

SUBMISSION BY MRS MAC'S PTY LTD TO THE SENATE SELECT COMMITTEE ON AUSTRALIA'S FOOD PROCESSING SECTOR

The following submission is made in response to the Terms of Reference for the above-named Enquiry.

(a) The Competitiveness and Future Viability of Australia's Food Processing Sector in Global Markets

The global competitiveness of the Australian Food Processing Sector is diminishing. Globalisation has enabled many countries to land similar processed foods into Australia at cheaper prices. While there are probably other factors involved, it is due in part to these countries having one or more of the following conditions that lower their costs of processing compared to Australian conditions:

- Cheaper labour, energy and associated on costs e.g worker safety, workers compensation and superannuation payments.
- High populations in these countries assisting in generating better manufacturing economies of scale than the Australian population number can attain at a purely local level.
- Lower standards of processing (building codes, food standards, not being signatories to international obligations)
- Lower cost of many raw materials/ingredients

The competitiveness of Australian processed foods at a global level is currently being further eroded by the strong Australian Dollar and a lack of any willingness by governments and retailers to consider applying a level manufacturing playing field by requiring foreign manufacturers that export food products in to Australia to meet the same processing standards and hence consequential costs that are imposed by government regulation here in Australia across all tiers of government.

Unless this situation changes, then with the exception of niche products, or some radical innovation to processing techniques developed in Australia, there is not a bright future for Australian food processing and manufacturing companies.

The balance of our submission details many areas and actions that would improve the global competitiveness of Australian food processors/manufacturers.

(b) The regulatory environment for Australia's food processing and manufacturing companies including but not limited to:

(i) taxation

- Australia's Business Activity Statement process is complex and more costly to manage than other competitor countries e.g. New Zealand

- The GST distorts the competitive balance within the food industry through the exemption of some foods. This would be better if the exemptions were removed and compensation paid to low earners through the tax system, thereby returning choice to the consumer.
- Accelerated depreciation or investment allowances would provide the industry with opportunity to increase productivity and improve its competitive position in relation to countries with cheaper costs. (targeted to cost reducing investment, not just plant replacement).
- Exempt imported ingredients/equipment from duty where there is no Australian alternative.
- Don't introduce a tax on carbon or other pollutants that may be considered in the future.
- Land tax has risen considerably over the last few years. A fairer system needs to be developed to ensure the tax does not rise ahead of the increase to the value of the property.

(ii) Research and Development

- Continue government grants for innovation/productivity improvements and environmental initiatives e.g energy reduction.
- Provide grants/incentives for research into crop strains to increase yield/resistance. This could result in cheaper ingredients.
- Ensure decisions relating to genetic modification technology are based on science and not political pressure groups viewpoints.

(iii) Food Labelling

- In regards to the current deliberations being given to the Blewett Report on Food Labelling – “Labelling Logic”, ensure that implementation of any of the recommendations is done as a one-off package as opposed to a piecemeal approach. Each time a change is required to labelling costs the average small business about \$60,000, and the food industry in total about half a billion dollars. A one-off package represents the most cost effective way of implementation.
- Labelling requirements should only arise where the information is needed for health/safety reasons not as a means to promote public health initiatives. Public health initiatives change frequently and if required on food labels would result in more frequent changes to labelling and hence greater cost to industry.
- Ensure there is consistency of labelling across all states of Australia and New Zealand.
- Ensure imported food is labelled in accordance with any international Standard that Australian manufacturers are required to comply with. To that extent there should be strict enforcement of this. Current AQIS resources are inadequate to allow closer and more comprehensive scrutiny of imported food products.

(iv) Cross-Jurisdictional Regulations

- Implement consistency across States of Appendix B of the Model Food Act
- Introduce agreed audit and food safety program standards throughout Australia
- Don't introduce a new Food Labelling Bureau as recommended by Recommendation 61 of the Blewett Review. It would only duplicate existing structures and inevitably result in more cost associated with enforcement etc.

(v) Bio-Security

- Food Standards and Regulations are set by all tiers of government in Australia, in part, for food safety reasons. To that extent, processors and manufacturers have no argument with that. However, it does impose costs to comply with them. Given this, it is unfair if food enters Australia from countries that do not have these same standards and hence costs imposed on them. If food cannot be manufactured in Australia without meeting Australian regulatory standards, it should not be imported without ensuring like standards have been met by the exporting country.
- Ensure due consideration is given to land-use zoning for food growing/manufacturing to guard against urban encroachment.
- Provide on-going research into agriculture innovation focusing on technology to increase yields.

(vi) Export Arrangements

- There has recently been a large increase for AQIS meat licence charges for export. Ours has recently increased from \$2000 per annum to \$14,000 per annum. The change has reduced our already slim export profitability and as the result we are questioning the viability of on-going export to these countries. The charges should not have been increased to this extent. We seek a reversal of this recent decision.
- Australia should be allowed to export chicken meat and chicken based products to New Zealand.
- There should be more practical free trade agreements. If other countries are imposing restrictions these should be addressed and attempted to be eliminated.

(c) The impact of Australia's competition regime and the food retail sector, on the food processing sector, including the effectiveness of the Competition and Consumer Act 2010

There is no doubt that cost conscious supermarkets will seek to deliver the best possible price for their customers. That is business. What is needed is assurance to

Australian processors/manufacturers that cheap overseas products are sourced ONLY from companies that meet ALL regulatory requirements that Australian companies have to comply with. This includes not just Australian food standards regulations, but Australian standards for features such as employee health and safety, workers compensation, building codes etc.

(d) Effectiveness of Anti-dumping rules

- While we have not been impacted by these practices (to our knowledge) Australia's anti-dumping system has recently been reviewed with the intention of improving investigation times and access by Small to Medium sized businesses. (Refer "Streamlining Australia's anti-dumping system: An effective anti-dumping and countervailing system for Australia – June 2011"). This can only be a good thing.

(e) Cost of Production inputs including raw materials, labour, energy and water

- Australia's industrial relations legislative framework imposes significant costs on businesses due to its complexity. Most small to medium size businesses cannot afford an employee relations specialist and so rely on either employer association membership or private consultants/lawyers for advice or assistance. The Fair Work Act is complicated and proceedings before the Fair Work Australia Commission have become too legalistic and costly. Even if a claim is successfully defended by a business, for example unfair dismissal, costs are rarely awarded against the claimant. Hence it is often cheaper to offer "go away" money than fight a case.
There should be a return to a much simpler system of a tribunal environment where it really is a "layman's jurisdiction" and the standard of proof required really is "equity, good conscience and substantial merit".
- Labour shortages (both skilled and unskilled) are an issue for the food industry, particularly in WA where the mining boom creates a shortage of labour in the lower paid industries forcing wages up to attract and retain staff. In 2008 we were forced to offer some employees pay rises of about 20 percent to stem the loss of staff going to better paid jobs. It is expected we will be facing another serious labour shortage in 2012 as many mining and energy projects come on stream. To address this, state governments could be given greater control in determining the mix of migrants entering the country. The holiday working visa period should also be increased.
- It is generally recognized we have a "two-tier" economy; the high paying mining/oil and gas sectors on the one hand and the other sectors such as retail, hospitality and food manufacturing. If that is the case, consideration could be given to a "two-tier" income tax system where the lower paid sectors enjoy lower tax rates relative to those high paid sectors. This would assist with attraction and retention of staff and keep wages costs down as well.
- The cost of energy and water is rising rapidly. The Chamber of Commerce and Industry in its report "The Cost of Doing Business" has suggested the following measures to try to reduce the cost of electricity. These are:
 - The introduction of cost-reflective tariffs for different classes of customer

- Tariffs to be set by the Economic Regulation Authority
 - Introduction of full retail contestability
- At Mrs Mac's our utilities charges as at 2010/11 represent 2.79 percent of our manufacturing costs. This is up from 2.18 percent two years prior to that. In straight dollar terms we are paying close to \$150,000 per year extra for utilities just on manufacturing alone. This does not include increases to utilities for other areas of the business.

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