariat to serve the council. The new secretariat would be separate from the policy and program areas of DIST and DPIE. A profile of a new independent secretariat might be as shown in box 8.4.

If DIST and DPIE were to lose their secretariat functions they and other departments would have to work closely with the new independent secretariat. An independent secretariat would leave the policy and program areas of DIST and DPIE with clear, unambiguous functions and responsibilities to ministers, without having these clouded by council work and responsibilities.

Box 8.4 Profile of proposed new independent secretariat

- An executive officer, one administrative support staff and 2 to 3 researchers.
- A clear, unambiguous function to serve the council, leaving no confusion about wearing two hats.
- Work closely with the non-ministerial council members out of session, especially the non-ministerial chair (if appointed).
- Liaise with DIST and DPIE policy/program areas in particular, but other government agencies as required.
- Liaise with industry and assist with the council's communications strategy.
- Undertake research to assist the council in developing its agenda and advising ministers.
- Assist in raising the profile of the council .

A possible alternative to an independent secretariat would be to retain the council secretariat within DIST and DPIE, but with the council exercising much greater control than has been evident in the past. This would overcome some of the major problems with the existing arrangements. However we would foresee difficulties with this option, even if the council sought to more actively manage the secretariat. An independent secretariat would still have a number of advantages:

- an independent secretariat will just have council matters to focus on, whereas departmental secretariat staff will still have the problems of wearing two hats and performing two roles;
- a ‘shared secretariat’ within government departments is likely to face greater coordination problems than a single independent secretariat. These problems will be accentuated if the Minister for Trade were to join the council;
- from the council’s perspective it will be in a much better position to exercise control over its secretariat if it only serves one master. With an independent secretariat the council is responsible for the functioning of the secretariat and has it within its powers to make things happen or make things work better;
- an independent secretariat dedicated only to council work could be expected to be able to liaise more effectively with industry stakeholders; and
- with an independent secretariat there will be ideas and work coming from outside the central bureaucracy — thus presenting alternative views (and based on closer contact with industry).

Communications and consultation

The council rates poorly with industry stakeholders with regards to disseminating information. Stakeholders regard communications and consultation as the thing they would most like to change about the way the council operates (see section 7.2). They also list better communications and promotion of council’s work as the most important need for change with the current strategy (see figure 8.5). Moreover, we found evidence of uncertainty and ignorance of the council among large and medium-sized firms in the industry (see section 7.1).

This suggests that the new council should explore ways to better communicate with industry on a two-way basis. An independent secretariat could also help to forge relationships with industry, to disseminate information relating to council business and to generally promote food industry issues.

Given the importance of this issue, a systematic approach — in the form of a communications strategy — would be a favoured option. A good starting point would be the communication strategy considered at the time of the Agri-Food Strategy’s mid-term review. This included:

-
- production of a regular newsletter;
 - more publicity for council meetings;
 - council members raising council and its work in public speaking engagements; and
 - arranging sessions at conferences about the council and its work.

A new communications strategy would need to go beyond these proposals and look at other ways of improving consultations and face-to-face contact with industry stakeholders. This might also need to take account of some concerns that the council is not visible enough in some states. Holding council meetings in different locations and combining with industry visits would be an option worth considering.

Resources and funding

By removing the programs and initiatives associated with the existing Agri-Food Strategy from the council's oversight, the costs associated with the revamped council arrangements are essentially administrative ones. Currently these principally involve secretariat staffing costs, members' expenses and stationery and printing.

It is difficult to precisely calculate current secretariat costs because the staff involved exercise two roles: council work and departmental work. However indicative costs for a new independent secretariat might be as follows:

- staffing — \$350 000 per annum;
- consultancy/research funds — \$250 000 per annum;
- administration (accommodation, travel, communications, overheads etc) — \$250 000 per annum; and
- travel allowance for council members to attend meetings — \$40 000 per annum.

In summary, we would not expect the new council arrangements to exceed \$1 million per annum. It is proposed that these resources would be funded by the federal government. The analysis of the current Agri-Food Strategy and the anticipated future roles of the Agri-Food Council indicate there would be more than adequate economic justification for government funding.

We do not believe it would be appropriate for the government to seek payment from food industry firms to support funding for the new arrangements:

- the cost of collecting the payments may well be higher than the amount collected;
- unlike some very targeted government programs, we can not say with any certainty what the potential or realised benefits per firm might be. There would be no easy formula for extracting different amounts from firms; and

- if a selective levy were to be imposed, it would be difficult to isolate the benefits of the program to only those firms paying the levy.

8.3 Future of the existing Agri-Food Strategy components

We have indicated that it would be appropriate to modify the Agri-Food Strategy to take away the emphasis on government programs and projects. But what of the current Agri-Food Strategy programs and initiatives? We are suggesting changes to the council and strategy which do not involve these components. However, most are ‘self-standing’ and have lives of their own which can potentially go on without the Agri-Food Strategy connection.

There are two key questions about the future of the existing Agri-Food Strategy programs and initiatives: should they be continued; and if they are continued, what changes (if any) should be made.

In answering these questions we note that we have been unable to undertake full evaluations of the individual strategy components. Accordingly our recommendations should be regarded as indicative rather than conclusive.

Table 8.1 summarises the assessment of the strategy components and recommendations for the future. Individual assessments and recommendations are summarised in the following sections.⁵⁹

Export market development and market access

While we established a theoretical rationale for the **Clean Food Export Program**, the program appears to have benefited only some of the Australian participants involved. As well, we found no evidence that the program has produced any spillover benefits for other Australian exporters. However, we were unable to fully assess the program’s effectiveness — including acceptance by overseas consumers of the ‘clean food image’ — because of the unavailability of data.

In the light of this uncertainty over the benefits of the program, what is the basis for continuing with government funding? It could be argued that the program has long-term potential and that the development of specific markets takes time. This argument has some merit but the criterion for success of a program like clean food is not only the extent of overseas market penetration, but also the extent to which it establishes market institutions or behaviour which can endure and propagate in the absence of future government assistance. It may still be too early to tell if this is the case. However, we understand that

⁵⁹ We do not base any recommendations on the efficiency aspects of strategy components due to a paucity of data. Some indicative efficiency indicators are discussed in chapter 6.

the number of participants signed up for the Indonesia campaign is less than for Taiwan. Moreover, stakeholders expressed a number of concerns to the evaluation team about the *operation* of the program and these will need to be addressed if the program is to become successful.

It is likely, of course, that the clean food program will be more effective if a greater amount of resources are devoted to individual market campaigns. But it would be hard on economic grounds to justify this approach at present, given the apparent lack of spillovers to Australian exporting firms who do not participate in the clean food program.

These spillovers can occur because the user of the logo may provide benefits to non-using Australian food producers by creating the perception that *all* Australian foods are clean. At the moment the generation of such spillovers appears confused by the multiplicity of Australian ‘food’ logos present in some Asian markets. But, in any case, we would argue that products using the clean food logo should be quality certified — otherwise Australia faces a large risk from any single case of food contamination involving a notionally ‘clean’ product.⁶⁰ This would signal to consumers that these (and only these) products carry the clean food guarantee. In these circumstances, the spillovers to non-participating Australian firms are likely to be much more limited.

⁶⁰ See appendix 4 for further discussion of the quality assurance issue.

Table 8.1 Assessment and future of the programs and initiatives

	<i>Appropriateness^a</i>	<i>Effectiveness</i>	<i>Recommendation for future</i>
<i>Export development and market access</i>			
Clean Food Export Program	Yes, but has program design flaws .	Limited to some participating firms. No evidence of positive spillovers. However, unable to fully assess due to lack of data.	Continue funding for 2 years . Extent of future government funding to be subject to the outcome of a review. Firms to have third party certification of quality through an appropriate quality assurance program. A greater number of smaller firms need to be drawn into participating in the CFEP.
Processed Food Market Access Committee	No — aspects of the PFMAC's work appear to duplicate the new <i>Export Barriers Reporting Scheme</i> .	Some success in removing barriers, but limited overall impacts. Committee recently revamped.	Functions to continue, but dialogue necessary with the Export Barriers Reporting Scheme to ensure no wasteful overlap.
<i>Efficiency improvements</i>			
Workplace reform			
MOU	Yes	Partially effective for firms involved. No industry-wide effects.	MOU is potentially worthwhile but needs reform. DIR to take lead role in determining reform options.
FILLIP	No — duplicated by WELL to some extent . Also has program design flaws.	Having reasonable success at the firm level and contributing to skills growth in the industry.	Funding ceases in 1995-96. Should not be continued as it is similar in most respects to WELL.
Regulatory reform	Yes	Difficult to assess, but unlikely to have had much impact.	One of the elements of the modified Agri-Food Strategy . Dialogue necessary between the Agri-Food Council and other bodies — such as the National Food Authority and the Australian Food Council — to ensure no wasteful overlap .
Air freight best practice code	Yes	Too early to assess.	Code should continue to be supported by relevant agencies.
Packaging	Yes	Limited to firms involved.	Agri-Food Council's planned follow-up work should be undertaken.
<i>Industry integration</i>			
Grower-processor linkages	Yes, although some elements of the grower-processor projects are similar to the Food Quality Program.	Moderate benefits to date.	Potentially worthwhile, but a new approach needs to be devised. If this component is continued it should only be on an industry-by-industry basis.
Food Quality Program	Yes, but has program design flaws.	Too early to assess.	Program to continue and to be evaluated in due course.
FINA	No — duplicated by <i>Business Networks Program</i> .	Limited data. Available evidence suggests it has probably been successful.	Funding for the program lapses this year. Should not continue after that time as it duplicates the Business Networks Program.
<i>Innovation</i>			
Guideline on 150 per cent tax concession	Yes	Poor	No action required.
Australian Food Industry Science Centre	Yes	Successful	No action required.

a Yes means passes appropriateness test.

It appears that the mainly large firms involved in the program are the only ones to benefit and it is questionable whether they need a government subsidy to develop their export markets. In this regard, we note that the focus of the clean food program on mainly large enterprises conflicts with the program design principle that financial assistance be more appropriately directed to SMEs.⁶¹

Overall, we are sceptical of the need for continuing government funding for the clean food program. There appears to be a strong case that the clean food program should eventually become self-funding, with licensees reaping all the benefits. However, in view of the considerable uncertainty still surrounding the impact of the clean food program, we believe that further evidence should be gathered of the effectiveness of the program.

Accordingly, we recommend that long-term government funding for the clean food program should be subject to the outcome of a review (to be managed by DPIE). The review should focus on the effectiveness of the program in developing a valued image of Australia as a source of clean food. Funding for the program should continue for the next two years while the review takes place.

The terms of reference for the review will need to be established but we would expect it to include the following:

- a survey of Taiwanese and Indonesian consumers to test the effectiveness of the clean food promotion, including the value they place on the clean food logo;
- a survey of Australian food firms not involved in the clean food program but who export to the Taiwanese and Indonesian markets (to seek evidence of any spillover benefits);
- evidence from clean food participants' about the impact of the program on the export growth experienced in Taiwan and Indonesia; and
- a request to Austrade to monitor ongoing impacts of the clean food promotions in the relevant markets.

We also recommend that the requirement for firms to have third party certification of quality through an appropriate quality assurance program should be adopted as soon as possible. In addition, to maximise the benefits of the program a greater number of smaller firms need to be drawn into participating in the CFEP.

⁶¹ The clean food program, in common with all other strategy programs and initiatives, also obviously conflicts with the Burgess principle that all enterprises in the tradeable goods and services sector (not just the food industry) should be eligible for the assistance. However the Burgess principles, with their emphasis on enterprise improvement programs, are not strictly relevant for the clean food program.

The **Processed Food Market Access Committee** has had some limited successes in identifying and remedying market access impediments for Australian food firms. However, it does not fully comply with appropriateness requirements as some of its functions appear similar to a generic government market assistance program, the Export Barriers Reporting Scheme (EBRS). This scheme involves keeping a comprehensive inventory of export barriers faced by Australian companies and providing advice to firms. It also involves using DFAT and Austrade resources to investigate market access problems identified by firms and making representations on their behalf.

The PFMAC takes a more strategic view to market access in the sense it develops coordinated strategies with industry to achieve market access objectives — and to date has made some small strategic contributions on wider market access issues. In addition, it has recently widened its membership to include greater industry participation and the greater commitment demonstrated since its revamping may result in more positive outcomes.

We believe the recently revamped PFMAC should continue as the cost is relatively small and the intrinsic idea is sound economically. However, the potential overlap with the EBRS — between the reporting functions, the data bases and possible follow-up action — raises legitimate duplication and appropriateness concerns. Accordingly, we recommend that the PFMAC and the EBRS managers engage in dialogue to ensure that no wasteful overlap in fact occurs.

In addition, if the PFMAC's work is to have any value over the longer term, the committee will need to raise its profile and demonstrate its worth to the agri-food industry. Accordingly, we believe it should develop (and widely publicise) a short-term agenda with specific objectives, milestones, outcomes and performance indicators.

Efficiency improvements

We found that the **Memorandum of Understanding on Workplace Reform (MOU)** has had a limited impact amongst the large food firms interviewed and has produced little in the way of concrete outcomes (such as productivity improvements). It has had some success in raising the profile of workplace reform issues but appears to have become dated as the industrial relations focus has shifted to workplace bargaining. It is failing to adequately provide practical guidance on workplace bargaining in individual enterprises.

At the same time, the specific features of the agri-food industry — including the predominance of a relatively small number of large food processing firms (to which the MOU has been targeted) — lend support to the need for a special initiative. DIR believes that steps should be taken to develop a number of initiatives to complement the MOU (rather than subjecting the MOU to a complete overhaul). These initiatives could include:

- enterprise bargaining and/or best practice checklist;
- training of internal workplace reform facilitators; and

- case studies.

DIR indicates that the development of various initiatives to complement the MOU will need significant input from industry and would have to suit varying circumstances (for example, small or large employers, companies in different locations, different sub-industries). We are not in a position to assess the DIR recommendations, but we believe the MOU is potentially worthwhile if it is adapted.⁶²

The aims and objectives of the strategy's language and literacy program, **FILLIP**, are similar in most respects to the generic WELL program. Funding aims to assist workers with English language and literacy needs, training is work based, both programs expect an employer contribution and the training complements workplace reform. The major difference is that FILLIP is reserved for food firms, while WELL provides untied funding across all industries and funding for national strategic projects (including the food industry). In addition, the NFITC maintains there is some difference in the 'bottom line' expectations of the two programs.

The appropriateness of FILLIP is also questionable when measured against the principle that government financial assistance is more appropriately directed to SMEs — to qualify for FILLIP firms first have to sign the MOU (and the MOU signatories are primarily larger firms). We have reservations too whether the FILLIP design is likely to buy an outcome additional to that which would otherwise have occurred. There may be sufficient incentive for firms to improve workforce literacy without financial assistance from the government.

FILLIP appears to be having reasonable success at the firm level and contributing to skills growth in the industry. While we found no quantifiable evidence of the relationship between FILLIP and productivity increases, there is anecdotal evidence that the program has contributed to cost savings and efficiencies.

FILLIP funding ceases in 1995-96. Although apparently performing satisfactorily, it is similar in most respects to the generic language and literacy program (WELL) and has other appropriateness question marks. Accordingly, we recommend that FILLIP funding not be continued after 1995-96.

The work on **regulatory reform** is difficult to assess due to the lobbying nature of the Agri-Food Council's role. The component has a strong economic rationale — but on the available evidence it seems highly unlikely to have had any major bearing on business compliance costs. It is possible, however, that the council's regulatory reform agenda has exerted some small reform pressure on governments.

⁶² We note however that the DIR recommendations were contained in a submission lodged in October 1995 and were based on the industrial relations operating environment at that time. These recommendations may need looking at again in the context of the modified industrial relations regime being proposed by the new federal government.

The future of the regulatory reform element is tied up with the proposed future role of the Agri-Food Council. The revamped council will consider regulatory burdens and reform as part of the modified Agri-Food Strategy. However, as these matters are also likely to be examined by other bodies — such as the National Food Authority and the Australian Food Council — it is important that dialogue occurs to ensure no wasteful overlap.

The Agri-Food Council's **packaging** initiatives have had limited effectiveness, by-passing most of the food industry. The future of the packaging initiative is dependent on the future priorities of the Agri-Food Council. There are a number of projects that the Agri-Food Council intends to pursue as a follow-up to its survey of food company CEOs. These include producing best practice case studies to help companies to achieve better packaging outcomes. There appear to be prospective benefits from undertaking this follow-up work. Should the council decide that packaging is not a future priority, then DIST should give consideration to making other arrangements for the work to be done.

The **code of best practice for the air freight export of perishable goods** meets the appropriateness criterion. However, it is far too early to make recommendations regarding its future — at this stage the code should continue to be supported by the relevant agencies. At the launch of the code it was announced that its effectiveness is to be monitored through performance indicators as a means of measuring improvements in efficiencies in the value-chain. We support this on-going assessment.

Industry integration

The three **grower-processor linkages projects** have realised mixed success to date. Inevitably, due to narrowness of scope, they have made little overall contribution to the adoption of best practice and other objectives throughout the agri-food industry. There are few tangible benefits evident from the projects, but there may have been some indirect benefits in the form of better communications and a better focused industry. At the same time, a number of stakeholders claimed there had been a significant deterioration in the level of industry cooperation throughout the life of the grower-processor projects.

There are also some appropriateness concerns about the grower-processor linkages initiative — there is *some* potential for duplication between the grower-processor linkages initiative and the relatively new Food Quality Program. Their economic rationale is much the same and both are concerned with through-chain linkages and the development of a quality/best practice culture.

Our bottom line is that the grower-processor projects have not succeeded to date but are potentially worthwhile — and might be taken up by the revamped Agri-Food Council with its focus on 'through-chain' issues. However, if work in this area is continued a new approach needs to be devised and it should only be handled on an industry-by-industry basis.

The **Food Quality Program** complements other government programs which fund quality uptake by individual enterprises. It is too early to make a reliable assessment of the effectiveness of the Food Quality Program — although we found considerable support amongst stakeholders for a food quality coverage in the strategy. We note, however, that as the Food Quality Program currently stands, the choice of projects may potentially conflict with the program design principle that financial assistance should be directed to SMEs.

We were unable to directly test the effectiveness of the networking program, **FINA**. However, other evidence suggests that such a program is likely to produce net benefits. Data obtained from food firms in government-assisted networks indicates that the networks are having favourable impacts on firm performance.

FINA is very similar to AusIndustry's generic Business Networks Program (BNP) which commenced in 1994. FINA and the BNP have the same basic objectives to increase SMEs' competitiveness and capabilities. They also operate on a similar basis in terms of funding and the use of network brokers. The only significant difference is that FINA is specifically aimed at increasing exports while this is not always the case with BNP networks.

Funding for FINA lapses this year. Although apparently performing well, its substantial duplication of the generic Business Networks Program leads us to recommend that FINA not be continued after that time.

Innovation

All of the initiatives in the Agri-Food Strategy under the innovation umbrella are judged to be appropriate.

The **Australian Food Industry Science Centre (AFISC)** appears to have performed most satisfactorily — although it has no doubt benefited from having a much greater amount of resources than other Agri-Food Strategy components. The centre has relatively high recognition in the industry and has already benefited a number of firms. In the short time it has been operating, the centre appears to have been successful in meeting its objectives. We do not recommend any changes to the AFISC, but in any case the centre is outside the control of the federal government. The Victorian government provides the bulk of the funding for the AFISC.

There is no evidence that the **guideline on the 150 per cent tax concession for R&D** has encouraged significantly greater uptake of the 150 per cent tax concession. It has experienced a relatively low profile and, commensurate with this has had little impact on the agri-food industry. The guideline has come and gone and we would not recommend its rebirth — AusIndustry and other agencies can provide firms with information on the tax concession.

It is too early to assess the effectiveness of the **Australian Food Science and Technology Forum**. Although the forum was set up under the auspices of the Agri-Food Council there

is no formal link. The government funding provided for the forum, at this stage, is a 'one-off' payment. Any future funding should be dependent on the proven performance of the forum.

Appendix 1 Terms of reference

1. Assess the effectiveness of the Agri-Food Industries Strategy against the following objectives:
 - a. facilitating the reorientation of the agri-food industry to a more outward orientated perspective, particularly with regard to Asia;
 - b. identifying and removing impediments to the international competitiveness of the industry, including those affecting the production, processing, marketing, transport and distribution of food;
 - c. facilitating increased and better coordinated investment by the industry in innovation, research and development;
 - d. improving the export performance of the agri-food industries; and
 - e. facilitating increased and better cooperation and coordination within the industry.
2. Analyse the current and potential direct and indirect impacts of the Strategy on the agri-food and supporting industries. The evaluation will have regard to agreed performance indicators, including the \$7 billion export target for high value added foods, and other indicators included in existing elements of the Strategy or agreed between the Advisory Committee and the evaluator.
3. Assess the efficiency of the Strategy's programs and initiatives in terms of resources and processes used and outputs achieved.
4. Examine the appropriateness of the Strategy's objectives within the context of relevant industry, trade and innovation policy objectives.
5. Assess the role of the Strategy in relation to other programs aimed at creating internationally competitive industries.
6. Advise on whether the Strategy in its present or modified form is considered appropriate (including its administrative arrangements). Advise on the nature, extent and resourcing of any such program.

Appendix 2 Questionnaires

In this appendix we reproduce the final versions of the questionnaires:

- used in face-to-face interviews with agri-food firms (section A2.1);
- Agri-Food Council members (section A2.2); as well as
- a copy of the telephone survey (section A2.3).

For other stakeholder interviews — including state government departments, industry associations and unions — a combination of these two questionnaires was used.

A2.1 Agri-food firms

Part 1: Export markets

1. Could you please tell us a little about your exports
 - what is the current split between domestic sales and exports and has this changed in the last three years?
(if increased) what are the main factors that led to the increase in exports?
 - has your firm exported to any new markets over the past three years; or currently preparing to export into new markets?
 - what proportion of exports go to countries in the Asia-Pacific region?
 - has this changed in last three years?
2. What are the most important impediments to export growth?

Part 2: Market access and market development

- 3a) Has there been any change in access to export markets over the past three years?
- 3b) how much do you think the Agri-Food Strategy has contributed to this change?

None	Minor	Moderate	Major
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



- 4a) How much contact does your firm have with the Processed Food Market Access Committee?
- (b) What benefit has your firm gained from this contact?
5. Are there any changes you would like to see in the way this committee functions and what it does?
- 6a) Has your firm developed any strategic alliances with firms in overseas markets?
- (b) Did the Agri-Food Strategy influence your decision to form such alliances?
- (c) How have these alliances impacted on your export performance?
- 7a) Estimate the overall benefit to your firm from the Agri Food Strategy in improving your export market access over the past three years.
- | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|
| None | Minor | Moderate | Major |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
- (b) Are there any potential benefits in the pipeline? If so estimate the overall benefit to your firm.
- | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|
| None | Minor | Moderate | Major |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
8. Do you have any suggestions for changes to the market access and market development element of the Agri-Food Strategy?

Clean Food Export Program

9. Has your firm participated in the Clean Food Export Program ?
- Yes No
- (go to a) (go to e - why not)
- (a) why, and for how long?
- (b) What have been the benefits to your company from the program?
- ii) value of benefits
- | | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| None | Minor | Moderate | Major | N/A |
| <input type="checkbox"/> |
- (c) Has the Clean Food Export Program established a branding position for Australia to distinguish Australian products from our competitors?
- | | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| None | Minor | Moderate | Major | N/A |
| <input type="checkbox"/> |
- (d) Are there any ways you would like to see the Clean Food Export Program improved?

(e) Why not involved ?

not aware	not relevant	not required	relevant, but not useful	not worthwhile	other
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(f) Do you support the Clean Food Export Program's intentions?

Part 3: Other strategy elements

Food quality

(Have you participated in the Food Quality program?)

Yes No

(go to a) *(go to e - why not)*

(a) What has been the nature of your involvement ?

(b) Please estimate the overall benefit to your firm from the program

None	Minor	Moderate	Major	N/A
<input type="checkbox"/>				

(c) Have you been generally satisfied with the way the Food Quality component of the Agri-Food Strategy has been implemented?

Very dissatisfied	Dissatisfied	Neutral	Satisfied	Very satisfied	Other
<input type="checkbox"/>					

(d) Are there any ways you would like to see the Food Quality component improved?

(e) Why has your firm not been involved ?

not aware	not relevant	not required	relevant, but not useful	not worthwhile	other
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Grower-processor linkages

(Has the Agri-Food Strategy/Council work in these areas affected your firm's activities?)

Yes No

(go to a) *(go to f - why not)*

(a) What new linkages have you developed with growers/processors over the last three years?

(b) How much of these developments can you attribute to the strategy?

Minor	Moderate	Major	N/A
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(c) What benefits have you derived from these new linkages?

(d) Can you estimate the overall benefit to your firm from linkages attributable to the strategy

None	Minor	Moderate	Major	N/A
<input type="checkbox"/>				

(e) What other activities could the council undertake to improve linkages between growers and processors?

(f) Why not involved ?

not aware	not relevant	not required	relevant, but not useful	not worthwhile	other
<input type="checkbox"/>					

(g) are there any areas which you believe the strategy/council should be involved in?

Product or process innovation

(Has the Agri-Food Strategy/Council work in these areas affected your firm's activities?)

Yes No

(go to a) *(go to f - why not)*

(a) Can you briefly describe the product or process innovation ?

(b) What role did the strategy have in inducing this R&D and/or innovation?

(c) Please estimate the overall benefit to your firm from innovation induced by the strategy?

None	Minor	Moderate	Major	N/A
<input type="checkbox"/>				

(d) Are there any potential benefits in the pipeline? If so estimate the overall benefit to your firm.

None	Minor	Moderate	Major	N/A
<input type="checkbox"/>				

(e) Do you have any suggestions for changes to the innovation element of the Strategy?

(f) Why not involved ?

not aware not relevant not required relevant, but not useful not worthwhile other

(g) are there any areas which you believe the strategy/council should be involved in?

Workplace reform and training

(Has the strategy or council work in these areas affected your firm's activities?)

Yes No

(go to a) *(go to g - why not)*

(a) Can you briefly describe the workplace reform and training that has occurred in the last 3 years?

(b) What role did the strategy have in inducing this?

(c) Please estimate the overall benefit to your firm from undertaking workplace reform and training which was induced by the strategy?

None Minor Moderate Major N/A

(d) Are there any potential benefits in the pipeline? If so estimate the overall benefit to your firm.

None Minor Moderate Major N/A

(e) Do you have any suggestions for changes to the MOU process and/or FILLIP program?

(f) Are there any other workplace reform and training issues which should be addressed by the strategy/council?

(g) Why has your firm chosen not to participate in the enterprise bargaining (MOU) process and/or FILLIP program?

not aware not relevant not required relevant, but not useful not worthwhile other

(h) Are there any other workplace reform and training issues which should be addressed by the strategy/council?

Regulatory compliance

(Has the strategy or council work in these areas affected your firm's activities?)

Yes No

(go to a) (go to e - why not)

- (a) What concerns (if any) has your firm had with food regulation in the past three years?
- (b) How effective has the Agri-Food Strategy/Council been in identifying and addressing regulatory impediments?
- (c) Please estimate the overall benefit to your firm of regulatory changes (eg. through AQIS and NFA) induced by the strategy.

None	Minor	Moderate	Major	N/A
<input type="checkbox"/>				

- (d) Are there any potential benefits in the pipeline? If so estimate the overall benefit to your firm.

None	Minor	Moderate	Major	N/A
<input type="checkbox"/>				

- (e) What other regulatory issues should be addressed by the council/strategy?

Transport and distribution linkages

(Has the strategy or council work in these areas affected your firm's activities?)

Yes No

(go to a) (go to e - why not)

- (a) What concerns (if any) has your firm had with transport and distribution costs and services in the past three years?
- (b) What role has the strategy had in transport and distribution co-ordination and/or the adoption of new practices (if any)?
- (c) Please estimate the overall benefit to your firm from improved co-ordination and/or changed transport and distribution practices which were induced by the strategy?

None	Minor	Moderate	Major	N/A
<input type="checkbox"/>				

- (d) Are there any potential benefits in the pipeline? If so estimate the overall benefit to your firm.

None	Minor	Moderate	Major	N/A
<input type="checkbox"/>				

- (e) Are there other transport and distribution issues which should be addressed by the strategy/council?

Packaging

(Has the strategy or council work in these areas affected your firm's activities?)

Yes No

(go to a) *(go to g - why not)*

- (a) Have the costs, quality and innovativeness of local packaging changed in the past three years?

- (b) How effective has the strategy been in focusing efforts to identify and remove impediments related to packaging?

- (c) Would changes to your firms packaging costs, quality and innovativeness have occurred in the absence of the strategy?

Yes No

- (d) Please estimate the overall benefit to your firm from cost changes in packaging which were induced by the strategy?

None	Minor	Moderate	Major	N/A
<input type="checkbox"/>				

- (e) Are there any potential benefits in the pipeline? If so estimate the overall benefit to your firm

None	Minor	Moderate	Major	N/A
<input type="checkbox"/>				

- (f) Are there any other packaging issues which should be addressed by the strategy/council?

- (g) Why has your firm not benefited from the packaging element of the strategy?

not aware	not relevant	not required	relevant, but not useful	not worthwhile	other
<input type="checkbox"/>					

- (h) Are there any packaging issues which should be addressed by the strategy/council?



Part 4: Agri-Food Council

11(a) How much contact has your firm had with the Agri-Food Council in the past 12 months?

- None Once weekly or more often Monthly or less often Other specify__

(b) Would you like more contact?

12 Can you rate the performance of the Agri-Food Council on the following aspects ?

	Poor	Fair	Good	Very good	Don't know
i) Leadership and forging common purpose in the industry	<input type="checkbox"/>				
ii) Addressing impediments to industry performance	<input type="checkbox"/>				
iii) Encouraging the adoption of best practice	<input type="checkbox"/>				
iv) Targeting and coordinating programs across portfolios	<input type="checkbox"/>				
v) Disseminating information	<input type="checkbox"/>				
vi) Avenue for your firm to raise ideas, concerns, suggestions about industry impediments	<input type="checkbox"/>				

Comments:

13. Is the council the right size and its composition appropriate?

14. Are there any changes you would like to see in the way the Agri-Food Council operates?

- Yes No Don't know

Please explain:

15. Could the functions and role of the Agri-Food Council be more effectively performed by:

(a) other government agencies?

- Yes No

If yes, which ones?

(b) a self-financing body?

- Yes No

Part 5: Role and significance of other government programs

16. In your view, has the strategy promoted better policy/program development and coordination between government agencies?

Yes No Don't know

Why?

17. What departments and other agencies have you dealt with in connection with the Agri-Food Strategy?

Agri-Food Council Secretariat

AusIndustry

Department of Primary Industries and Energy

Department of Employment, Education, Training and Youth Affairs

Department of Industrial Relations

Department of Foreign Affairs and Trade

Australian Quarantine and Inspection Service

Any state government departments Austrade

Clean Food Marketing Australia CSIRO

Co-operative Research Centres National Food Authority

Other please specify: _____

18. Has the strategy/council alerted your firm to any existing government programs which you weren't aware of?

Yes No Don't know

If yes, which programs?

19. Has the strategy complemented or duplicated other federal or state government programs?

Yes No Don't know

If so, which ones? How has it done this?

- 20(a) How effective has the Agri-Food Strategy been overall for your firm?

Ineffective Partly effective Very effective Too early to assess Don't know

- (b) Describe the most important ways it has influenced your firm.



Part 6: How might the Agri-Food Strategy be changed?

21. Would you like to see the Agri-Food Strategy extended beyond 1996?
- Yes No
- Why? When should the program cease, if at all?
- 22(a) If the strategy is extended, what changes would you like to see made?
- (b) What should the Agri-Food Council's priorities be for the next four years? (*If required*)
23. If the Agri-Food Strategy is not renewed, what effect would that have on:
- (a) your firm?
- Very detrimental Detrimental Minimal effect No effect
- (b) the food industry?
- Very detrimental Detrimental Minimal effect No effect
- 24(a) If it was found necessary for firms to contribute to the costs of continuing the strategy, what would you prefer and why?
- a fee for service basis a general levy basis
- in-kind contribution other: please specify: _____
- the strategy shouldn't continue
- (b) How would the different methods affect your firm's participation in the strategy?
25. Is there anything else you would like to add about the strategy/council?

A2.2 Agri-Food Council members

Part 1: General

1. Which elements of the Agri-Food Strategy have worked well?
2. Which elements of the Agri-Food Strategy haven't worked well?

Part 2: Agri-Food Council

3. What do you see as the Agri-Food Council's appropriate role in the industry?
4. Is there sufficient consultation between the council and the industry?
5. Is the council the right size and is its composition appropriate?

6. How often should the Agri-Food Council meet?

Once Twice Quarterly Other:

7. Please provide a rating of the following aspects of the Agri-Food Council's performance

	Poor	Fair	Good	Very good	Don't know
i) Leadership and forging common purpose in the industry	<input type="checkbox"/>				
ii) Addressing impediments to industry performance	<input type="checkbox"/>				
iii) Encouraging the adoption of best practice	<input type="checkbox"/>				
iv) Targeting and coordinating programs across portfolios	<input type="checkbox"/>				
v) Disseminating information	<input type="checkbox"/>				
vi) Avenue for firms to raise ideas, concerns, suggestions about industry impediments	<input type="checkbox"/>				

Comments:

8. How does the Agri-Food Council reach decisions and decide on priorities?

9. What benefits, if any, are there from the tripartite membership of the Agri-Food Council ?

10. Are there any changes you would like to see in the way the Agri-Food Council operates?

Yes No

11. Could the functions and role of the Agri-Food Council be better performed by other agencies?

Yes No

If yes, which ones?

Part 3: Administration and co-ordination of the strategy

12. How effectively have council decisions been implemented by the secretariat?

13. How effective have the working groups been in identifying issues and solutions to problems affecting the agri-food industry? How could the system be improved?

14. Please provide comments (either good or bad) on any other aspects of the strategy's administration/communication.



Part 4: How might the strategy be changed?

15. Would you like to see the Agri-Food Strategy extended beyond 1996, in its present form?
- Yes No
16. If the strategy is extended, what changes would you like to see made?
17. What should the Agri-Food Council's priorities be for the next four years?
18. If the Agri-Food Strategy was discontinued, what would be the effect on the food industry?
- Very detrimental Detrimental Minimal effect No effect Positive effect
19. If it was found necessary for firms to contribute to the costs of continuing the strategy, what would be the best arrangement?
- a fee for service basis a general levy basis
- in-kind contribution other: please specify: _____
20. Is there anything else you would like to add about the strategy or Agri-Food Council?

A2.3 Telephone survey

- 1 Are you aware of the Agri-Food Council?
- Yes/No
- IF NO, GO TO Q4
- 2 (a) How much contact has your firm had with the Agri-Food Council in the past 12 months?
- (b) Would you like more contact?
- Yes/No
- 3 What would you say is the major role of the Agri-Food Council?

- 4 The Agri-Food Council oversees the federal government's agri-food industry strategy. This consists of a number of committees, programs and other initiatives. I would like you to indicate (a) if you are aware of these and (b) if they have had any impact on your firm:
- | | Aware of?
(yes/no) | Any impact on firm?
(none, minor, moderate, major) |
|--|-----------------------|---|
| – Processed Food Market Access Committee | | |
| – Clean Food Export Program | | |
| – Food Quality Program | | |
| – Grower-processor committee projects | | |
| <i>Goulburn Valley deciduous fruit</i> | | |
| <i>Queensland pineapple</i> | | |
| <i>Tasmanian potatoes</i> | | |
| – Australian Food Industry Science Centre (Werribee, Vic) | | |
| – Guideline on 150 per cent R&D tax concession for agri-food firms | | |
| – Memorandum of Understanding on Workplace Reform | | |
| – FILLIP language and literacy program | | |
| – Code of best practice for airfreight export of perishable goods | | |
| – Packaging working group | | |
| – Price Waterhouse report on packaging | | |
| – FINA networks program | | |
- 5(a) If any of the above affected your firm, please briefly describe how this occurred and the nature of the impact
- (b) If more than one impact, which is the most important
- 6 What other government programs (not mentioned above) is your firm using to help with exporting and improving competitiveness?
- 7 As an agri-food firm, what are the major impediments to exporting to countries in the Asia-Pacific region?

Appendix 3 Advisory Committee membership

Mitch Hooke (Chairperson)
Executive Director
Australian Food Council

John Claringbould
Director, Australasia and Asia
Effem Foods Pty Ltd

Malcolm Irving
Chairman
Australian Horticultural Corporation

Louise Kamp⁶³
Industry and General Branch
Department of Finance

Bob Calder
Assistant Secretary, Agribusiness Policy Branch
Department of Primary Industries and Energy

Graeme Taylor
Assistant Secretary, Agri-Food Industries Branch
Department of Industry, Science and Tourism

⁶³ David Latina was the Department of Finance representative in the early stages of the evaluation.

Appendix 4 Further assessment of Agri-Food Strategy components

This appendix provides additional information on each of the Agri-Food Strategy elements to that contained in the body of the report. However, as no separate assessment of the networking program (FINA) was undertaken our comments on its effectiveness are limited to the observations made in the chapters 5 and 6. In addition, the work under microeconomic reform is not assessed.

The sections covered in the appendix are:

Export market development and market access

- Clean Food Export Program
- Processed Food Market Access Committee and market access

Efficiency improvements

- workplace reform and training (including the MOU and FILLIP)
- regulatory reform
- transport and distribution
- packaging

Industry integration

- grower-processor linkages
- Food Quality Program

Innovation

A4.1 Clean Food Export Program

A4.1.1 Method

BIE and ABARE interviewed a range of the key participants in the Clean Food Export Program (CFEP) as well as council members and other relevant parties to obtain their views on the operation of the program. The individuals and firms interviewed included Clean Food Marketing Australia, Frank Small and Associates, Mojo Australia as well as a number of firms and organisations involved in the program currently or in the past. Relevant submissions were received from the Department of Foreign Affairs and Trade (DFAT) and Austrade.

A4.1.2 Evaluation

Previous evaluation of Clean Food Export Program

The Clean Food Export Program in Taiwan was evaluated by Frank Small and Associates (FSA) in December 1994, after the program had been running for around a year (FSA 1994). The FSA evaluation provides details of the operation of the program up to that date.

Overall the consultants were supportive of the program. They indicated that the program successfully enhances the reputation of Australian food products with Taiwanese consumers; meets the needs of buyers, distributors and agents in Taiwan; aids the development of sound relationships with local buyers and distributors (necessary to access supermarket shelf space); enhances the perception of the quality of the Australian food product; builds the perception of the reliability of both quality and supply; implies a commitment to developing business in the Taiwanese market; encourages involvement by industry and enables exporters to actively market their products; provides export assistance to SMEs; provides clear value to industry through co-operative below the line marketing activities; and unifies licensees through the generic advertising campaign. However, the consultants highlighted that the program had not had sufficient time to date to generate the necessary value in the logo for the licensees to take responsibility for the funding of the generic campaign (FSA 1994).

The key recommendations of the FSA report were as follows:

- the CFEP should be extended to other Asian markets and continued in Taiwan in a modified format as recommended in the FSA report;
- a strategic plan should be developed for the extension of the program;
- the government must commit itself to the program for the medium term (3-5 years);

- the government should commit funds for the generic non-branded advertising campaign to build up value in the clean food logo to a level at which licensees will accept full financial responsibility;
- there be improved communications for all involved in the program by instituting regular forums;
- a clear program of market research be established to monitor trends and identify drivers for market preference changes;
- a quality assurance program be implemented for all licensees; and
- the business development aspects of the CFEP, specifically the recruitment of Australian industry participants as licensees to the program, need to remain quite separate and distinct from the activities of any advertising agency.

The main recommendation regarding the continuation of the program and extension of funding to other areas has clearly been progressed. The additional funding for the program over a two year period was approved and the program is currently being extended to two other markets (Indonesia and Hong Kong). Further funding was also approved in the 1995-96 budget. Separation of the activities between advertising agencies and program development are also maintained through the structure and operation of the CFMA.

Some of the other aspects of the recommendations which need to be progressed are included in the discussion below.

Responses by interviewed firms and individuals

The CFEP was rated by a relatively large number of Agri-Food Council members and non-firm stakeholders as working well, although two Agri-Food Council members rated the strategy as not working well. There were a number of concerns raised by respondents about the operation of the program. These included:

- the lack of funds that had been directed to the program;
- the lack of a quality assurance program;
- the emphasis of the initial program on broad scale advertising of the logo in Taiwan instead of 'below the line' activity — for example instore sampling, merchandising and competitions;
- potential for over-branding of products;
- the choice of markets;
- the appropriateness of the clean food message in particular markets; and
- the timing of the Indonesian program (in particular the time available for firms to position themselves in the market prior to the marketing effort for the logo commencing).

Funding

The funding issue was raised by a large number of respondents, in terms of not only the overall level of funding but also the uncertainty of future funding. The CFMA, as well as other firms, indicated that the low level of funding of the program effectively limited it to the smaller Asian markets. Over 20 per cent of Australia's food and beverage exports (by value) are directed towards Japan, but the clean food logo is not promoted in that market due to the expense of doing so. As an indication of the low level of funding on this program it is worth comparing it to funds invested on other Australian promotion ventures:

- funds invested on meat promotion by Australian Meat and Livestock Corporation \$70m (1994-95)
- funds invested on wool promotion by International Wool Secretariat \$80m (1993-94)
- funds provided by the government to assist wool promotion \$75m 1991-92 (to 1993-94).

It is notable that government funding on wool promotion over the three year period to 1993-94 is almost ten times the funds so far committed to food promotion under the CFEP.

How long does it take for the logo to become sufficiently established to be fully self-funding? This clearly hinges on the logo becoming sufficiently well recognised in overseas markets for firms to place a value on participating in the program. It is unclear whether this point has yet been reached in Taiwan, although it certainly would not have been achieved as yet in other markets. It could be argued that government funding could be justified in initially assisting the establishment and recognition of the logo in new markets (with the 50:50 funding formula between industry and government). But once established in those markets the logo should become fully funded by the firms using the logo in that market. It could be envisaged that once this approach had been taken in a number of markets and the logo established, that development to new markets could be privately funded by licensees. However this position could take a number of years to be achieved.

Quality assurance

An important concern arising from the previous evaluation was the lack of a quality assurance program to support the CFEP. This means there is no guarantee that the firms involved are in fact providing a 'clean' product. A concern was expressed to BIE and ABARE that there is a danger that the program could be considerably undermined by an individual firm which fails to sell a clean product. This could destroy the marketing value of the logo.

The CFMA has indicated that advice has been sought on this matter. Based on this, the CFMA will be tightening the quality requirements for licensees. At this stage, the CFMA indicated that this requires licensees to adopt over time one of the many quality assurance

programs. In the ‘medium term’ the CFMA will ‘require third party certification (ISO 9002 or alternative) as a prerequisite for participation’ (CFMA 1995, p6). The BIE and ABARE strongly endorse this requirement if the program is to continue.

Branding

There was concern expressed by a number of respondents to the survey about the potential for overbranding of products. In particular, a number of agricultural statutory agencies have, or are developing, logos specific to their products — examples, include the AMLC ‘Aussie Beef’ logo, the ADC ‘Dairy Good’ logo and recently the AHC’s ‘Australia Fresh’ logo. This can lead to a large number of different logos on a single product — the clean food logo, one of the product specific logos and a company logo. The CFMA considered, however, that the clean food logo was not so much a brand as an identifier signalling something about the general characteristics of the product. It could be argued that it performs a similar role to the Woolmark on wool products. At the same time there seems to be scope for a duplication of messages and a dilution of funding to promoting a number of different logos with similar messages.

However, this is unlikely to be a significant problem when taken in the context of the objectives of the program. If the main purpose of the program is to assist companies to develop markets in Asia, then it will potentially assist the program to be connected to large programs already operating, or about to commence, in these countries. To the extent that the logo is seen on a larger number of products as a result of this, then recognition of the logo will increase and advantages to smaller firms in using the logo will increase. Again, this is contingent on more smaller firms actually being involved in the CFEP.

Other issues

A number of other issues were raised in the context of the operation of the program. In particular, concern was expressed regarding the choice of markets, the appropriateness of the clean food message in particular markets and the timing of the Indonesian program.

The issue of the choice of markets was mentioned earlier in the context of funding. Some respondents indicated that the program would be better directed at Japan and other more developed Asian nations. Current funding levels would clearly seem to preclude this.

In our interview with the CFMA it was indicated that they felt that the CFEP is highly transportable to other markets. However, a number of respondents questioned the appropriateness of the clean food message — particularly in regards to some markets which could interpret the ‘clean’ message differently than others. This would tend to indicate a need for some modifications to the message in certain markets.

One firm interviewed felt that the Indonesian program was established with too little consultation with licensees about the timing of the program. In particular the managers of

the firm were concerned that they had not had sufficient time to establish their own marketing programs to take full advantage of the CFEP promotion efforts.

A4.2 Market access

A4.2.1 Method

The BIE/ABARE evaluation team interviewed a number of firms who had comments on the market access element of the Agri-Food Strategy. This section draws on their comments, along with the views of council members and other relevant parties. The discussion also draws on written submissions received from the Department of Foreign Affairs and Trade (DFAT) and Austrade.

A4.2.2 Evaluation

Overview of market access issues

In general, the performance of the Agri-Food Strategy in the area of market access was viewed as less than favourable — with very limited endorsement of the strategy’s activities and a strong feeling by council members that this part of the strategy had not worked well. Although market access was seen as the key priority for government efforts in the future, the role of the council in this was not clear.

In the face-to-face interviews, firms were asked a number of general questions about changes in their market access in the last three years — in particular, what changes had occurred and how much had the strategy contributed towards the changes. Responses on changes were mixed, being fairly evenly divided between no change and an improvement in access. Comments ranged from falls in tariffs in various markets to ‘there has been more talk than action’. The contribution of the strategy to improvements in market access was perceived by most firms as nil or minor at best.

Many firms have formed strategic alliances with overseas firms, or were planning to share information and manufacturing technology. Issues such as lack of capital availability in Australia and the need to establish market access routes were important reasons for forming the initial alliances. Other than through one firm’s personal contact with an Agri-Food Council member (and another indirectly through an agribusiness loan), no other firm believed the strategy had a positive influence on developing strategic alliances.

For the most part firms believed that the strategy had little overall benefit on market access issues. One firm indicated it was the first time ever that the industry had to think about the issue as a whole and another firm said the strategy was useful to put pressure on the

government. Several firms believed that the linkage between the Agri-Food Council and trade officials was not strong or close enough, but there was a recognition of the role of the council in improving the cost effectiveness of AQIS.

Processed Food Market Access Committee

The objective of the Processed Food Market Access Committee (PFMAC) is to improve the access of Australian processed food products to high growth Asian markets. It was recognised that there were major growth opportunities for the Australian food processing industry in Asian markets. Those markets which are growing rapidly offer opportunities for Australian companies to establish brand franchises which are no longer available in developed markets in North America and Europe. At the same time, these countries offer a logical alternative location to Australia for processing operations should market access be restricted or the Australian business environment prove to be uncompetitive.

The specific roles of the committee are to advise on priorities for bilateral negotiations and develop coordinated strategies with industry to achieve market access objectives. It was also intended that the committee keep industry informed of new market access arrangements as these become available in particular countries. This includes making an assessment of the implications of the Uruguay Round, post-Uruguay Round developments, APEC and other regional developments which are likely to affect the agri-food industry. It works directly with companies on problems of immediate interest to them and which they have brought to the committee's attention.

When establishing the PFMAC it was believed that the effectiveness of the committee's efforts would depend in large measure upon the support and activities of industry itself. For example, given the resource-intensive nature of bilateral negotiations, it was intended that such negotiations would only be undertaken on behalf of a firm under two conditions. First, where new access would deliver very significant growth opportunities and second, where the firm had established its commitment and capacity to deliver on the access once won. Moreover, government efforts would need to be supported by a company's own research and advocacy in the target market. At a more aggregated level, it was intended that industry, through the committee, would identify generic access issues as input into government priority setting for more general negotiating strategies.

A key feature is to make more effective use of government-to-government trade talks, ministerial visits and other bilateral and multilateral exchanges and links to gain improved access for the processed foods industry, especially in high growth Asian markets.

Some of the PFMAC's functions appear similar to the functions of a generic government market assistance program, the Export Barriers Reporting Scheme (EBRS) which commenced in October 1995. This scheme involves keeping a comprehensive inventory of export barriers faced by Australian companies and providing advice to firms. It also involves using DFAT and Austrade resources to investigate market access problems identified by firms and making representations on their behalf.

Firm interviews

When asked about contact with the PFMAC, most of the firms interviewed by the evaluation team had either had no contact or were unaware of its activities. Some firms were alerted to the existence of the committee through contact with the Trade Minister and Agri-Food Council members, and indirect contact through the Agribusiness programs. Most firms said they received no benefit from contact with the PFMAC.

In a written submission provided to the evaluation team, DFAT notes that the range of market access problems identified by industry and the PFMAC is quite wide. These issues include tariffs; quantitative restrictions; labelling laws; product classifications; customs clearance; residue and microbiological tolerances and specifications; and shelf life restrictions. According to DFAT, many of these problems have been in place for years and are firmly entrenched — notwithstanding the recent trend to unilateral liberalisation of trade barriers in some ASEAN countries. Their removal will take consistent and concerted pressure over a period of time.

In the early stages of operation of the PFMAC, extensive consultations were undertaken with industry in an attempt to identify the principal access problems facing the industry. At that time about thirty issues were brought to the notice of the committee. According to DFAT, further consultations have identified a few additional issues, but there are still numerous market access issues left unnoticed.

The issues that have been identified have been pursued through a variety of means, including ministerial representations supported by industry lobbying. DFAT believes the committee has had some success, for example changing the Japanese regulations on amino nitrogen content for grape juice, reclassifying infant yoghurt preparations to a zero tariff in Malaysia, and obviating the need for special printing for Chinese language on packaging in Indonesia. According to DFAT, fundamental to achieving success in these examples was ensuring that the affected firm and trade negotiators worked closely together in mutually supportive ways.

A4.2.3 Future directions

According to the submission received from DFAT, there are many market access problems confronting the agri-food industry. These include high tariffs, intra-ASEAN tariff preferences, tariff escalation (for many highly processed products), and a long list of non-tariff or technical barriers to trade. DFAT believes that addressing these problems will require the full array of Australia's negotiating tools.

The importance of market access is illustrated by the responses of firms regarding major exporting impediments. The most frequently mentioned impediment was market access. Specific issues included:

- the problem of competing with multinationals;

- the escalation of tariff barriers;
- non-tariff barriers including certificates of shipment before exports leave;
- long periods of time taken to obtain approval for ingredients used in products;
- labelling issues;
- changing quality requirements; and
- the unusually large bureaucratic imposts placed on getting product through quarantine.

More importantly, market access was the most common response from industry and other stakeholders, when asked what the future priorities of the strategy should be. Ten firms, three council members and four other stakeholders believe market access should be a future priority.

During discussion on the PFMAC, firms were asked what could be done to improve the performance of the committee. Responses included:

- continuing work on improving food access;
- making the process more transparent than it currently is; and
- providing more information to industry on the work of the committee and its priority issues.

The DFAT submission notes that the PFMAC and the Agri-Food Council can assist in increasing the effectiveness of consultation between DFAT and industry on market access matters for the agri-food industry. DFAT also comments that:

An important constraint on the [PFMAC] in this regard has been the absence of industry involvement until recently when the PFMAC was restructured to include representatives from the National Farmers' Federation and the newly formed Australian Food Council. It has been proposed that the Minister for Trade be represented on the Agri-Food Council. Additionally, it has been agreed that the Secretary of the Department will chair bi-annual high level talks with food industry CEOs.

A further initiative made as part of the Winning Markets trade policy statement [DFAT 1995] was the establishment of the Export Barriers Reporting Scheme. That has already assisted in identifying further access concerns of industry.

Unjustified quarantine barriers is a problem of some significance to the agri-food industry. The PFMAC works closely with AQIS which has established an International Market Access Project in response to the need to co-ordinate effort with industry on some of these technical barriers to trade. As tariffs are reduced, such barriers are increasingly exposed, suggesting the need for increased technical resources in key markets. (DFAT submission p. 4).

The DFAT submission also makes a number of recommendations for improving effectiveness in tackling market access issues. These are:

- development by the Agri-Food Council of a clear, strategic view on trade and investment objectives for the industryand to provide a framework for the setting of market access priorities;
- an effective role for the Australian Food Council as a key member of the PFMAC in identifying industry negotiating priorities and in facilitating liaison between trade negotiators and firms;
- further development by the PFMAC of medium term negotiating objectives and plans, market by market (this proposal is already being put into effect); and
- co-ordinating industry input on negotiating priorities on the broader range of multilateral, regional and bilateral activities. (DFAT submission pp. 4-5).

The Austrade written submission states:

An important and necessary step in the evolution of this Committee is greater industry representation as well as publicity and education within the agri-food industry of the operations of the Committee, the procedures and information requirements associated with access issues as well as communicating the realities in terms of turn-around time necessary to resolve access issues.

If re-worked in this way, the Committee could provide a strong voice and input in trade related issues.

It clearly, however, remains an area that must have significant input from and, in effect, be driven through the Department of Foreign Affairs and Trade and Austrade who have the carriage from a trade negotiation stand-point and off-shore industry stand-point respectively.

A4.3 Workplace reform and training

A4.3.1 Method

As part of the overall evaluation of the Agri-Food Strategy, BIE and ABARE interviewed a number of firms who have signed the Memorandum of Understanding on Workplace Reform, including some who subsequently received FILLIP funding. Their views on the MOU and FILLIP were used, along with the views of respondents in the telephone survey, Agri-Food Council members and other relevant parties. The evaluation team also received a number of written submissions relevant to this area.

A4.3.2 Evaluation

See chapter 2 for a discussion of the labour productivity performance of the industry compared with manufacturing and overseas, and the level of training expenditure in the industry.

Enterprise agreements

According to the DIR submission about 30 per cent of employees in the non-meat food processing industry are covered by federal awards, about 60 per cent by state awards and about 10 per cent are not covered by any awards. The number of formal enterprise agreements concluded to date in the federal jurisdiction of the non-meat food processing industry is about 200, covering about 14,000 employees (about 29 per cent of employees covered by federal awards). This compares with an estimated 57 per cent of employees in all industry sectors being covered by formal federal agreements under the federal industrial relations system.

However, DIR believes that unregistered site agreements are common in the food industry. This applies especially to smaller companies and in regional areas where the union presence is not strong and little pressure is exerted from the unions to formalise an agreement.

In its submission, DIR comments that:

The food processing industry has made modest progress in enterprise bargaining in the federal jurisdiction despite the presence of the MOU to serve as a framework. The main impediments appear to be the relatively large number of small companies⁶⁴ ... and that in many instances the unions (who tend to seek wage increases through bargaining) are not present.

BIE survey on microeconomic reform and the agri-food industry

A survey question in the current BIE study on the impact of microeconomic reform on agri-food industries asks what contribution Agri-Food Council programs have made to any change in the business' relationship with its employees.⁶⁵ The only firms asked this question were those who indicated that management's relationship with its employees had changed since 1989 (159 respondents).

The responses are presented in table A4.1. Only 5 (3 per cent) of the respondents believed Agri-Food Council programs have had a moderate or major impact in changes in the relationship between management and its employees. A further 13 firms (8 per cent) believed council programs had been of minor significance.

Table A4.1 Contribution of Agri-Food Council programs to change in businesses relationship with their employees

<i>not relevant</i>	<i>minor significance</i>	<i>moderate significance</i>	<i>major significance</i>
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⁶⁴ We note, however, that the proportion of small firms (less than 100 employees) in the food industry, at around 90 per cent, is significantly lower than the manufacturing industry average (95 per cent). See section 2.2.2.

⁶⁵ See BIE 1996a.



Number of responses	141	13	4	1
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Source: BIE 1996a.

Memorandum of Understanding

The MOU on Workplace Reform currently has 93 signatories, including 75 food enterprises. The evaluation team interviewed a small sample of these enterprises. The MOU has been signed by 14 of the firms interviewed by BIE and ABARE. Seven of these firms have also accessed FILLIP.

Table A4.2 presents these firms' opinions, as well as opinions of the firms in the telephone survey, on the overall benefit of the MOU.

The benefits received from the MOU by firms interviewed face-to-face are mixed. Half of the firms said they had received no benefit from signing the MOU. A number of these firms regarded participation as part of being 'good corporate citizens'.

Table A4.2 Overall benefit to MOU signatories from MOU^a

	<i>None</i>	<i>Minor</i>	<i>Moderate</i>	<i>Major</i>	<i>Not sure</i>	<i>Total responses</i>
Face to face interviews	7	2	1	3	1	14
Telephone interviews	1	1	2	1		5

^a Where firms nominated between ratings, one half was allocated to each rating.

Source: BIE/ABARE interviews.

Two firms nominated moderate to major benefits and two firms said they had received major benefits. However a number of these firms qualified their responses by indicating they would have done similar things and achieved similar results without the strategy (although for some the strategy made things happen quicker or in a more coordinated fashion). Comments included (the italicised text corresponds to the firm's rating of the MOU):

'...although without the MOU it would still have happened, it would have been more difficult, slower' (*major*)

'...although would still have done it, it would not have been so well coordinated' (*moderate to major*)

'good initiative, although we were doing other similar things at the same time and it fitted at the time' (*moderate to major*).

One firm noted that the MOU was a useful framework for internal consumption and for providing a common ground for communicating with stakeholders.

Five of the firms in the telephone survey had signed the MOU. The benefits to these firms varied widely. Three of the firms were from the dairy industry (rating benefits as none, minor and moderate), one was a meat processing firm (major) and another a poultry establishment (moderate benefit).

The evaluation team also interviewed a number of other non-firm stakeholders as part of the evaluation. These included Agri-Food Council members, state government representatives and industry associations. These stakeholders weren't specifically asked about the performance of the workplace reform and training element — rather to nominate which elements of the strategy had worked well and which hadn't.

Three of these stakeholders believed the workplace reform and training element was working well. However, two stakeholders believed the workplace reform and training element had not worked well. One commented that the process had stopped with the implementation of MOU, funding had been too ad-hoc and there wasn't enough time for implementation. Another commented that it was a good idea, but believed the MOU was not well known or understood within small companies. The interviewee went on to comment that the companies that signed it would probably be doing it anyway — that was why they signed.

The DIR submission noted that in September 1995 DIR conducted a survey of 49 companies which had signed the MOU by the end of 1994. The purpose of the survey was to find out the extent to which the MOU has been used and the stage reached by the company signatories in enterprise bargaining. Of the 49 companies targeted, 18 (or 36 per cent) had responded by the end of September 1995.

At the time the survey was conducted, these 18 companies reported a total of 21 enterprise agreements.⁶⁶ The agreements could be broken down into:

Federal Enterprise Bargaining Agreements	9
Federal Enterprise Flexibility Agreements	1
State Agreements	8
Other (eg unregistered)	3
Total	21

The submission comments that this result suggests the MOU signatories have been more successful in striking workplace agreements than food companies in general.

While the performance of MOU signatories in registering enterprise agreements in the federal jurisdiction appears more successful relative to the whole food industry, it may not all be attributable to the MOU. A company agreeing with most of the principles involved, and supportive of workplace reform in general, would be more likely to sign such a document. In addition, there may be some bias in the responses to the survey — all of the firms who responded have some form of agreement in place. It may be that firms who don't

⁶⁶ Each of the 18 companies reported at least one agreement.

have agreements in place, and/or hadn't found the process useful, didn't respond to the survey.

DIR also asked the MOU signatories about the success of the MOU — in particular its performance on a number of its objectives. Table A4.3 presents the summarised responses. DIR comments that these returns tend to indicate that the MOU has succeeded in focussing attention by its signatories on the achievable reform agenda and concrete outcomes, and in serving as a guide for enterprise bargaining. However, it is less successful as a catalyst for workplace reform and a basis for establishing best practice industrial relations in this industry.

Table A4.3 Responses to DIR survey on MOU

	Yes (% of respondents)	No (% of respondents)
The MOU was a successful...		
— Catalyst for workplace reform	34	50
— Guide for companies and unions to use in workplace and enterprise agreements	67	22
— Document for focussing the government's, companies' and unions' reform efforts upon achievable reform agenda with concrete outcomes	50	39
— Basis for establishment of best practices industrial relations in food processing industry establishments	34	50

FILLIP

The Food Industry Language and Literacy Initiative Program is currently in its third (of four) round of funding. In the first two rounds there were 60 projects funded in 55 sites, with nearly 4000 people receiving some form of training or assessment under the program.⁶⁷ In detail:

- 3963 personnel took part in skills audits and assessments;
- 1862 participated in training programs between 16-100 hours;⁶⁸
- 281 took part in plain English programs;
- 68 participated in cultural and communication awareness programs; and
- 108 personnel were included in train the trainer programs.

⁶⁷ Note the figures are understated as final reports for several round two projects were not available at the time of the evaluation.

⁶⁸ The majority of the training was between 40-60 hours.

Seven of the firms interviewed by the evaluation team had accessed FILLIP. Table A4.4 presents these firms' opinions. Most of the firms who have accessed FILLIP rated the overall benefit as being moderate or major. One commented that FILLIP was useful, being flexible enough to add enterprise specifics into the program. Only one of the other non-firm stakeholders interviewed mentioned FILLIP specifically. This person thought that 'FILLIP worked very well'.

Table A4.4 Overall benefit to firms from FILLIP^a

	<i>None</i>	<i>Minor</i>	<i>Moderate</i>	<i>Major</i>	<i>Total responses</i>
Face to face interviews	1	1	3	2	7

^a Where firms nominated between ratings, one half was allocated to each rating.

Source: BIE/ABARE interviews.

The BIE and ABARE team received a written submission from the Department of Employment, Education, Training and Youth Affairs (DEETYA) as well as a National Food Industry Training Council (NFITC) evaluation of rounds one and two of FILLIP.

When FILLIP was established, there already was a language and literacy program available to firms across all industries. The Workplace English Language and Literacy Program (WELL), initially the Workplace Literacy Program, was established in March 1991. In August 1991 it expanded to include English as a second language under the Australian Language and Literacy Policy.

The DEETYA submission notes that the aims and objectives of both WELL and FILLIP are similar. Funding aims to assist workers with English language and literacy needs, training is work based, both programs expect an employer contribution and the training complements workplace reform. However the programs are different in that FILLIP funding is dependent on firms signing the MOU with respect to training, while WELL provides untied funding across all industries. WELL also provides funding for national strategic projects (including the food industry).

Each year WELL funds projects in the food industry, but DEETYA notes there has been close consultation on the nature of the projects funded under FILLIP and WELL to avoid duplication. The submission states that anecdotal evidence suggests that some applicants prefer to apply for WELL funding because:

- they are disinclined to sign the MOU required under FILLIP;
- FILLIP is very focussed on delivery of training and does not accommodate establishing and supporting training;
- very little flexibility in FILLIP in terms of timeliness of contracts; and
- FILLIP is more bureaucratic than WELL, especially when dealing with small to medium size companies.

On the positive side, the submission notes that ‘FILLIP officers have provided another “on the ground” avenue of support for companies wishing to begin training and needing English language and literacy support. Also the administration of the program has changed somewhat since it has been administered by the National Food Industry Training Council.’

FILLIP was originally administered by DIST. However in late 1994 it was contracted to the National Food Industry Training Council (NFITC) to administer. As part of this contract, NFITC agreed to evaluate the program when required.

In the second half of 1995 the NFITC evaluated rounds one and two of the program. The evaluation was based on qualitative and limited quantitative data available in project reports, supplemented by data collected in telephone and face-to-face interviews, analysis of FILLIP and related documentation and a literature review. The evaluation analyses the ‘interim outcomes’ of the program and identifies strategies for improvement.

In summary, the evaluation notes that:

- FILLIP targets and incorporates the priorities of the food processing industry;
- FILLIP programs clearly support the principles of the MOU;
- the program also addresses the needs for skills training in the industry and supports the implementation of the industry endorsed Certificate in Food Processing;
- the flexibility and responsiveness of FILLIP programs has allowed enterprise priorities to be addressed through individual projects;
- the relationship between FILLIP and increases in productivity are less clear. The program has, in many cases (related to job redesign) contributed to cost savings and efficiencies, although these have not been quantified. The changes in workplace relations should be considered valuable; and
- individual participants have also gained from FILLIP programs.

FILLIP unlike WELL, is linked to workplace reform through the MOU and with strategies to change the culture of food processing enterprises. One of the aims of FILLIP is to improve workplace communication through improving English language, literacy and numeracy skills of the workforce.

A4.3.3 Future directions

Workplace reform and training

As part of the face-to-face interviews, firms were asked for suggestions for changes to the MOU process or FILLIP and other workplace reform and training issues which might be addressed by the Agri-Food Strategy.

One firm suggested that the working group on workplace reform should be expanded to become a forum for on-going dialogue between industry, ACTU and the relevant unions. Another company noted that FILLIP should continue to be simple and flexible.

Comments made by firms on other issues they believed should be addressed by the strategy included:

- case studies of successes in workplace reform and training, to both reinforce the issue in the selected company and demonstrate to other firms;
- enterprise bargaining and workplace reform are the biggest remaining impediments, so continue the work, but leave industry to train its own people;
- more government resources should be devoted to workplace reform where there is scope for tangible benefits; and
- the Agri-Food Council should perform a coordinating role, as there are so many different bodies duplicating each other.

Only three of the other non-firm stakeholders specifically mentioned this element when referring to future priorities. Two mentioned management training (one suggesting specifically ‘managerial education in exporting and benchmarking’), while the other just referred to workplace reform and training.

Memorandum of Understanding

The companies surveyed by DIR were asked if any additional activities/documents could enhance the food industry MOU and contribute to its success. The responses are summarised in table A4.5 below. The two highest rating enhancements, best practice checklist and case studies, reinforces firms comments made in the face-to-face interviews on future issues to be addressed.

In summary, DIR comments that the food industry MOU has served as a useful document to promote an understanding of workplace reform and enterprise bargaining. However the submission comments that:

While it is useful in workplace reform and enterprise bargaining, the MOU does not have enough emphasis on enterprise bargaining now when the industrial relations focus of most industries has shifted to workplace bargaining. For this reason, the document has dated over the last two years.

Anecdotal evidence indicates that the MOU does not offer “How to” practical guidance for workplace bargaining which is required by small companies. Many of these companies, often lacking industrial relations expertise, find workplace bargaining and reaching formal enterprise agreements daunting (hence the relatively high incidence of unregistered agreements).

To maintain its relevance, the MOU needs either an overhaul (with a greater emphasis on practical workplace bargaining) or the development of a number of initiatives which complement it.

Table A4.5 Responses to DIR survey on MOU — enhancements to MOU

	<i>Per cent of respondents who believe the enhancement could be useful</i>
best practice checklist	78
case studies	56
MOU signatories network	50
MOU seminars	45
internal facilitators	34
other	22

DIR prefers the latter option, suggesting the MOU should be retained in its current form and other initiatives developed to further promote its message, particularly enterprise bargaining. The submission states that ‘overhauling the MOU would be complicated and time consuming’. DIR also suggests that the Agri-Food Council working group on workplace reform should be retained and revitalised, and perhaps combined with the recently formed Management Training Working Party.

FILLIP

According to the NFITC it was initially proposed that language and literacy funding identified for the food processing industry be added to the WELL program. But WELL was reluctant to take on the funds, because of the link with the MOU. According to the NFITC, there are a number of important differences between the programs, summarised in table A4.6.

During discussions with the NFITC, the following comments were made:

- the evaluation was really too early in the program (after only two and a half rounds out of four);
- the administrators were surprised at the (high) number of positive comments about workplace reform; and
- while FILLIP was initially modelled on WELL, FILLIP is a more effective model to deliver workplace reform outcomes than WELL. WELL is aimed at language and literacy skills growth — and skills developed through WELL are not necessarily able to be linked into the priorities of the workplace.

Regarding improvements to the program, the NFITC evaluation of FILLIP made a number of recommendations:

- further emphasis should be placed on the notion of ‘leaving something behind’ in the form of enterprise training plans;
- providers of training for FILLIP projects should be encouraged to form alliances with other providers and industry in the delivery and assessment of training programs linked to the Certificates in Food Processing; and
- concerted efforts should be made to include small and medium sized enterprises in FILLIP projects.

Table A4.6 Differences between WELL and FILLIP

<i>FILLIP</i>	<i>WELL</i>
<ul style="list-style-type: none"> • is focussed on workplace reform outcomes, including the introduction of quality, OH&S and improvements in efficiency • is clearly linked to other industry priorities <ul style="list-style-type: none"> – the certificates in food processing training and other accredited training – development of a training culture in an industry with low training investment and poor training history • focuses on an integrated model of training delivery where language and literacy skills are developed <i>through</i> technical/vocational skills development 	<ul style="list-style-type: none"> • is indirectly linked to workplace reform • is linked to broad goals <ul style="list-style-type: none"> – development of language and literacy skill of the individual within the context of award restructuring and workplace reform • focuses on the development of language and literacy as a <i>precursor</i> to technical/vocational skills development

Source: NFITC.

Other areas

The DEETYA submission recommends that ‘the Agri-Food Council consider strategies for provision of short training courses in languages other than English for key issues such as OH&S and Quality Control.’

Further, DEETYA recommends that ‘the Agri-Food Council include the industry training initiatives implemented through the training reform agenda in strategies to promote best practice across the Agri-Food sector’ and that ‘the Agri-Food Council consider the Karpin initiatives in developing strategies to foster a quality culture throughout the whole Agri-Food sector.’

A4.4 Regulatory reform

A4.4.1 Method

BIE and ABARE interviewed a number of firms who had comments on the regulatory reform element of the Agri-Food Strategy. In evaluating this element, their views were

used, along with the views of council members and other relevant parties. The evaluation team also received a written submission from the National Food Authority.

A4.4.2 Evaluation

As mentioned in chapter 3, regulatory reform was not spelt out as an issue for the Agri-Food Council in the original statement. Consequently there is no explicit objective to assess the council’s work on regulatory reform. However, it falls under the general objective of improving cost competitiveness.

Eight of the firms interviewed face to face stated that the work of the council in the area of food regulation had impacted upon their firm. The other firms either didn’t know (four firms), said it hadn’t impacted (ten firms), or didn’t answer the question (one firm).

Table A4.7 presents ratings of the overall benefit firms believed they had received from the regulatory reform work of the Agri-Food Council.⁶⁹

Table A4.7 Overall benefit to firms from regulatory reform due to council^a

	<i>None</i>	<i>Minor</i>	<i>Moderate</i>	<i>Major</i>	<i>Not sure</i>	<i>Total responses</i>
Face to face interviews	12	2	2	1	6	23

^a Where firms nominated between ratings, one half was allocated to each rating.

Source: BIE/ABARE interviews.

The benefits to those firms who stated the council’s work had impacted upon them varied from none to major. Comments by these firms varied in the actual impact of the council’s work. They included (the italicised text corresponds to the firm’s rating of the benefit):

‘[Council] put a framework in. To that extent it has been effective, but in the actual detail ... Food Victoria is better than the Agri-Food Council in getting things done’ (*minor*)

‘used council to register concern’ (*none*)

‘had some influence, all been very positive’ (*minor*).

It is difficult to attribute any specific outcome under the ‘regulatory reform’ banner specifically to the work of the Agri-Food Council. The ability of firms to distinguish this is either to be admired, or possibly questioned. It may be that the firms knew the council was involved to some extent in an issue, observed the outcome, and are rating the benefit to them from that outcome. It may be that the outcomes would have occurred without the Agri-Food Council’s involvement. Alternatively the firms who responded may have received these benefits from having a ‘voice’ — albeit a voice in the crowd — representing

⁶⁹ The table includes responses of all firms, not just those who had said the council’s work had impacted.

their perspective in the issues (particularly as food regulation has been going through a period of change).

One Agri-Food Council member noted that success in regulatory reform ‘has many owners’ but also said that the Agri-Food Council had ‘emphasised the importance of the issue’. Another member, making a similar point, said that there has been change in the food regulations, and in the right direction, but ‘it is hard to quantify what [the council] did... but the council putting effort in has carried some weight’. In contrast, the comment from another member was: ‘...haven’t tackled regulatory reform at all’.

The evaluation team also received a written submission from the NFA. The NFA sees mutual benefits in it continuing a close working relationship with the Agri-Food Council. It notes it has consulted the council on a number of major issues such as country of origin labelling, vitamins and minerals and harmonisation of Australian and New Zealand food standards.

The NFA commented that there are ‘a number of areas of the Authority’s work which are relevant to the Agri-Food Strategy. The Authority has found the input from, and the linkages it has established with, the Agri-Food Council Secretariat to be most valuable. Further, the Agri-Food Council provides a valuable forum for canvassing input on the effects of the Authority’s activities on industry innovation and development, trade and commerce, and international competitiveness.’

A4.4.3 Future directions

While there still exists an opportunity to reduce business costs through regulatory reform, the future role of the Agri-Food Council in this process is not as clear. The lack of achievement by the council in the reform arena is not necessarily the council’s fault, as it is hindered by the fact that it is unable to ‘directly’ affect the NFA or AQIS.

As these regulatory agencies were going through changes regardless, the Agri-Food Council seems to just have been an industry voice on the impacts of regulations. Council members discussed the issues, and then, where warranted, advised relevant organisations or persons on the industry impacts. As described by the NFA, the council was used as a forum for canvassing the effects of their policy on industry. *Taking Stock* notes that the Agri-Food Council will play an ‘important and influential role in keeping the issue of regulation before governments at a senior level and thereby maintain the pressure for reform.’ However, there doesn’t appear to be any major reason why these tasks could not be performed effectively by relevant industry associations, such as the newly formed Australian Food Council, or government industry departments, where the need arises.

Despite the apparent lack of direct benefit from the council’s work to date, around a third of the firms interviewed believed that regulatory reform should be a future priority of the Agri-Food Council. The actual responses for priorities ranged from the general reference to specific instances. These included labelling and harmonisation of regulatory regimes across

Australia. On the other hand, only three of the non-firm stakeholders mentioned regulatory reform as a future priority of the council, although one was very specific (harmonisation of labelling) and another suggested it should be a 'lesser' priority.

The evaluation team also asked firms what other regulatory issues the strategy/council should address. The responses included price control (the company was regulated by the Prices Surveillance Authority), biased regulation (different regulations for imported products vs domestic production, which was 'unfair'), international standards, more policing of regulation in some industries, and streamlining quarantine certification.

A4.5 Transport and distribution

A4.5.1 Method

Only one firm interviewed by the evaluation team commented on the transport and distribution element of the strategy. The views of this firm and other stakeholders (including Agri-Food Council members) are used.

A4.5.2 Evaluation

Since the code of best practice for the air freight export of perishable goods was only launched in November 1995, evaluating this element of the Agri-Food Strategy is difficult.

The only firm which commented on the transport and distribution element said that the work of the council had 'affected' the firm, but to date there had been no benefit to the firm. The firm said that the Agri-Food Council 'sits in the right place' to tackle the issue, but it still hasn't got it right. Most of the other firms interviewed said it had not impacted, while two said they didn't know.

Agri-Food Council members were not very positive about the transport and distribution element of the strategy. When asked which elements had worked well, and which hadn't, transport and distribution was not mentioned under working well, and mentioned by four members as not working well. Their comments included 'transport and distribution achieved nothing' and performance of the transport element was 'poor'. Only one other stakeholder mentioned transport, stating 'transport seems to be working well'.

While the lack of positive support for the work to date is not encouraging, the code of best practice has only been in existence for a very short time. Hence it is too early to make any conclusive statements on its value. It would be more useful to survey the firms affected (users and suppliers) later, when some impact could be determined.

A4.5.3 Future directions

When asked, a number of firms named other transport and distribution issues they believed the council should address. The majority nominated waterfront reform, including reliability and costs (eight firms). Also mentioned were trans-Tasman shipping (two firms), internal transport and sea freight.

However only four firms noted that issues relating to transport and distribution should be a future *priority* of the strategy/council. These were internal transport, transport infrastructure, the need to ensure no delivery problems for fresh food and meat, and transport and distribution in general.

Only one Agri-Food Council member stated that transport and distribution in general should be a future priority of the strategy/council, while another stated the council should focus on ports.

One other stakeholder thought that one of the future priorities of the strategy/council should be distribution issues, and an additional stakeholder mentioned transport costs. Another thought the strategy/council should focus on transport and distribution particularly because of the 'huge move to fresh produce in Asia'.

A4.6 Packaging

A4.6.1 Method

As part of the overall evaluation of the Agri-Food Strategy, BIE and ABARE interviewed a number of firms and other stakeholders (including agri-food council members) who commented on the packaging element of the strategy.

A4.6.2 Evaluation

As with some other elements of the strategy, the work in packaging is not finished. This makes it difficult to evaluate the work. However, we will discuss the comments made to the evaluation team during the face to face interviews.

Five of the firms interviewed said the work of the strategy in packaging had impacted upon their firm. Thirteen firms said it had not impacted, four firms didn't answer and one didn't know. Table A4.8 presents ratings of the overall benefit for all the firms.

While five firms said the work of the council had impacted upon them, only three thought their firms had actually received a benefit (the other two rated the benefit as none).



Table A4.8 Overall benefit to firms from packaging work of council^a

	<i>None</i>	<i>Minor</i>	<i>Moderate</i>	<i>Major</i>	<i>Not sure/no answer</i>	<i>Total responses</i>
Face to face interviews	15	1	2		5	23

^a Where firms nominated between ratings, one half was allocated to each rating.

Source: BIE/ABARE interviews.

Comments from the five firms who said the council's work had impacted upon them included:

'there has been no decrease in costs yet'

'more talk than output'

'very effective'

'the working group was a good process, but not sure if packaging companies are really committed'

'working group did a pretty good job... the cost is now attractive ... the strategy hadn't removed all problems, still a way to go.'

However the latter firm noted that the reduction in packaging costs would have occurred anyway, due to the buying power of the firm.

Four Agri-Food Council members believed the packaging element had worked well, with the two members of the working group rating it particularly highly — stating it was a significant success and that there has been significant progress.

Two other stakeholders commented on the packaging element, with both coming from organisations which were involved in the working group. One stated that 'perhaps packaging was not practical enough'. However, the other was more positive saying that 'packaging was a success... the council addressed the issues in a constructive way... two sides were brought together and succeeded from efforts on both sides'. Later this person noted that it was 'important to recognise that the issues on packaging are being driven through the companies (industry), not council'.

A4.6.3 Future directions

There were a number of suggestions from firms interviewed for future packaging issues for the council to address. Issues mentioned were making sure packaging is internationally competitive in price and quality and looking at what degree the packaging industry is investing in innovation. However a number of firms believed there was no role for the council in this area. Only two firms thought packaging should be a future priority of the strategy/council.

None of the Agri-Food Council members explicitly suggested that packaging should be a future priority of the strategy/council. Two other stakeholders mentioned packaging, one referring to harmonisation and the other saying it (along with distribution) was ‘just as important as production issues’.

A4.7 Grower-processor linkages

A4.7.1 Method

Assessment of the initiative focussed mainly on considering the Goulburn Valley pear project and the Queensland pineapple project in some detail. Due to time and funding constraints, only limited consideration could be given to the Tasmanian potato project. Interviews were held with key individuals and organisations involved in the projects in each region. These included growers, packers, processors, wholesalers, retailers, consultants, local agricultural departments and grower organisations.

Case studies providing an evaluation of the outcomes of the three projects and their future directions are provided in boxes A4.1, A4.2 and A4.3. Further background for each project is described in chapter 3.

A4.7.2 Evaluation

Appropriateness

The objective of the grower-processor linkages projects, as indicated in Agri-Food Council papers, is to encourage best growing practice by building linkages, enhancing technology transfer and improving market signals to farmers to encourage them to better research and service their markets. More generally, the aim has been to improve communication and the level of cooperation between farmers and other parts of the value-adding chain. This general principle of improving linkages has been advocated in a number of reviews and government policy statements. It also forms the underlying objective of a number of other programs such as the Food Quality Program and the FINA Program.

Farmers need to have clear signals to respond to the market. They need to know what type of product is required, its form, packaging, and time to market. In a competitive market these signals are usually effectively delivered through the prices farmers receive for their products (particularly the premiums and discounts associated with the product delivered). However, even in such a market, competitive advantage can be gained by being able to better anticipate market requirements in advance. This is particularly important where decisions made on production activities take place well in advance of the product being available to sell. While there are some forward selling mechanisms available (such as

futures markets), these are of little benefit in providing indications of future premiums and discounts relating to product quality, as contracts are written on a standard basis.

What role does the government have in assisting farmers to obtain such knowledge and to build such linkages through the value-adding chain? The standard argument for government involvement stems from the fact that farmers are often too small individually to undertake a socially optimal level of a particular activity. Alternatively there are concerns that if they do invest in these activities other farmers will be able to free-ride by avoiding the cost of these activities but reaping the benefits (through observation of what other farmers are doing). For example, this argument is often used in the context of research, development and promotion in the agricultural sector. In the case of the grower-processor linkages program, this provides some justification for farmers working together — but, in itself, is not an endorsement for government involvement.

Other arguments which have been put forward specifically in the context of grower-processor linkages are that:

- without government involvement, processors have been reluctant to become involved in such networking (as raised, for example, in the case of Goulburn valley pears); and
- statutory marketing authorities (SMAs) have traditionally performed this role but are gradually being removed or their powers reduced.

With regard to the latter point, it has been argued that regardless of the merits or otherwise of SMAs in marketing agricultural products, they have traditionally performed a role in providing market information to producers. The deregulation of SMAs places an increased burden on farmers, particularly smaller farmers, in obtaining this market information. To some extent, these concerns can be addressed by farmers working together through formal structures, such as co-operatives (as already exist in a number of agricultural industries), or more informally to provide information networks.

Overall, while there is likely to be a clear need for better information networks among farmers, the role for government in this is less clear. The main justification for government involvement appears to be in providing a facilitative role in bringing various parts of the marketing chain together (who in some cases, such as the Tasmanian potato case, have a history of distrusting each other). Beyond facilitating the establishment of such networks, the ongoing role of government in any particular network is questionable. This is particularly so given the potential time and cost involved if such networks were established on a regional basis across all agricultural industries.

Industry representatives have argued that the grower-processor linkages projects may have been too focussed on just the grower and processor parts of the chain — with not enough input from those further down the marketing chain. It has also been argued that value-adding may not be about processing in all cases. Sometimes, producing a high quality fresh product directed towards consumer requirements may provide greater ‘value’ to producers and to Australia than processing products. This was clearly the case in the pineapple project

where it was found that the fresh product had the greatest potential. It is notable that the Food Quality Program addresses both these concerns by looking towards wider linkages and by not being narrowly focussed on processing.

Effectiveness

To date the projects have been limited in scope so that their overall impact has been slight. A limited number of projects involving specific industries (pears, pineapples and potatoes) in particular regions (Goulburn Valley, Queensland and Tasmania) commenced in 1994. No new projects have been established since. Given the narrowness of scope, there has been little overall contribution made to the adoption of best practice, technology transfer, transmittal of market signals to farmers, or communication across the farm sector which can be attributable to these projects.

There was very little awareness of the projects in the telephone survey of large and medium firms. In addition, the grower-processor linkages projects was the only Agri-Food Strategy initiative or program which failed to be nominated by a single Agri-Food Council member as working well. At the same time only one council member indicated that the initiative had not worked well and one indicated that it had achieved mixed success. A limited number of 'other' stakeholders thought the initiative had been successful.

There was a general feeling amongst stakeholders that, in relative terms, the Goulburn Valley pear project had been the most successful, the Queensland pineapple project had realised mixed success and the Tasmanian potato project had not been successful. In the latter case a number of those involved indicated that it had been a clear failure and that there had been a significant deterioration in the level of cooperation between growers and processors. At the same time, even in the case of the Goulburn Valley pears project, the stakeholders in the region could not identify any tangible benefits from the project to date. They indicated it was still too early to see these benefits but that they were likely to come in the future. One of the key issues in all projects was the apparent level of distrust between growers and processors before the introduction of the projects. This was able to be resolved more successfully in some cases than in others. It was notable that there was usually a common view amongst the parties that improved linkages were important, but often the commercial actions of individuals created negative pressures on the establishment of these linkages. For example, in the case of the Tasmanian potato industry there was a belief that the processor involved was not willing to fairly share the benefits of productivity gains achieved by farmers with those farmers.

The necessary (although not sufficient) conditions for success in the projects appear to have been:

- a willingness of all parties to form better linkages;
- a commitment by government to establish the process;
- a proactive project co-ordinator funded by local stakeholders;

- a willingness of parties to share the benefits of gains made as a result of productivity improvement and other changes;
- regular committee meetings with a commitment to achieve things between meetings; and
- access to other government programs (at least in the initial stages of the projects) to provide funds for key project activities (such as benchmarking studies).

A4.7.3 Future directions

With the trend towards increasing deregulation of agricultural markets and reductions in government provision of information, farmers and others in the value-adding chain are likely to benefit from greater networking to obtain information on market requirements. However, the role for government in this process is not clear as there are private incentives for growers to obtain this information. At the same time, there is an argument that there may be gains to society from the government playing an initiating role in establishing relevant networks. That is, where there are identifiable problems in these becoming established and where there are identifiable gains from government involvement. Where government information sources are reduced (for example through deregulation of SMAs) there may be a case for government involvement to smooth the adjustment towards market based information networks. Again, this would be only justified on a temporary basis.

Box A4.1 Case study of the Goulburn Valley pear industry

Background

In the early 1990s it was recognised that despite substantial state and federal government and industry association support over a number of years, the deciduous fruit industry's export position was continuing to decline. An investigatory meeting held at Tatura, Victoria in November 1993, in association with the Agri-Food Council and Food Victoria, identified a number of impediments to improving the industry's international competitiveness. The Tatura meeting decided to set up a steering committee, focusing initially on the pear industry, to coordinate existing industry initiatives and to overcome identified impediments to competitiveness.

The Pear Industry Steering Group (PISG) was established early in 1994 . Senator Nick Sherry, then Parliamentary Secretary to the then Minister for Primary Industries and Energy and head of the commonwealth's Horticulture 2000 group, was the chairperson. Membership of PISG and its five working groups includes growers, packhouses, processors, exporters, retailers, unions, the transport and handling sector, and Food Victoria and Agri-Food Council secretariat representatives. In addition the Australian Apple and Pear Growers Association funds a full-time pear industry development officer whose duties include membership of and secretariat support for all PISG committees.

Evaluation

The efforts of the Agri-Food Strategy in the pear industry strategy were evaluated by obtaining the views of a number of people involved in the strategy in the region. These included growers, processing companies, an industry association and other stakeholders.

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Box A4.1 *(continued)*

The Agri-Food Strategy has played a key role in setting up the framework for communication between the various parts of the value-adding chain for the pear industry. In particular, it was thought by growers and their representatives that the Agri-Food Strategy played an important role in establishing the PISG and giving it the profile and impetus that it needed to progress. There was a feeling that the local industry would have been reluctant to become involved in the exercise without the profile provided by the commonwealth and state governments. Growers and their representatives also felt that co-operation between growers and processors had improved significantly in the past three years. However, there was some disagreement about the scope of linkages needed, with some survey respondents indicating linkages from grower through to retailer were important. Others believed that growers receive sufficient market feedback through having a close relationship with the local processors.

Although respondents were positive towards the program, it was generally seen as too early to see the concrete results of improved communication — although there is seen to be considerable potential for improvement attributable to the program. Some of the gains which have been seen include: improved openness and willingness to communicate; the development and partial adoption of quality assurance systems (75 per cent of exported fruit is now packed in packing sheds working towards or having quality assurance practices in place); and establishment of vision and direction for the industry.

Impediments to improved linkages included: the strong influence of 'traditional' views about production methods in the region; the non-English background of many growers in the region; literacy and numeracy abilities of some growers in the area; general attitudes of growers; and traditional distrust between growers and processors. Some of these are being addressed through the PISG and working committees, but many are difficult to address or change in a short period of time.

Future directions

A number of suggestions were made as to potential future improvements in linkages. These included: more communication from the Agri-Food Council through a newsletter reporting on the progress of other elements of the strategy; further efforts to improve international competitiveness, such as through a procedures manual for growers indicating key quality variables to be aimed at; and expansion of the program to other fruits, particularly peaches.

Box A4.2 Case study of the Queensland pineapple industry

Background

In the early 1990s canned pineapples faced significant price pressure from imports in the domestic market, threatening the long-term viability of the industry (with only 8 per

(Continued on next page)

Box A4.2 *(continued)*

cent of production exported in 1992-93, principally to New Zealand). Many growers shifted their focus to the fresh pineapple market, where they encountered significant quality and marketing problems.

Industry association and state and commonwealth government program assistance was provided to the fresh pineapple industry over the early 1990s, focussing on quality improvement. However, an investigatory meeting held in Nambour in early 1994 under the auspices of the Agri-Food Council identified the need for a whole-of-industry approach to issues of competitiveness and viability. In May 1994 the Queensland Pineapple Steering Committee met for the first time with Senator Sherry as chair and with representatives from fresh and canning growers, retailers, processors, unions, wholesales, transporters, exporters and the state government. An officer from the Queensland Fruit and Vegetable Growers Association was also included as a member of the steering committee and provided secretariat support.

Evaluation

The efforts of the Agri-Food Strategy in the case of the pineapple industry were evaluated by interviewing a number of people involved in the strategy in the region. These included, growers, a processor, an industry association, a wholesaler, a retailer and a state government department.

The Agri-Food Strategy has played a significant role in bringing the industry together to focus on the future direction of the industry. However, there have been a number of other initiatives by the pineapple industry over a number of years including a project funded by RIBES and the efforts of the Queensland Department of Primary Industries which focused on the development of the domestic fresh pineapple industry. The industry has been talking about marketing issues for a number of years and the role of the council was seen as another positive influence in the process of realising changes for the industry. One of the more positive benefits was for the processor obtaining funds for a Farm Best Practice Program.

The need for improved linkages within the industry was recognised by a number of the major players in the industry. One of the major chains has developed better linkages with grower groups to ensure that the products they receive better fit the changing market place. Another company has adopted a paddock to plate approach with quality and linkages two essential elements of the program.

There was a general acceptance that there was a need for stronger linkages to create a culture change in producers, process workers and wholesalers. However, at the packer level the attitude was to replace labour with machinery as fast as possible. This attitude

sprang from poor productivity by staff, being inundated by job seekers who are forced to seek work and an attitude that all workers were not trainable.

A number of new linkages have been formed in the last three years with a major chain store working closely with a group of pineapple growers to develop more mature fruit. A grower owned packing shed has been established with some 48 growers linked to provide around 35 per cent of the needs of a major chain store.

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Box A4.2 *(continued)*

A major development has been the move by a major processor to being a grower-owned board and an improvement in relationships between the board and growers. The processor has moved strongly to participate in the development of the fresh pineapple market. The industry as a whole is moving to launch a sweet new pineapple with brand linkages and personal contact with buyers being essential requirements for the industry to develop. A number of innovations have also been introduced including better continuity of supply, diversification into other vegetables such as potatoes, the development of a fresh salad cuts outlet, colour video equipment for grading pineapple and the introduction of labour saving machinery in the packing shed.

These developments are related to market developments (in particular the downturn in the canned pineapple industry), more than the grower-processor linkages program.

While there has been a significant improvement in the level of cooperation in the industry there is still a stand off between merchants, growers and chains. Market information is still well guarded, but there is a general recognition that there has been some good work initiated in workshops on quality, best practice and setting benchmarks for the industry. There has been some recognition that with better cooperation there is an improved ability to compete.

Future directions

The industry believes that while the Agri-Food Council's involvement has been significant in bringing about a more focused outlook by industry participants, the domestic orientation of the project runs counter to the stated aims of the Council. Nevertheless, the major suppliers to both the retail and export markets recognise that there is a need to establish significant relationships with other parts of the chain and develop a quality product. Issues such as export inspection, product specification, chemical residue standards, airfreight and export packaging are all ongoing issues requiring attention. There is a recognition of the need for a team approach to such issues as food technology, diet, economics and production. For the future, the pineapple industry felt that the major focus should be on developing a successful pineapple for the domestic fresh market, particularly in view of the strong competition from imported pineapple and the reduction in intake for canned pineapple in Queensland.



Box A4.3 Case study of the Tasmanian potato industry**Background**

In 1991 a major processor's rationalisation strategy required that its Tasmanian plant either be closed down or that it become internationally competitive in the Asian frozen

(Continued on next page)

Box A4.3 *(continued)*

potato market. The company embarked on a major plant upgrade and reforms to work and management practices. The company could not make adequate headway on what it saw as a major impediment to competitiveness, namely high input costs (potato prices). Growers argued that high costs of production prevented them from accepting a reduced price for their potatoes because it would threaten their viability. An offer of Agri-Food Council involvement was accepted and in mid-1993 the Agri-Food Council Tasmanian Consultative Group was established.

Evaluation

Only a limited evaluation of this case study was undertaken. However, the success of the Agri-Food Strategy for the Tasmanian potato industry is mixed.

Generally the industry was pleased with the results of the Best Practice Program. The study tour to Washington, which was part of the funded program, gave the growers, processor representatives, farmers, consultants and a contractor insights on how economies of scale could provide much greater efficiencies. This could be achieved not only by having larger tonnages per grower but also by greater utilisation of contractors and possibly by grouping contractors together.

However, there was considerable acrimony between growers and the processing company over pricing issues. Growers for the most part felt that the reward for increasing productivity should also be reflected in better prices for a better product whereas the view of the processor was that to be competitive with the United States and New Zealand there was a need to purchase potatoes at a lower price than previously. This impasse seriously threatened the program and in particular the relationship. Subsequently, the company was sold and the new owners have been able to negotiate satisfactory contracts for the current season.

In short there has been a significant deterioration in the level of cooperation between growers and processors during the life of the Agri-Food Strategy, but productivity has improved as a result of the program. Certainly amongst growers there is a greater sense of solidarity and common sense of purpose following the protracted pricing negotiations with the processor. Trust will need to be rebuilt with the new owners and there is a strong need for a well structured linkages program to ensure that this does happen.

While the industry has introduced a number of minor innovations as a result of the program, the key benefit has been the improvement in international competitiveness by the Tasmanian potato industry and the growing realisation of the long-term trade potential for the industry.

Other areas requiring improvement are: greater access to growers of market information relating to competition in the potato industry, information relating to market opportunities and any impediments to those opportunities including tariff and non tariff barriers and other government policies which may impede growth potential.

A4.8 Food Quality Program

A4.8.1 Method

Funding under the Food Quality Program was made available during 1995 for five projects. A further eleven projects were approved in November 1995, with five of these projects progressing to contract stage at that time.

A full assessment of the program is impossible due to the short length of time the program has been in operation. Comments have been confined to interviews with participating companies in one of the current projects, and relevant comments by other stakeholders — including Agri-Food Council members, industry associations and state government representatives.

A4.8.2 Evaluation

Responses by interviewed firms

The feedback from a number of participants in the project surveyed has been very positive on the progress of the program to date. The aim of the project with which the firms interviewed are involved, is to accelerate the uptake of formal quality assurance and a management culture within the fruit and vegetable industry. In the past, leading Australian primary industry firms have had a good reputation for safety and quality. But all too often poor practices and standards in any one sector have had the effect of damaging the reputation of the industry as a whole. As a consequence market access can be lost or the number of regulations facing Australian exporters has been increased.

The specific objective of the project is to develop a quality assurance program good enough to send product on a regular basis to Japan. The underlying strategy is to send a consistent product over time so that there are 'no surprises at the customer end'.

One company believes the major retailer involved in the project has been the driving force behind a massive cultural change for the industry. The company interviewed has now adopted a paddock-to-plate operation with a strong emphasis on informing the whole marketing chain of customer needs. The firm believes there is a recognition by the industry of the shift in power from merchants to supermarkets and more recently to consumers who are demanding better products. There was strong support for the Agri-Food Strategy because of a recognition that changing 'people culture' is the biggest issue facing the industry.

The problems faced by the major retailer involved in the project were the failure by traditional growers to produce a product with a reasonably long shelf life and an inability to provide product over longer seasons. The retailer agreed that the Agri-Food Strategy had

created some momentum and the industry is now following through on attempting to improve the level of cooperation between growers and processors and other elements of the marketing chain. The retailer believes that the quality program provides it with a better opportunity to meet certain export standards. Its biggest hurdle is to overcome the absence of any product specification essential to sending quality product to the Japanese market.

The retailer is a strong supporter of a more unified approach to marketing and believes that the Food Quality Program provides a catalyst for the industry to obtain commitment from all levels of the chain to promote the development of the export market. The retailer believes that there is big export potential with good orders in the pipeline for overseas markets.

The commitment of a major food retailer to establishing an export sector for a wide range of fruit and vegetables has been a strong catalyst for involving a group of committed growers, a merchant, and transport operators towards enhancing the export competitiveness of the fruit and vegetable industry. Quality assurance on a collective basis is one of the key tenets of the project; that is, where growers, processors, distributors and buyers all adopt a paddock to plate philosophy.

The role of government in the program is perceived by industry to adopt a hands-off approach, but to provide funds to assist the industry to facilitate the establishment of groups of enterprises, and also to establish regional networks and processor and retailer supply chains on a more competitive basis. There is a recognition by government of the difficulties of setting up networks for the somewhat complicated and highly integrated nature of the industry. There is also an issue arising from the belief that quality cannot be pursued or adequately addressed by the actions of individual enterprises alone, but requires facilitation by government. The benefits of cooperation by a diverse set of groups has to be identified and demonstrated to an industry which has been brought up on the philosophy of single enterprise competition, rather than from the perspective of group strength in the market place.

Comments on the Food Quality Program from Agri-Food Council members were limited. Two members noted that they didn't know how the program was going, while another believed it had 'worked well'. Two of the other stakeholders interviewed supported the idea of the Agri-Food Council/Strategy being involved in the area of quality, but had no specific comments on the program.

A4.9 Innovation

A4.9.1 Method

BIE and ABARE interviewed a number of firms who had comments on the innovation element of the Agri-Food Strategy. This section draws on their comments, along with the

views of council members and other relevant parties. The evaluation team also received a written submission from CSIRO.

A4.9.2 Evaluation

See chapter 2 for a discussion of industry wide innovation and R&D.

Interviews

Firms were initially asked whether the work of the council had affected their innovation. Of the eight firms which said the work of the council had made an impact, five had used the Australian Food Industry Science Centre at Werribee. Another firm mentioned that the impact on the firm was indirect; the information provided to the firm was ‘a timely reminder and the strategy motivated the firm to work harder in the area of innovation’. One firm referred to a project in the future and one of the people interviewed had been involved in the Agri-Food Council’s innovation working group.

None of the firms interviewed had benefited from the guideline on the 150 per cent R&D tax concession. While a number of firms claimed the concession, these firms had discovered the concession through other means. By analysing the tax concession claims of firms in the industry, we can check if a discernible increase in the number and/or amount of claims has occurred in recent years (relative to other firms). If so, it might be attributed in part to the council’s 150 per cent tax concession guideline.

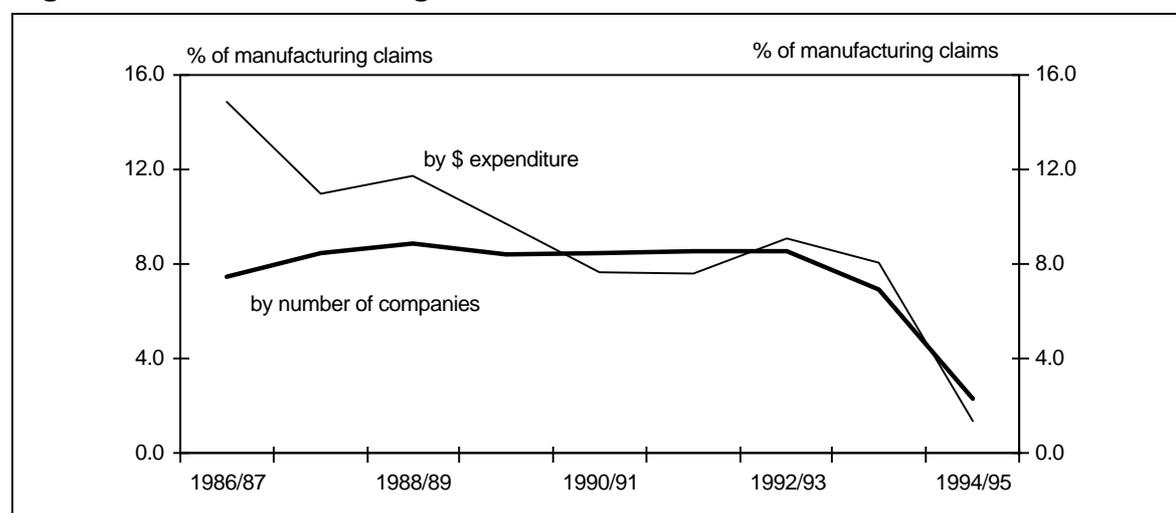
Figure A4.1 shows the number of claims by food companies, and the expenditure claimed, has in fact been declining as a share of manufacturing claims since 1992-93.⁷⁰ Since firms were allowed to make retrospective claims, an alternative way of analysing the figures is to look at the claims, by their date of *lodgement* (that is, the year the claims were actually submitted to the tax concession program). However, the result is not dramatically different — while FBT firm’s share of manufacturing rose by around 1 percentage point in terms of expenditure in 1994 (1.4 percentage points by number of firms), it then fell by 2.2 percentage points in 1995 (and 4.4 percentage points by number of firms).

Respondents in the face-to-face interviews were also asked to rate the overall benefit (and future ‘potential’ benefit) their firm had received from the council initiatives in innovation. The results are summarised in table A4.9. The benefits from the Australian Food Industry Science Centre were relatively high. Of the three firms who could rate the benefit of using the centre, one had received major benefits and two had received no benefit to date. However these firms rated the potential benefits as moderate and major. Several medium to

⁷⁰ Note that the results for the last few years are not considered stable by the tax concession program area. However, as we are reporting FBT claims as a share of manufacturing, this share should not change much assuming that FBT and manufacturing firms are as prompt as each other in making claims.

large firms in the telephone survey also indicated they had gained major benefits from using the centre.

Figure A4.1 Food, beverages and tobacco R&D tax concession claims^a



a By year of expenditure claimed.

Source: Tax concession program, DIST.

Table A4.9 Overall benefit to firms from innovation work of the Agri-Food Council^a

	None	Minor	Moderate	Major	Not sure/ no answer	Total responses
AFISC^b						
— current benefit	2			1	2	5
— 'potential' benefit			1	2	2	5
Other benefits						
— current benefit	1	0.5	1.5			3
— 'potential' benefit				1	2	3

a Where firms nominated between ratings, one half was allocated to each rating. **b** Australian Food Industry Science Centre at Werribee.

Source: BIE/ABARE interviews.

A number of other non-firm stakeholders mentioned innovation when discussing elements which worked well. However most of the comments related to the 'potential' of the work, due in part to the fact that many of the initiatives are in their early stages. Comments included:

'The council has been quite good in developing a strategy for food industry research'.

'Innovation has been slow but maybe something will happen'.

‘The Australian Food Science and Technology Forum should work as long as its commercially driven’.

‘Innovation should be beneficial’.

‘Werribee needs runs on the board, but it is difficult for companies outside Victoria’.

A4.9.3 Future directions

Firms interviewed were asked to nominate any other areas of innovation they believed that the council should be involved in. One firm suggested there was a role for the council in national coordination of R&D and keeping interests balanced, perhaps setting up centres of excellence for research to try and avoid duplication. Another firm said that there may be a role in helping to develop food for Asian tastes, while one more noted that the industry is missing a skill base in both research and quality of employees (but didn’t say how the council should tackle this issue).

However, when more generally asked to nominate priorities for the strategy if it was to be extended, only two of the firms interviewed suggested innovation should be included. Of the other non-firm stakeholders, only four referred to innovation when asked about future priorities. One person said that innovation is imperative, while another said an issue for council is the ownership of technology. Another person stated that ‘the innovation culture has to begin, particularly for SMEs’. The other commented that there was a need for financial support for innovation.

The importance of innovation, and its contribution to firms competitiveness, is demonstrated by a number of results from a recent survey by the BIE of food firms. The survey was conducted as part of a recent BIE study on the impact of microeconomic reform on a number of agri-food industries (BIE 1996a). Firms whose share of exports had increased between 1989-90 and 1993-94 (102 firms) rated various factors which contributed to the change in export share. Forty eight per cent stated that new products they had developed had made a moderate or major contribution. Fifty seven per cent of firms (of those with increased exports) reported that improved quality contributed to their increase in exports.

Firms which increased export share were asked to nominate the four most important contributors to the change in the level of exports. The highest ranking factor — and by a significant margin — was the development of new products for the export market. Improved product quality, the need to lower input costs by increasing output, lower product costs and changes in overseas trade barriers received the next highest rankings.

In an international context, innovation in the Australian food industry does not compare well. According to a recent McKinsey study, Australian food processing firms have been much slower than United States’ food firms to rethink their product categories and innovate to meet new customer demand. This has prevented them expanding their existing markets.

In the US, food processors have launched many more new products than firms in Australia and have achieved much greater growth in the value-added component of their output.⁷¹

There is arguably a need for boosting innovation in Australian food firms. The CSIRO submission states that the Agri-Food Strategy has significantly increased the awareness of food industry chief executives of the importance of innovation and food R&D. However, the influence of the strategy was *not* apparent from the firm interviews. Nonetheless, the low level of R&D and innovation in the industry suggests there may be a continuing need for an agri-food strategy or council to encourage and promote its importance.

If it is to be involved in the area of innovation, the Agri-Food Council should set some measurable targets, so the council's performance can be determined. It should also try and keep the work focussed on achievable outcomes.

⁷¹ McKinsey and Company Australia (1995, p31).

Appendix 5 Submissions received

In September 1995 the evaluation team sent out copies of an issues paper, calling for written submissions to the evaluation. The paper was sent to a variety of stakeholders, including commonwealth and state government agencies, industry associations, and firms themselves. There were thirteen responses received. These are listed below:

- ACT Department of Business, the Arts, Sport and Tourism
- ACTU ⁷²
- Austrade
- Clean Food Marketing Australia
- CSIRO
- Department of Employment, Education, Training and Youth Affairs
- Department of Foreign Affairs and Trade
- Department of Industrial Relations
- Industry Commission
- National Food Authority
- Pet Food Industry Association of Australia
- Victorian Department of Business and Employment
- Victorian Food Industry Training Board.

⁷² The ACTU forwarded a copy of an internal paper, *Towards a National Food Industry Sectoral Strategy – Mark II* (for discussion by the ACTU Food Industry Unions Committee), to be used as a submission.

Appendix 6 Highly processed and high value-added food and beverages

A6.1 Is there a difference between high value-added and highly processed goods ?

The simple answer is yes. While there may be many high value-added goods that are also highly processed, it is not always the case. This is because the definitions of the two groups are different.

The value-added, or gross product, of an industry is defined by the Australian Bureau of Statistics (ABS) as follows.

The unduplicated value of industrial production can be measured by taking the market value of the goods and services produced by an industry (called its *gross output*) and deducting the cost of goods and services used up by the industry in the productive process (*intermediate consumption*) which leaves the value-added by the industry. (ABS 1990, p7)

High value-added goods can be thought of as goods where the share of gross output that is value-added, is relatively high. Conversely low value-added goods are ones where the share is relatively low. Highly processed goods, on the other hand, refer to the level of processing that is undertaken producing a good.

It is not always the case that a good that is high value-added is also highly processed, and visa versa. For example, poultry processing has a higher level of value-adding⁷³ than a number of ‘highly processed’ food products groups — including oil and fat manufacturing, flour mill product manufacturing and prepared animal and bird feed manufacturing — but is classified as ‘minimally processed’ (DIST 1995b, p. 26).

⁷³ Measured as value-added as a proportion of turnover (a proxy for gross output) in 1992-93.

A6.2 Classification used in this report

The agri-food industries statement in July 1992 (Button and Crean 1992), referred to a target of \$7 billion (in real terms) of *highly processed* food exports within a decade. This \$7 billion figure has now become a well recognised target of the Agri-Food Strategy. However, what the \$7 billion refers to, appears to vary over time. For example a number of publications (DITARD 1993, DIST 1994a and 1994b) refer to increasing *high value-added* food exports to more than \$7 billion, while Cook (1995b) refers to a *highly processed* food exports target.

As the original statement noted the target was more than \$7 billion (in real terms) of highly processed food exports, this is the target we have used for the evaluation. However, we note that it may be timely to clarify the target so that it recognises other opportunities for adding value which do not involve high levels of processing.

DIST (1994b, p. 32) presents a split of processed food and beverages exports (by ASIC code, reproduced in table A6.1) into highly processed and minimally processed. However DIST (1995b, p. 26) presents a slightly different breakdown into highly and minimally processed food and beverages exports (reproduced in table A6.2). There are two main differences between the two groupings.

Firstly, the ABS is gradually introducing a new classification system, ANZSIC (Australian New Zealand Standard Industrial Classification) to replace the old one (ASIC — Australian Standard Industrial Classification). The development of ANZSIC resulted from the need to improve comparability on industry statistics for Australia and New Zealand. DIST (1995b) uses the new classification, while DIST (1994b) used the old system, ASIC.

The other reason why the split between highly and minimally processed is different is that processed seafood has been moved from highly processed in DIST (1994b) to minimally processed in DIST (1995b).

We use the ANZSIC classification in DIST (1995b) in chapter 2 when describing the recent trade performance of the industry. However we use the ASIC classification in DIST (1994b) when referring to the export target for highly processed food and beverages exports, as this was the classification used when the target was announced.

A6.3 Export price deflators

Table A6.3 lists the implicit price deflators which are used in chapter 5 to deflate nominal highly processed food and beverages exports in real highly processed food exports. Note that the base year in the table is 1989-90, while the base year used in chapter 5 is 1990-91.

Table A6.1 Highly and minimally processed food and beverages, ASIC

<i>ASIC</i>	<i>Item</i>
Highly processed food and beverages	
2117	Bacon, Ham and Smallgoods
2123	Cheese
2124	Ice Cream and Frozen Confections
2125	Milk Products nec
2131	Fruit Products
2132	Vegetable Products
214	Margarine, Oils and Fats nec
2151	Flour Mill Products
2152	Starch, Gluten and Starch Sugars
2153	Cereal Foods and Baking Mixes
2161	Bread
2162	Cakes and Pastries
2163	Biscuits
2173	Confectionery and Cocoa Products
2174	Processed Seafoods
2175	Prepared Animal and Bird Foods
2176	Food Products nec
2185	Soft Drink, Cordial and Syrups
2186	Beer
2188	Wine and Brandy
2189	Alcoholic Beverages nec
Minimally processed food and beverages	
2115	Meat
2115	Poultry
2121	Liquid Milk and Cream
2122	Butter (includes powered milk)
2171	Raw Sugar
2187	Malt

Source: DIST (1994b).

Table A6.2 Highly and minimally processed food and beverages, ANZSIC

<i>ANZSIC</i>	<i>Item</i>
Highly processed food and beverages	
2113	Bacon, Ham and Smallgoods Manufacturing
2122	Ice Cream Manufacturing
2129	Dairy Product Manufacturing nec
2130	Fruit and Vegetable Processing
2140	Oil and Fat Manufacturing
2151	Flour Mill Product Manufacturing
2161	Cereal Food and Baking Mix Manufacturing
2162	Cake and Pastry Manufacturing
2163	Biscuit Manufacturing
2172	Confectionery Manufacturing
2174	Prepared Animal and Bird Feed Manufacturing
2179	Food Manufacturing nec
2181	Soft Drink, Cordial and Syrup Manufacturing
2182	Beer and Malt Manufacturing
2183	Wine Manufacturing
2184	Spirit Manufacturing
Minimally processed food and beverages	
2111	Meat Processing
2112	Poultry Processing
2121	Milk and Cream Processing
2171	Sugar Manufacturing
2173	Seafood Processing

Source: DIST (1995b).

Table A6.3 Implicit price deflators for exports of processed food and beverages, 1989-90=100

	<i>Exports of minimally processed food and beverages</i>	<i>Exports of highly processed food and beverages</i>	<i>Total exports of processed food and beverages</i>
1986-87	75.8	83.1	79.9
1987-88	80.8	88.5	85.1
1988-89	87.3	95.6	91.9
1989-90	100.0	100.0	100.0
1990-91	94.2	103.2	96.7
1991-92	93.6	105.7	97.5
1992-93	97.1	108.3	100.8
1993-94	101.8	114.2	106.0
1994-95	98.4	112.9	103.1

Source: ABS unpublished working estimates.

Appendix 7 Principles for program design

In June 1994 Ian Burgess AO was commissioned by the government to undertake a review of Commonwealth programs designed to assist enterprise development and improve the performance of business. The review arose from the government's 1994 White Paper, *Working Nation*. The review's report, presented to the Prime Minister in November 1994 (Burgess 1994) proposed a number of organisational and administrative changes.

One of the report's recommendations was that all programs follow a set of design principles to ensure the programs are targeted effectively, assistance to a firm is appropriately limited and agencies adopt a holistic approach to assisting clients. This appendix assesses the four programs under the Agri-Food Strategy umbrella against these principles.

As noted in chapter 4, however, it is important to emphasise that failure to meet the design principles may in part reflect:

- inadequacies in the principles themselves. For example, it may not always be desirable that a program takes a holistic approach to upgrading a firm's competitiveness or that it requires a demonstration of sound financial management in the recipient firms if the informational requirements or program complexity makes that approach too costly; and
- the fact that the Burgess principles were explicitly coined for enterprise programs — and that only some elements of the Agri-Food Strategy programs conform to this model. For example, neither FILLIP nor the clean food program are strictly enterprise improvement programs.

In making these assessments we also recognise that the four programs were all designed *prior* to the Burgess Review. Accordingly, we cannot fairly criticise programs for not complying with the Burgess principles which were developed at a later date. On the other hand, any 'design flaws' identified by application of the Burgess principles may still be program weaknesses and relevant to overall appropriateness.

A7.1 Assessment of Agri-Food Strategy programs against the Burgess principles for program design

Table 4.4 in chapter 4 provides a summary check-list of whether each of the relevant Agri-Food Strategy programs satisfies the Burgess principles. Each program's assessment against each principle is discussed in more detail below.

1. Assistance for firms which are committed to improving their international competitiveness and have sound financial and general management

As the Clean Food Export Program (CFEP) is intended to boost exports of participating companies, these companies are likely to be committed to improving their international competitiveness. The management company, CFMA, is subject to the disciplines of Corporations Law, including audit arrangements (by the Auditor-General), and there are substantial financial accountability arrangements in place through a Shareholders Agreement and the Grant Agreement between CFMA and DPIE. These arrangements include the requirement for quarterly financial reports and the preparation of a corporate plan and reporting against that plan. These arrangements have been approved by the Department of Finance.

FILLIP is not linked to improving international competitiveness, although it is possible that recipients are committed to improving international competitiveness. It is not clear whether funding is limited to firms which have sound financial and general management.

Since FINA is a networking program to generate exports in Asia, the participating firms are presumably committed to improving their international competitiveness. As well, one of the assessment criteria for the program is 'export focus of the network'. Another assessment criteria is 'financial viability of individual network members' — thus the FINA program addresses the second part of this principle.

One of the assessment criteria for the Food Quality Program is export orientation. The program guidelines state that the program will focus on activities that enhance the food industry's export competitiveness, therefore implicitly assisting firms which are committed to improving international competitiveness. But on the other hand it does not preclude domestic projects (that 'offer significant spin-offs for the export sector'). The guidelines don't mention financial and general management directly, although they mention that the skill and experience of the project management team will be taken into consideration in assessing applicants.

2. Financial assistance directed to SMEs

CFEP is not specific in its targeting of particular sized firms. To date the participants in the program have tended to be larger companies. We recommend in this report that much greater emphasis *needs* to be given to attracting smaller firms to participate in the program, since it is these firms which are likely to benefit most from the program.

FINA is aimed at SMEs, so it satisfies this principle. A number of FILLIP recipients are also smaller enterprises. However this may be a bit deceptive. The Burgess Report states that subsidiaries of large enterprises which have access to the resources of the parent company, should be ineligible for subsidies. Under the FILLIP program there are a number of subsidiaries of larger companies which received or are receiving subsidies. However it is not clear if these subsidiaries have access to the resources of the parent company. It is also the case that to get FILLIP funding firms have to sign the MOU, and the MOU was initially marketed to larger companies.

The Food Quality Program is not specifically directed at SMEs, although many recipients of funding are small firms.

3. All firms in tradeable goods and services sector eligible

None of the programs in the Agri-Food Strategy satisfy principle 3, as they are targeted particularly at the *food* sector.⁷⁴ However, the Burgess Report notes that small sectoral programs may be appropriate in some cases.

4. Funding buys an outcome additional to that which would otherwise have occurred

The aim of CFEP is to promote exports of Australian foods by associating them with production in a clean environment. Consequently if exports are increased as a result of the program, then the funding has resulted in an additional outcome than would otherwise have occurred.

FILLIP provides a subsidy for language and literacy training. It is not clear whether the government is just subsidising outcomes which would otherwise have occurred. A number of firms interviewed as part of this evaluation mentioned that they would have still provided the training as they thought it was important. On the other hand another firm suggested the conditions of the FILLIP program were too stringent, and they had pulled out of the program. But the firm went on to say that they may pursue the training themselves (that is, fully funding their own program) — in this case the existence of the program may have induced the outcome without actually subsidising the training.

⁷⁴ The Food Quality Program has slightly broader coverage than just the food industry. Project groups can include producers, growers, processors, wholesalers, packaging, storage, transport and distribution companies and retailers.

FINA was targeted at enterprises wanting to establish export markets in Asia but were hampered by their small size and limited resources. Therefore if the firms were able to establish additional export markets through the program (which they were unable to establish themselves), then the funding would have bought an additional outcome. That is, increased exports to the new markets.

The Food Quality Program aims to accelerate the uptake of formal quality assurance and a quality management culture within the industry. It is claimed that due to the complex and highly integrated nature of the industry, the issue of quality cannot be adequately addressed by the actions of individual enterprises alone.

At the same time the Food Quality Program guidelines state that ‘... the Committee must be satisfied that your project would not be able to proceed satisfactorily without grant support’. If the committee can determine if this is the case, then the program would buy an outcome additional to that which would otherwise have occurred.

5. Funding takes an holistic approach to assisting the upgrade of a firm’s competitiveness

This principle suggests that to qualify for assistance an enterprise should conduct a diagnostic assessment of its strengths and weaknesses and bring forward an enterprise improvement plan. This plan would detail the changes that the enterprise needs to undertake in order to reach its planned goal. None of the Agri-Food Strategy programs require this.

6. Subsidies should not be ongoing but should be used to assist firms to overcome a significant barrier to the upgrading of competitiveness

The subsidies in all the programs are intended to be used to overcome a barrier to the upgrading of competitiveness. None of the programs in the strategy has funding which is ongoing, in the sense that each were allocated fixed funding over a fixed term. Firms that have signed up for more than one CFEP market campaign are in a sense receiving an ‘ongoing subsidy’ — however, the financial assistance is provided for barriers to a new market.⁷⁵

7. The impact of the program is sustainable beyond the life of the government support, and promotes ongoing adjustment and innovation

It is potentially possible for CFEP to become self funding in the future, and therefore the impact of the program may be sustainable beyond the life of *government* support. It may

⁷⁵ This point underlines the problems in applying enterprise improvement principles to an export promotion program.

also be that after the program, firms still derive benefits from increased exports to the target markets.

Recipients of FILLIP training could be expected to feel the impact of the program after it has finished, given their increased language and literacy skills. It may also be that the program teaches firms the benefits from increased language and literacy skills of their employees and these firms may pursue self-funded training for their employees.

FINA was targeted at enterprises wanting to establish export markets in Asia. Once these markets were established, these firms are likely to have been provided with ongoing benefits from increased exports.

Firms who gain quality assurance or a 'quality management culture' through the Food Quality Program would presumably sustain these benefits beyond the program. As well, an important rationale for the program is the diffusion of knowledge about food quality. If this happens, ongoing benefits should accrue to other firms in the industry.

8. Government intervention reviewed periodically

All programs satisfy this principle. Each of the programs were allocated fixed funding, over a fixed term, at the beginning of the program. Any continuation of these programs would presumably be contingent on the success to date, and ongoing need for the program.

Appendix 8 Model of impact of Agri-Food Strategy

How big benefits can virtually disappear

We set up an artificial simulation to illustrate how the strategy *could* provide substantial net benefits and yet have no discernible impact on the industry. Suppose that gross product in the year before the strategy (year = minus one) is \$12 876 million (the value actually holding in 1992-93). Imagine that in the base scenario, there is no strategy and the industry's gross product grows by an exponential rate of 0.02 each year (or close to two per cent). With the strategy, 18 million is spent in one year (year 0) and introduces a one-off exponential increase in gross product (y) of $(.02+\Omega)$ for that year. From then on, industry gross product continues to grow at the steady state exponential rate of 0.02. We can then pose the question: what is the present value of the stream of gross product from the industry under these two scenarios? Let us suppose that the discount rate (r) for calculating present values is fixed at 10 per cent. Then we find that the difference in the present value streams is 36 million dollars or a 100 per cent return on government funds if $\Omega=0.0002$ per cent or around 1/50th of a percentage point!

More formally:

Under the base scenario:

$$\ln y_t = \ln y_{t-1} + 0.02$$

while under the strategy:

$$\ln y_t = \ln y_{t-1} + 0.02 + \Omega \text{ for } t=0 \text{ and}$$

$$\ln y_t = \ln y_{t-1} + 0.02 \text{ for } t > 0$$

The present value of the stream of gross products is:

$$PV_{No\ strategy} = \sum_{t=0}^{\infty} \frac{y_t}{(1+r)^{t+1}} = \frac{y_{-1} \exp}{1+r-\exp} \text{ and}$$

$$PV_{Strategy} = \sum_{t=0}^{\infty} \frac{y_t}{(1+r)^{t+1}} = \frac{y_{-1} \exp^{+\Omega}}{1+r-\exp} \text{ so that}$$

$$\Delta V = PV_{Strategy} - PV_{No\ strategy} = \left\{ \frac{y_{-1} \exp}{1+r-\exp} \right\} \{ \exp^{\Omega} - 1 \}$$

We find in the above case that $\Delta V=36$ when $\Omega=0.0002215$. Even if the return is enormous—say 10 times the initial investment of 18 million, then still the value of $\Omega=0.00111$ or just over a tenth of a percent.

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