INTRODUCTION

Food South Australia inc. represents 150 members who manufacture food products and grow and produce high value commodities.

Our submission into the senate enquiry into Australia’s food processing sector represents the interest of all our members. Food SA would welcome the opportunity to meet with the Senate Select Committee on Australia’s Food Processing Sector.

SUMMARY

Australia and Australian manufacturers are small. Under the current market conditions, it is easier to become importers than manufacturers. For Australian food manufacturers to survive, they need a level playing field.

Food manufacturers have experienced a significant decrease in profitability per volume over the past 3-5 years. Whilst in some instances, volume might have increased, the profitability has decreased due to price stagnation or deflation, increasing trading terms and promotional activity and the increase in private label products. Customers want choice and they want to eat safe, quality, fresh food.

FOOD PROCESSING ISSUES

Current environment

The two major supermarket chains account for approximately 80% of food sales in Australia. Coupled with a high Australian dollar and cheap and relatively unregulated imports; Australian food manufacturers increasingly have limited options for sales.

Export is challenged due to the high Australian dollar which has reduced competitiveness and sales outside of Australia have declined.

Retail

The Australian food industry has traditionally been a vibrant, innovative industry, with SA’s industry largely made up of small to medium businesses - some larger iconic brands and mostly small passionate producers.

Whatever size the company, the South Australian food industry is characterised by strong brands. These brands have been built up through years of investment in quality.
manufacturing systems, people, packaging and marketing to build a lasting reputation. Branding is the only thing allowing manufacturers to leverage their intellectual property and charge a sustained premium price to stay profitable in the long term. This fits with the current environment where consumers are more knowledgable and desire quality choice. This is evident in the significant growth of farmers markets and farmgates as well as promotional campaigns by the supermarkets. South Australia has a higher concentration of independent retailers than other states, which provide consumers choice through quality branded products. Their success is a direct consequence of consumer demand.

The growth of supermarket private labels is at the expense of existing brands and whole food industry. Private labels strip the goodwill from a manufacturer’s value and takes away opportunities for employment of staff and contractors.

Additionally consumers have less choice with reduced access to brands and products they traditionally purchased through the major chains. The relentless growth of private label has meant retailers have become competitors as well as customers. The concentration of retail distribution has created market failure.

The highly concentrated retail market and significant market power is removing branded products from the shelves. This reduces access to product choice for consumers significantly. In addition where there was previously a national listing it immediately diminishes the production volume for the manufacturer, reducing scale in production.

- Margins have also been reduced significantly over recent years where price rises have not been accepted and yet input costs have gone up. Manufacturers are squeezed in between input costs increasing and retailers’ refusal to accept price increases to cover these costs. Some manufacturers have resorted to buying imported, cheaper ingredients to reduce costs, thereby affecting other Australian companies, for example dried fruit.

- Price rises in general are not accepted and in real terms the selling price to supermarkets has come down. Additionally retail prices have increased, so the manufacturer is left in a situation where they bear all increases without being able to pass them on.

- It is a regular occurrence when invoices get paid; there are rebates and discounts applied, sometimes for unexplained reasons. The ability to challenge this process is minimal, time consuming and inefficient.

- Manufacturers are required to do promotions for a fixed period which is extremely expensive. If the manufacturer cannot afford to support them, the products are likely to be delisted which means in general terms only the larger companies are able to afford to supply them.

- Products get deleted at short notice and then it is at the cost of the manufacturer to clear the products in the stores and may also be left with stock in their warehouse to clear.
Ultimately, whilst consumers may get lower prices in the short term, they have less choice. In the longer term many food manufacturers will not survive. This will push the price of food up in Australia, as well as flood the market with lower quality imported products without the recognized food safety standards adhered to by Australian manufacturers. A reduction in food quality may have additional onset impact on to the health of Australians.

Food is not like other manufactured products as clearly food is required to sustain life. From the perspective of strategic security, Australia should not give up its ability to sustain its population with life or at least should not leave this ability open to market forces where we could possibly be later held to ransom once we have all given up production capacity and capability.

**Innovation**

New product development requires a capital investment in new equipment and is high risk. Significant costs are incurred before any listing of products is guaranteed. Anecdotally, 9 out of 10 new products fail, so any initial investment is a significant cost with the manufacturer taking significant risks.

Australian factories are getting older and equipment less efficient. Companies have to make hard decisions about what to keep open, close or upgrade. Companies with overseas operations can manufacture offshore at a reduced cost and more companies are looking offshore. This results in significantly less capacity in Australia as well as the challenges of developing and trialling products which are a significant distance away.

Manufacturers are increasingly required to formulate products for retailers’ private label home brands. This eliminates protection of intellectual property and the home brand products are then released without any innovation attributed to the company that has developed the product and taken the risk.

**Legislation**

Legislation and compliance costs have increased and add a significant burden to food manufacturers. Individual customers require their own audits to be done where in approximately 90% of cases the requirements are similar. An accepted standard agreed by customers would be efficient for all in terms of time and money.

**Imports**

Imported products do not face the same scrutiny that local products do. Australian manufacturers need to comply with the highest standards including food labelling, food safety, occupational health and safety, ethical work practices, food safety standards, water and waste regulations and others, where overseas companies do not have the same restrictions. There is less guarantee that imported food is safe.

With the introduction of the carbon tax, imported products should be assessed as to the level of contribution to carbon emissions they make. They should be taxed at the point of entry into Australia to create **a level playing field** for local producers having to comply with the...
new legislation as well as the other legislation which other countries aren’t subjected to and encourage customers to source local.

BACKGROUND

About Food SA

Food SA is feeding connections to help industry grow, unite, lead and sustain South Australia’s food industry into the future. As the State’s peak industry body, Food SA aims to grow value and opportunities for members and industry through key services and programs.

Our focus is connecting businesses in the food industry with each other and the services and expert advice they need to develop their company, grow their bottom line and connect with new markets.

Food SA is industry led and membership based and acts as a first point of contact for all of industry to access complementary services for non-members.

Role

Food SA’s role is to support and develop the sustainability and profitability of the dynamic food industry in SA. Through the provision of programs and services, Food SA will:

- Assist food companies to increase market options and grow profitability.
- Support the growth of professional capacity and processes for food companies.
- Foster increased sales of SA produced food and beverages.
- Foster connections between SA food companies and buyers domestically and internationally.
- Assist food companies grow their profile and develop connections.
- Act as the voice for industry.

The South Australian food industry makes a significant contribution to the economy both in terms of volume and employment. Almost one in five people are employed in the South Australian food industry. The agrifood industry contributes $12.4 billion and finished food grew to $4.6 billion in 2009/10.

The South Australian food industry is characterized by high value products that maximize the financial return to the state.