

Chapter 2

The taxation and regulatory environment

Introduction

2.1 Food processing sector participants are subject to a broad range of regulations including food labelling, planning and zoning, state, territory and local government fees and charges, and taxation. Stakeholders raised concerns with the committee that the current inconsistency and duplication in regulation is imposing costs on their businesses and threatening their ability to remain competitive. This chapter discusses the issues raised and sets out the committee's views and recommendations.

The case for reform

2.2 The committee has heard first-hand of the challenge that the cost of government regulation presents to the ongoing competitiveness of food processing sector participants. Their stories illustrate why reform in this area is of such great importance:

About 10 per cent of our operating expenses occur as a direct result of regulation compliance requirements. It is a significant amount for things like, for example, payroll tax, local government rates, charges, by-laws, workers compensation, occupational health, super, all the requirements under the Food Standards Code, the QA audits. It is a huge cost to us. The one thing we really do want...is to find some way of having a real level playing field, guaranteeing that products coming in meet the same standard as Australian businesses are required to meet to manufacture their product. If that is done, then fair enough.¹

2.3 The Australian Food and Grocery Council (AFGC), which represents Australia's \$108 billion food, drink and manufacturing industry, identifies reform in this area as that of greatest importance:

AFGC considers regulatory reform the most prominent and important policy lever which the Government can pull to assist the food industry to meet the challenges it is now facing. Compliance with regulation is always costly, compliance with ineffective, inefficient or unnecessary regulation is wasteful in the extreme. It reduces business profitability directly, undermines investment attractiveness and diverts funds from innovative activities necessary for continued competitiveness and productivity growth...

1 Mr Murray Beros, Chief General Manager, Mrs Mac's Pty Ltd, *Committee Hansard*, 18 April 2012, p. 21.

AFGC... encourage[s] the Government to re-commit to the COAG business regulatory reform agenda.²

2.4 Like the AFGC, the Australian Meat Industry Council (AMIC) identified regulatory reform in the food industry as necessary given the 'deleterious' effect that regulation can have on business:

Regulatory reform in the food industry may warrant consideration in instances of free market distortion or failure, inequitable competition (for land, labour and resources) with other industries, or those instances where legislation is at odds within or between jurisdictions. Importantly, the measure of success in regulatory intervention must be a net improvement from the status quo; poor regulation causes perverse outcomes for industry and may exacerbate an existing problem. Government needs to identify and address those areas of regulation that have deleterious impacts on food production and/or productivity, are duplicative or ineffectual. Such a review would also allow for the identification of common areas of regulatory impost, or issues requiring Government intervention. Additionally, consideration and coordination of policy to ensure consistency and reduced regulatory burden including duplication of verification efforts between all parties, and agreed national standards between industry, Government, commercial clients and consumers remains a key priority. The ability to 'describe' our system to trading partners is of key importance for Australia on the world scene.³

2.5 AMIC went on to explain that they consider environmental standards relevant to land and water use, transport regulations, education and training, food safety inspection and land use competition and apportionment as areas that require regulatory harmonisation between and within state, territory and Commonwealth jurisdictions.⁴

The current regulatory environment

2.6 It is acknowledged by government that the regulatory structure currently governing the food industry is complex and has the potential to impose significant compliance and administrative costs on businesses.⁵ In March 2008 the Council of Australian Governments (COAG) endorsed a cross jurisdictional agenda to reform the costs of regulation to business and to enhance productivity in areas of shared responsibility.⁶ That agenda was to be overseen by the COAG Business Regulation

2 Australian Food and Grocery Council, *Submission 12*, p. 11.

3 Australian Meat Industry Council, *Submission 36*, p. 7.

4 Australian Meat Industry Council, *Submission 36*, p. 7.

5 Department of Agriculture, Fisheries and Forestry, *Issues paper to inform development of a national food plan*, 2011, p. 32.

6 Council of Australian Governments, *National Partnership Agreement to Deliver a Seamless National Economy*, 2008, p. 3.

and Competition Working Group (the BRCWG).⁷ The National Partnership Agreement to Deliver a Seamless National Economy (the SNE NP) signed late 2008 'recognises the implementation of the reforms progressed through the BRCWG'.⁸

2.7 The SNE NP set out a reform agenda of 27 priority regulation reforms, eight competition reforms as well as reform of regulatory processes.⁹ The 27 priority deregulation areas include matters that were consistently identified in evidence received by the committee as presenting challenges for the sector,¹⁰ as did the eight competition reform areas identified in the agreement.¹¹

2.8 Yet, while stakeholders acknowledge the impediments to business that government regulation presents and welcome reforms in this area, there is a concern among some that the approach being taken is characterised by duplication and inconsistency. Mr Duncan Makeig, Group Sustainability Director and General Counsel of Lion Pty Ltd, explained this concern to the committee:

If I could ask the committee to consider something, it would be to look at the number of participants in the food processing sector and how they would participate from a clear understanding of how all of these different government inquiries interact. There is Minister Ludwig's Food Policy Working Group, there is Minister Carr's Food Processing Industry Strategy Group and there is the National Food Plan process, as well as this inquiry into the food processing sector. They all seem to have overlapping mandates.¹²

2.9 Lion Pty Ltd suggested that these 'complementary activities':

...should be combined or at least streamlined to ensure that they deliver coherent and consistent policy and regulatory outcomes. We do welcome

7 Council of Australian Governments, *National Partnership Agreement to Deliver a Seamless National Economy*, 2008, p. 3.

8 Council of Australian Governments, *National Partnership Agreement to Deliver a Seamless National Economy*, 2008, p. 3.

9 Department of Agriculture, Fisheries and Forestry, *Issues paper to inform development of a national food plan*, 2011, p. 33.

10 The areas for reform identified in the SNE NP that were raised with the committee as those that present challenges to the food processing sector included: 1 – deregulation reforms: occupational health and safety, environmental assessment and approvals processes, payroll tax harmonisation, food regulation, wine labelling; and 2 – competition reforms: review of Australia's anti-dumping and countervailing system, infrastructure reforms, and national transport reforms.

11 http://www.coag.gov.au/coag_meeting_outcomes/2012-04-13/docs/NP_Deliver_Seamless_National_Economy_Implementation_Plan_Competition_Priorities.pdf, (accessed 1 June 2012).

12 Mr Duncan Makeig, Group Sustainability Director and General Counsel, Lion Pty Ltd, *Committee Hansard*, 10 February 2012, p. 50.

them; it is just that there is a limit to our ability to participate effectively in so many different committees.¹³

2.10 The AFGC also mentioned the COAG reforms and raised concern with the progress that has been achieved to date:

AFGC considers regulatory reform to ameliorate regulatory compliance cost should be a key government policy area to improve productivity within the food processing sector... Food regulation was identified as one of many areas requiring reform, and the Government has yet to deliver a substantive initiative in this area. One area which stills dogs the food manufacturing sector, along with other sectors is the lack of cross-jurisdictional alignment of regulations. AFGC proposes that the current mutual recognition policy derived from agreement between the Commonwealth, States and Territories regarding interstate trade of products be extended to services and business practices.¹⁴

2.11 Such concerns were raised with the committee despite the release of the *BRCWG Report Card on Progress of Deregulation Priorities* earlier this year, which stated that many of the reforms are 'now operational'.¹⁵

Committee comment

2.12 The committee supports cross jurisdictional reform through the COAG reform agenda, particularly the initiatives outlined under the plan for a National Seamless Economy. The committee notes however that more progress needs to be made through this process.

Growth in regulation and red tape

Overview

2.13 In recent years the level of regulation and compliance which participants in the food processing sector are subject to has increased as regulation has continued to be imposed by the three levels of government—Commonwealth, State/Territory and local councils.¹⁶ Increasing regulation increases the cost of products and acts as a disincentive to investment thereby impacting the competitiveness and ongoing viability of the sector.¹⁷

13 Mr Duncan Makeig, Lion Pty Ltd, *Committee Hansard*, 10 February 2012, p. 50.

14 Australian Food and Grocery Council, *Submission 12*, p. 4.

15 http://www.coag.gov.au/coag_meeting_outcomes/2011-08-19/docs/Business_Regulation_and_Competition_Working_Group_Report_Card_on_Progress_of_Deregulation_Priorities.pdf (accessed 25 June 2012).

16 Growcom, *Submission 1*, pp. 5–6.

17 Mr John Berry, Director and Manager, Corporate and Regulatory, JBS Australia Pty Ltd, *Committee Hansard*, 12 April 2012, p. 38.

2.14 In its submission to the committee, the Australian Dairy Industry Council (ADIC) identified the 'expanding' range of regulations and regulatory issues that 'hamper the commercial performance of Australian dairy businesses in both the local and export markets':

- regulation by national systems with blanket rules;
- the trend to regulated programs requiring actions to 'save' energy, water, or waste, instead of using marketplace mechanisms;
- increasing costs of reporting to authorities for a range of national and state programs;
- lack of harmonisation across commodities (for example meat and dairy regulation) and lack of recognition that many businesses produce multiple commodities;
- regulatory creep pressuring businesses into over-compliance;
- overlap of regulations leading to a compliance burden due to duplicative requirements; [and]
- poor or inconsistent enforcement of existing regulations resulting in patchy compliance and a playing field that is not level.¹⁸

2.15 The AIDC explained that regulation regimes should be characterised by:

- minimum effective standards and regulations, based on science and risk assessment at critical points, and strategies to manage risk to protect public health and safety;
- consideration of the food chain in its entirety, and recognition of shared responsibility among all parts of the chain;
- integration of regulatory requirements with business systems such as codes of practice and quality assurance; [and]
- harmonisation at national and international levels, whenever possible.¹⁹

2.16 It is the view of the ADIC that undue regulatory imposts reduce the competitiveness of industry and when 'poorly designed' result in 'higher costs, loss of market opportunities and/or deterrence of innovation and investment'.²⁰

2.17 McCain Foods Australia New Zealand, an international leader in the frozen food industry, similarly advised the committee that regulatory reform is necessary:

...continuous regulatory reform is vital to create business conditions that allow companies to compete.²¹

18 Australian Dairy Industry Council, *Submission 47*, p. 22.

19 Australian Dairy Industry Council, *Submission 47*, p. 22.

20 Australian Dairy Industry Council, *Submission 47*, p. 9.

The need for cross jurisdictional reform

2.18 The committee identified that the regulatory environment for food production and processing in Australia is characterised by inconsistent cross-jurisdictional regulations in areas such as work health and safety standards, food safety standards, environmental standards, and road transport regulations, as well as state and federal taxes.

2.19 This inquiry has identified the issue of inconsistent cross-jurisdictional regulation as an area of significant concern. Participants in the inquiry process repeatedly identified inconsistent cross-jurisdictional regulations as a 'constant source of regulatory drag on the Australian economy imposing unnecessary costs on individuals, industry and governments':²²

Lion believes the Government should try to reduce the current regulatory burden created by overlapping cross-jurisdictional regulations by pursuing harmonisation state by state and where possible between Australian and international regulation.²³

2.20 The Lakes Entrance Fishermens' Co-operative Society Ltd (LEFCOL) explained how inconsistent cross-jurisdictional regulations result in absurd outcomes:

Of all the issues that come up in Fisheries the Offshore Constitutional Settlement (OCS) would be the one that has caused the most angst & confusion over the years. The OCS arrangements or lack of are complex, confusing and in some cases anti-competitive. Unfortunately fish do not understand the OCS and can't see lines on a map

For example, Two Commonwealth licensed fishers [are] operating outside 3 nautical miles adjacent to the VIC/NSW border with Eden and Lakes Entrance as their respective home ports. They both catch 500kg of Octopus working alongside each other as incidental by-catch from normal fishing operations, the operator returning to Eden is free to retain the 500kg yet the operator returning to Lakes Entrance is only permitted to retain 50kg and forced to discard perfectly good Octopus for no reason other the OCS rules. These crazy arrangements differ from specie to specie & state to state.

All these rules do is force perfectly good seafood to be dumped dead which could be feeding our nation. ...Given that ideal worlds are unlikely a priority must be for OCS's to be renegotiated with all states and a system developed whereby all catch is managed in a sustainable manner, all jurisdictions who take the catch contribute to the management costs of the relevant fishery and forced dumping of seafood is eliminated.²⁴

21 McCain Foods Australia New Zealand, *Submission 57*, p. 9.

22 Australian Food and Grocery Council, *Submission 12*, p. 15.

23 Lion Pty Ltd, *Submission 33*, p. 6.

24 LEFCOL, *Submission 3*, p. 4.

2.21 The Tasmanian government, in its evidence to the committee, acknowledged the problem of cross-jurisdictional regulations and explained the steps it was taking to improve consistency and cooperation in this area:

As an initiative under the Economic Development Plan the Tasmanian Government will undertake a systematic sector-by-sector review of the administrative burden of applying and complying with business regulations. Where appropriate, the government will engage with other jurisdictions in addressing areas of concern.²⁵

Work health and safety²⁶

2.22 Regulations concerning occupational health and safety (OH&S) differ throughout Australia. As a result, some participants in the food processing sector have to manage different legislative provisions depending on the location of their operations:

We face similar challenges dealing with eight different Occupational Health and Safety jurisdictions across Australia...and eight Health and Safety (H&S) Acts and Regulations.

[Similarly] we are impacted in the area of Workers' Compensation. This creates an impost on the business in having to ensure we are meeting our responsibilities under these varying regulations.²⁷

2.23 Luv-a-Duck cited OH&S requirements as another significant impost on business:

OH&S in this country—and rightly we should be doing the best we possibly can for our staff and our workers—is becoming increasingly difficult, to comply with and meet all of the requirements. It is becoming extremely costly. Most of the companies I know now have one, two or three people dedicated entirely to OH&S. That is a good thing, but perhaps the government could consider giving us a tax break on it, say 120 per cent instead of 100 per cent. That would help to alleviate some of the pain of that. It is difficult to compete in countries and also compete within Australia with countries and companies that do not comply with the occupational health and safety regulations that we do as a reasonable player.²⁸

2.24 Although the government is taking steps to address these inconsistencies, concerns remain that the legislation introduced (the Model Work Health and Safety

25 Tasmanian Department of Economic Development, Tourism and the Arts, *Submission 6*, p. 12.

26 On 1 January 2012, 'occupational health and safety' was renamed 'work health and safety'.

27 Lion, *Submission 33*, pp. 4–8.

28 Mr John Millington, Company Spokesman, Luv-a-Duck, *Committee Hansard*, 17 April 2012, p. 36.

Act) does not extend to workers' compensation.²⁹ Further, the committee heard that at least one state is reluctant to comply with its provisions.³⁰

Committee view

2.25 The committee acknowledges that regulation associated not only with occupational health and safety but also workplace relations and employment impose significant costs on business. The committee takes the view that these are important matters that should be regulated by government, but would be concerned if the requirements result in a burden that impacts the viability of employers. In recognition of the importance of these matters, the committee considered issues related to employment in depth in Chapter 2.

Transport

2.26 The committee heard that differences in transportation infrastructure and fees and charges throughout the different jurisdictions in Australia were potential impediments to competitiveness. The potential for inconsistent transport regulation to hamper business was most clearly identified by Webster Ltd, a Tasmanian based exporter, in its submission to the committee. Although Webster Ltd identified that there are many advantages to producing agricultural products in Tasmania (Bass Strait provides a natural barrier for many pests and diseases), the 'isolation' that Bass Strait provides puts:

Tasmania at a commercial disadvantage when it comes to shipping produce to domestic and export markets.³¹

2.27 In recognition of the significant costs involved in shipping produce from Tasmania to the mainland, the government introduced the Tasmanian Freight Equalisation Scheme (TFES) in 1976 with the objective of providing Tasmanian industries with 'equal opportunities to compete in mainland markets'.³² The TFES, however, does not extend to shipping costs for export bound goods. Although previously Tasmanian producers could access export markets directly, that service is no longer available and goods bound for export must first be shipped to the mainland.

2.28 Webster Ltd informed the committee that the Bass Strait portion of the entire cost of shipping a container from Melbourne to Antwerp is 32 per cent.³³

2.29 Webster Ltd went on to explain to the committee that in addition to the high costs of freight between Bass Strait and the mainland that are not covered by the

29 Lion, *Submission 33*, pp. 4–8.

30 Lion, *Submission 33*, pp. 4–8.

31 Webster Ltd, *Submission 58*, p. 3.

32 Webster Ltd, *Submission 58*, p. 3.

33 Webster Ltd, *Submission 58*, p. 3

TFES, the reforms proposed by the Coastal Trading Bill 2012,³⁴ as well as the introduction of a Port Licence Fee by the Port of Melbourne to enable it to pay an annual port licence fee to the Victorian Parliament, are placing further pressure on their ability to compete.³⁵

2.30 Mr Gavin Cator, Chief Executive Officer of Greater Shepparton City Council, also expressed concerns that the current transport situation is affecting the competitiveness of the food processing sector. Mr Cator explained his concern with road transport and the adequacy of infrastructure to support increasing road transport movements as well as regulations to enable heavier loads:

...to make our industries more competitive we need to move to larger transports. From a previous life in the City of Wodonga and dealing in that area with the transport industry—and I am sure it is the same here in the city of Greater Shepparton—I think that to go from B-doubles to super B-doubles or some combination of those could provide up to a 30 per cent efficiency for those industries. Again, that is a huge benefit to the industries. Currently we are dealing with issues on freeways, but in the Wodonga instance a \$40 million fix to the Hume Freeway would allow super B-doubles from Melbourne into the Wodonga area. So, again, not for a great expenditure, we could have significant improvements to the efficiencies of our trucking industry.³⁶

2.31 The AFGC commented on the regulatory inconsistencies affecting transport of food and grocery items and how the national seamless economy was yet to deliver reform in the transport sector:

Approximately 50 per cent of truck movements in Australia carry food and grocery items as their load, yet we have different regulatory arrangements for truckloads in different states and territories, meaning that there is a fundamental inefficiency in the supply chain for the movement of trucks around the states and territories.³⁷

2.32 AMIC also cited the constraints of Australia's transport and infrastructure systems as impacting on the competitiveness of the meat export business:

An example is the maximum road weight limits in New South Wales. These limits significantly impact on high mass density products like red meat. Forty-foot refrigerated containers now make up the bulk of international

34 Webster Ltd explained that it had seen modelling by Deloitte of the reforms set out in the Coastal Trading Bill 2012 which suggests that as a result of the reforms the cost of freight may increase by as much as 10 to 16 per cent. *Submission 58*, p. 4.

35 Webster Ltd, *Submission 58*, p. 4.

36 Mr Gavin Cator, Chief Executive Officer, Greater Shepparton City Council, *Committee Hansard*, 8 March 2012, pp. 3–4.

37 Dr Geoffrey Annison, Deputy Chief Executive, Australian Food and Grocery Council, *Committee Hansard*, 13 December 2011, p. 23.

container transport systems. Loading a 40-foot container with frozen meat cartons in New South Wales exceeds the road weight limit. This results in inefficient trucks and container utilisations, adding costs and significantly impacting on competitiveness. We are global suppliers and we should have a uniform, globally competitive national transport system.³⁸

2.33 AMIC explained that the problems are not limited to road transport but that there are also problems with rail which are costing business, which if not addressed will threaten the ongoing viability of some communities:

We send trains to the port and we cannot go into deep ports at present because they are fixing the train line. But to take a container 1 kilometre costs us \$300. I saw a bill yesterday for one container with waiting time of \$360 on top. That is not good enough. They can heap the costs back onto us. I know this is a New South Wales situation and I have a problem with the states. There are six departments running trains—too difficult. That could be streamlined. It is not a matter of spending a lot of money; it could be organised with better management.³⁹

Environmental regulation

2.34 The committee's has received evidence that the current regulatory regimes that apply to the food processing sector are damaging the industry. Submitters consistently identified growth in environmental regulation in the areas of water usage and energy and waste usage as areas of concern, particularly as they have seen instances where unnecessary duplication is occurring across the different levels of government.⁴⁰

2.35 Lion Pty Ltd provided an example of where such duplication has arisen:

For example, currently in Victoria all large businesses or businesses that reach a certain energy and water usage threshold are required to submit Environment and Resource Efficiency Plans to the Victorian EPA. This is in addition to the Federal Government's Energy Efficiency Opportunities program and National Greenhouse and Energy Reporting System. These programs then overlap with the National Pollutant Inventory requirements at both a state and federal level.⁴¹

2.36 Lion suggests that the continued development of duplicate regulation, which is occurring at a time when many businesses are 'firmly focussed on delivering environmentally sustainable solutions'; will hamper the ability of businesses to create efficiencies in the supply chain. They suggest that a 'review and rationalisation' of the

38 Mr Gary Burrridge, Chairman, Australian Meat Industry Council, *Committee Hansard*, 10 February 2012, p. 23.

39 Mr Roger Fletcher, Chair, Sheepmeat, Australian Meat Industry Council, *Committee Hansard*, 10 February 2012, pp 24–25.

40 Coca-Cola Amatil, *submission 44*, pp 7–8.

41 Lion Pty Ltd, *Submission 33*, p. 6.

many pieces of environmental legislation 'would allow the business to firmly focus attention on delivering supply for the long-term'.⁴²

Committee view

2.37 The committee notes that increased environmental regulation is occurring at the same time as many industry participants, who by nature are energy intensive, are experiencing rising input costs. The committee, like industry, is concerned by these developments, particularly as food processors are likely to suffer further imposts, either directly or indirectly, from 1 July 2012 when the carbon tax takes effect.

2.38 The committee notes that the issue of cross-jurisdictional regulation is on the COAG agenda. However, given that in practice little seems to have changed, the committee takes the view that all state and territory governments need to take action and make all efforts to ensure momentum is maintained to bring the COAG agreements to fruition in a timely manner. The committee highlights the importance of providing the most cost efficient and seamless operating environment for businesses, particularly in relation to transport.

2.39 The committee is aware of the work undertaken by Infrastructure Australia in response to the withdrawal of direct export services out of Tasmania, the Deegan Report, and notes that the government has committed to the continuation of the TFES. The committee urges the government to give the highest priority to the remaining recommendations of the report, ensuring that Tasmania has access to the most cost competitive freight system, which is a vital component of a healthy economy.

2.40 The committee is concerned at the cost of transporting goods from Tasmania to the mainland, particularly those bound for export where there is no local export service provided.

Recommendation 1

2.41 The committee recommends that all state and territory governments develop a definitive timeframe for the Council of Australian Governments reform agenda for a National Seamless Economy and actively engage to ensure that momentum for implementation of the reforms is maintained. In particular, the committee urges participants to ensure movement on the integrated transport reforms, including reforms to the heavy vehicle registration process.

Recommendation 2

2.42 The committee recommends that the government expedite those recommendations of the Deegan Report which have not been rejected to position Tasmania to have access to a globally competitive freight system.

42 Lion Pty Ltd, *Submission 33*, p. 6.

Taxes—state and federal

2.43 In Australia, taxation is imposed by the federal government; however, businesses incur 'taxes' from state and local government through levies and charges such as stamp duty and payroll taxes. The committee heard that the cost of administering these regimes to business in the food processing industry is 'enormous' given that these businesses are relatively labour intensive.⁴³ In fact, it was put to the committee that:

Most businesses would have at least one dedicated member/employee to deal exclusively with the paper work associated with taxation and employment.⁴⁴

Payroll taxes

2.44 Throughout the inquiry, the committee heard time and again that state payroll tax is a 'significant cost...and a significant barrier to maintaining a competitive and viable local food and beverage manufacturing industry' and that more needs to be done to 'reduce the burden on local manufacturers'.⁴⁵

2.45 The Food Industry Advisory Group (FIAG) is of the view that:

Inefficient taxes like payroll and stamp duty act as a deterrent for business investment, particularly when it is a disincentive for employment or business acquisition – both are counter intuitive to the competitiveness and future viability of the processing sector.⁴⁶

2.46 AMIC shared the view of the FIAG that the burden of 'inefficient taxes' acts as a 'disincentive for employment' and as it is not incurred in offshore facilities places foreign competitors at an advantage:

Inefficient taxes like payroll tax act as a detriment for business involvement, particularly when it acts as a disincentive for employment. Payroll tax is just another burdensome tax on business. It increases the cost of labour units in the business. That business is a labour-intensive business. It is a cost that is not borne by our competitors overseas. Australian live animal exports to markets like Indonesia and the Middle East are processed in facilities that do not incur such taxes, further destabilising the level playing field for our sector.⁴⁷

43 Food Industry Advisory Group of Western Australia, *Submission 15*, pp 4–5.

44 Summerfruit Australia Limited, *Submission 13*, p. 5.

45 Coca-Cola Amatil, *Submission 44*, p. 5.

46 Food Industry Advisory Group, *Submission 15*, p. 5.

47 Mr Gary Burrridge, Australian Meat Industry Council, *Committee Hansard*, 10 February 2012, p. 23.

2.47 In its submission, Coca-Cola Amatil called on the government to abolish state payroll tax for the manufacturing sector.⁴⁸

Pricing carbon

2.48 Many witnesses to the inquiry suggested that the cost of complying with tax obligations at a federal and state/territory level increases prices and reduces competitiveness. In light of this, concerns were raised with the committee about the impact of the carbon price:

The introduction of a carbon tax, dependent on how it is applied could see a loss of many food processing businesses unable to absorb additional cost while remaining competitive with imported produce from countries not applying a similar regime.⁴⁹

2.49 Mr Peter Greenham, Executive Chairman, HW Greenham and Sons Pty Ltd spoke about the effect of the carbon price and the implications for his business. He advised that although the emissions of his business will be below the limit where the pricing regime applies, increased costs will arise from increases in inputs such as power. Mr Greenham has been informed by the power companies that the cost increase and their energy bill will go up by around 18 per cent or around \$160,000 per year on a current bill of around \$950,000.⁵⁰

2.50 The committee found that although industry participants generally understand the rationale behind the introduction of the carbon price, they would like to see some form of government assistance in recognition that local products will be less competitive against imports from countries that do not impose the same level of tax or regulation on their food industries.⁵¹

2.51 One industry participant submitted that it would like to see government support targeted 'so that the competitive balance is not tilted in favour of products with a larger carbon footprint':

Exemptions from the carbon tax, or free permits, or compensation for the additional cost caused by the tax (not just directly, but including the increased energy costs), should be provided to industries or individual businesses that can demonstrate that the increased cost will make them less competitive against substitutes that produce substantially higher carbon emissions. The food processing industry should receive targeted relief on that basis.⁵²

48 Coca-Cola Amatil, *Submission 44*, p. 5.

49 Food Industry Advisory Group of Western Australia, *Submission 15*, p. 5.

50 Mr Peter Greenham, *Committee Hansard*, 8 March 2012, p. 4.

51 Name withheld, *Submission 8*, pp 4–6.

52 Name withheld, *Submission 8*, p. 6.

2.52 The concerns of smaller processors were shared by larger companies such as Campbell Arnott's, Lion Pty Ltd and Coca-Cola Amatil Ltd.

2.53 Campbell Arnott's identified that the impost of the carbon price will affect its ability to compete with overseas manufacturers:

We are seeing the carbon tax starting to have an impact on our forward fiscal projections from the next fiscal year. I think it has been modelled by the AFGC that it will have about a 4½ per cent impact on operating profits across the industry. As a manufacturer we believe that, with the work we have done on sustainability and conservation, we will fall below those thresholds. But [in respect to] our utility suppliers it is something to keep an eye on. It when you add those taxes up you are not having a level playing field against some of the offshore manufacturers you have to compete with...⁵³

2.54 Lion Pty Ltd considers that the introduction of the carbon price will result in administrative costs for the business as it seeks to comply with the its requirements:

The proposed carbon price mechanism and its complexities alone will impose a heavy regulatory burden on the food industry. This burden will be apparent to the food industry in the form of increased requirements around data gathering processes, quantification of cost impacts and quantification of supply chain impacts which will likely require detailed review of all relevant procurement contracts involved in the production of food.

The Government should be wary of amplifying this impending burden with additional regulation where there are already feasible self-regulatory options.⁵⁴

2.55 Coca-Cola Amatil, like Campbell Arnott's, Lion Pty Ltd and other processors who gave evidence to the committee, is also concerned that the carbon price will drive up costs and thus impact its competitiveness:

CCA remains concerned that the Government's Clean Energy legislative package (carbon pricing) creates an additional burden on local manufacturing, driving up costs relative to our international competitors where such burdens do not exist or are subsidised.⁵⁵

2.56 The Department of the Treasury, however, did not share these views and explained that their modelling has shown the impact of the carbon price will be smaller than expected:

A key conclusion of the Treasury modelling is that, at a broad sectoral level, structural changes due to carbon pricing will be much smaller than

53 Mr Craig Funnell, Vice-President, Supply Chain – Asia Pacific, Campbell Arnott's, *Committee Hansard*, 10 February 2012, p. 57.

54 Lion Pty Ltd, *Submission 33*, p. 4.

55 Coca-Cola Amatil, *Submission 44*, p. 5.

other impacts, such as ongoing changes in the terms of trade or consumer tastes. While some emission intensive parts of the economy will undergo structural change, the modelling finds that the bulk of the economy will be largely unaffected... Overall, the modelling finds that less emission-intensive industries, such as food manufacturing, are more competitive and grow faster with domestic carbon pricing than in the global action scenarios.⁵⁶

2.57 The Department of the Treasury also suggested that pricing emissions will slow growth in coal and gas production which in turn will have benefits for the food processing sector by lowering the exchange rate and:

...making other trade-exposed industries, such as food processing, more competitive. Slower productivity growth in carbon-intensive sectors will also slow wages growth and costs of production in other parts of the economy.⁵⁷

Committee view

2.58 In the challenging environment currently facing the food processing industry, the committee considers that wherever possible government should seek to remove additional or duplicated regulatory imposts and ensure that despite the challenges, all participants are competing on a level playing field.

2.59 The committee notes that some of the revenue from carbon pricing is spent on industry assistance. Of particular relevant to the food processing sector is the Clean Technology Investment Program for manufacturing businesses, which provides government co-investment into new capital which lowers energy costs and improves competitiveness.

2.60 The committee is heartened by the commitment that has been made through COAG by the state, territory and commonwealth governments to implement reforms that will lead to a national seamless economy. However, the committee takes the view that progress of these forms is taking too long and further delay may cause further participants in the food processing sector to exit the industry.

2.61 The committee is particularly concerned by the imposts of transportation regulation, state and territory payroll taxes and the carbon price.

56 Department of the Treasury, *Submission 18*, p. 13.

57 Department of the Treasury, *Submission 18*, p. 13.

Recommendation 3

2.62 The committee recommends that following the introduction of the carbon price on 1 July 2012, the government monitor:

- **how the big emitters pass on the costs into the food supply chain; and**
- **the profitability of businesses in that supply chain, including to farm gate.**