

## Select Committee on Australia's Food Processing Sector

### Submission by the Food Industry Advisory Group of Western Australia.

The Food Industry Advisory Group has representation from the Chamber of Commerce and Industry WA and the Food Industry Association. Its twenty one (21) members are actively engaged in the State's food processing sector and include small and medium size enterprises, as well as large and corporate businesses.

The following submission reflects the views and concerns for WA's food processing sector.

Select Committee on Australia's Food Processing Sector inquire into and report by 30 June 2012 on the following matters:

#### **(a) the competitiveness and future viability of Australia's food processing sector in global markets;**

Australia has one of the highest food prices in the world. The cost of labour in Australia, and particularly in Western Australia, is higher than many other places in the world, and compared to other Australian states. One of the food processing sector members in WA gathered the following statistics.

*"If you then factor in Perth as compared to the other capital cities in Australia you find that salaries in Sydney are 12.74% lower, Brisbane 10.02% lower, Melbourne 27.00% lower and Adelaide 12.98% lower. Based on the above and considering that labour is probably the second biggest cost in food processing it is not surprising that Perth struggles to compete."*

Another member of the industry in Western Australia believes that the scrapping of Individual Agreements for employment has pushed up costs, reduced productivity, and therefore competitiveness.

According to the Chamber of Commerce and Industry Western Australia's (CCIWA) *Beyond Mining, Meeting Western Australia's Labour Needs* draft report, mining will continue to dominate the State's economy. The State Government and CCIWA project there is \$157 billion dollars in planned projects for WA, with another almost 500 000 workers needed by 2020.

*"One of the biggest challenges that have emerged from the state's two speed economy has been the labour force, with many businesses forced to pay much higher wages to attract and retain the workers they need, and others simply unable to find staff. Surveys conducted by CCI of local employers consistently show that the most significant issues facing employers are labour shortages and associated wage costs."*

Anecdotally the Food Industry Advisory Group(FIAG), The Chamber of Commerce and Industry WA (CCIWA) and the Food Industry Association of WA (FIA) hear from members they are unable to find semi or unskilled staff, and if they do find a candidate, have to pay them very high rates beyond their skill level to employ and retain the worker.

The mining sector, and associated industries, have driven up wages for both skilled and unskilled labour through their significant capacity to pay. The food industry operates in

a competitive environment with close substitutes readily available from overseas and interstate sources. The industry's capacity to pass on higher costs is, consequently severely limited.

From the CCIWA report August 2011 *The Cost of Doing Business* based on a 6 month survey of WA businesses conduct in conjunction with WA Business News;

*On average, the survey respondents estimated that their staffing costs had risen by 36 per cent over the past five years. Data from the Australian Bureau of Statistics also reflects these pressures with the average weekly ordinary time earnings for full-time workers in WA having risen by 41 per cent (or \$425) over this period, compared to an increase of 26 per cent.*

The cost of and lack of skilled and semiskilled staff has affected the competitiveness of local manufactures. Competition on price with imported goods from countries with lower wages is difficult, can't put into action plans to expand their business, and can't make solid plans for future growth because of the uncertainty of finding workers to fill their staffing needs.

Another major influence on local competitiveness raised by members was the cost of complying with occupational health and safety requirements, particularly when there are a significant number of small and medium size enterprises (SME) in WA's food sector.

*"A big cost for any business to comply with in Australia compared to other first world countries."*

Compliance with environmental regulations. Organically based processing operations face often unnecessarily onerous onerous environmental hurdles which can prevent start-up scale operations.

The carbon tax looms as a further impediment to local food processors.

*"This tax is going to have a large impact on the food processing industry. It is going increase costs from the primary producer right through to the retailer."*

WA is a big food producer but has a small food processing sector and is subject to strong competition from the Eastern States and overseas. As long as the State continues to operate in a two speed economy the viability of the food sector diminishes, in the absence of government intervention or support.

The cost and availability of vital core infrastructure, such as energy and water, is proving a significant challenge to the local food industry and is another area where food processing finds itself at a medium term competitive disadvantage to the mining sector.

The challenges confronting the food processing sector accessing raw materials, labour, water and energy at competitive prices are of sufficient gravity to affect its viability. Government must decide if a food processing sector in Western Australia is of strategic importance.

The Food Industry Advisory Group would argue that an allocation of the windfalls generated by the mining sector in WA should be invested in preserving the longevity of the food processing sector and, to ensure the State has a diverse food manufacturing

industry capable of ensuring the availability of nutritional requirements for all Western Australians, when economic circumstances change.

The viability of the food processing sector is also influenced by the burden of regulation imposed on food processing companies – the administrative cost of navigating through the regulatory maze, significant regulation controlling offsite impacts (eg waste water management), delays in gaining approvals to operate/function complying with demands of 3 tiers of Government and land planning mismatches need to be addressed (such as urban expansion and zoning issues for food processing).

To encourage a viable food processing sector in WA government needs to consider the following issues:

- Incentive schemes to establish or expand food processing businesses;
- Availability of suitable land for food processing precincts and the provision of energy and water supplies at competitive rates;
- Access to skilled and unskilled labour;
- Port facilities – Container shipping facilities inadequate and being crowded out by mining shipments; and
- Reduced, consistent and reasonable regulation – regulatory maze difficult to navigate, environmental regulation, planning approval time frames and planning mismatches.

WA has particular attributes in its food processing sector which differentiate it from those prevailing on the East Coast which should be factored into a national review as they contribute to the cost of doing business in this State, such as:

- No incentive schemes dedicated to establish food business or precincts in WA;
- Remoteness – distance from many markets and suppliers constrains the ability to build effective networks;
- Lack of industry support services eg equipment and packaging;
- Lack of dedicated food transport network (especially rail) and inadequate container shipment facilities;
- Limited access to raw ingredient supplies in WA, which adds to the cost of processing;
- Competition from the mining sector for skilled and unskilled labour; and
- Issues relating to State Planning Strategy and urbanisation pressures on productive land.
- Climate change.

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

*From the CCIWA Cost of Doing Business report;  
The benefit of regulatory reform is not only important from the perspective of assisting individual businesses, but also from a wider economic perspective as the direct and indirect costs relating to the compliance burden can represent a significant cost to the economy.*

(i) taxation,

Three levels of taxation are imposed in Australia (Federal, State and Local Government) and create a burden for businesses, particularly SME to accommodate. The cost of

administration of the tax system to relatively labour intensive industries such as the food processing is enormous.

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.

In the CCIWA *Cost of Doing Business* survey respondents, including food manufacturers, identified payroll tax as the most burdensome tax for business which impose on costs.

*Based on the latest earnings data in February 2011, a business in Western Australia would only be able to employ nine full time workers on average wages of just over \$75,000 a year before being liable for payroll tax. By contrast, when the exemption threshold was last adjusted in 2003, a business could employ 15 staff before it had to start paying payroll tax (based on average weekly earnings). Payroll tax relief is therefore a priority, and must start with reductions to the rate and an increase in the exemption threshold*

In the words of another food manufacturer;

*“Payroll tax, the most stupid tax that inhibits companies to employ and leads to uncompetitiveness. Company and personal tax rates need to be lowered to give entities and people extra incentive to work. A second job is not worth taking on if most of what is earned is paid in tax. “*

Businesses also identified the cost of complying with a complex and complicated tax regime as a very significant business expense that pushes up prices and reduces competitiveness.

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.

(ii) research and development,

The food processing sector finds the grant approval process to be very protracted and the criteria that need to be addresses can be quite prohibitive for small companies, which dominate the WA sector. In addition, the long lead time before decisions are reached and money provided can affect the viability and success of the project.

In the words of a food processor;

*“Various grants are available to try and access. My company applied for a \$50 000 grant from the Regional Food Innovation and Productivity Grant Round 2 program to bring our production line from semi to fully automated. The process was very poorly handled by the Federal Department of Agriculture, Fisheries and Forestry. I am also very annoyed by the number of companies that have been given grant monies from the tax payer and then gone bust within 6 to 12 months, Challenge Dairy being a prime example. There needs to be more rigorous checking of an applicant’s financial position. “*

In order to gain successful outcomes from R&D in the food processing sector the following considerations need to be made:

- Improved access to R&D (both awareness and services)
- Build awareness that public research facilities are available, particularly for SME in the food industry
- Incentives to invest in R&D
- Assistance to help companies, particularly SME to build capacity for R&D for commercialisation outcomes.

Finance required to undertake R&D or implement new technology changes are beyond many companies without a substantial grant or business development incentives.

(iii) food labelling,

The food processing sector has addressed food labelling in its submissions to the Blewett Food Labelling Review. Changes to food labelling impose significant additional costs on food processors. Changes should be based on scientific evidence, as opposed to single interest pressure groups.

According to a study conducted by CCIWA in 2003, the cost of changes to a label for a SME is about \$60 000 with a total cost to industry nationally in the vicinity of \$500 million. At a time when the food processing sector is under immense competitive pressure and significantly rising input costs this is an additional cost which may difficult to absorb.

Food labelling decisions can have a significant impost on the small and medium size food processors which dominate the WA sector. There should be on-going scrutiny both from the perspective of cost of compliance, consumer confusion and loss of competitive advantage of labelling requirements to ensure these meet genuine consumer needs as opposed to bureaucratic expectations or transitory whims.

From a manufacturer of deli goods;

*We have well over 200 product lines. As with most SME's in Australia, we have these many lines to cater for almost everyone in the trade to ensure business viability. In the event of a change in mandatory labelling standards, it would cost a rough estimate of over \$200,000 for overall change of artwork/printer plates , plus any residual stock of packaging material that are not exhausted inside a given grace period. We also strongly believe the definition of "Product of Australia" needs to be aligned with international code of practice, for example Codex. The current definition is an impediment to both export and the long term survival of an Australian food processing industry.*

Need to ensure that there is consistency of labelling across all states of Australia and New Zealand. There appears to be a propensity to have strict labelling laws within Australia which are not always applied to imported products. Need to ensure that imported food products are labelled to the same Standard that Australian manufacturers are required to comply with. Current AQIS resources are inadequate to allow closer and more comprehensive scrutiny of imported food products.

(iv) cross-jurisdictional regulations,

For the food processing sector there are three levels of jurisdictional regulations, federal, state and local government. Regulatory requirements must be consistent between States across the number of Acts that relate to food processing (certification, labelling and packaging requirements). The administration of compliance regimes varies markedly with varying degrees of self auditing and reporting. Regulators need to ensure

that they investigate all avenues to reduce the administrative demands and costs of regulatory compliance.

There is no need to introduce a new Food Labelling Bureau as proposed by Recommendation 61 of the Blewett Review. This would mean a duplication of existing structures and another cost burden for the food processing sector.

There is currently an overlap in land and water access between the State and Local Government. There appears to be cross-purposes in infrastructure development and investment between the Federal and State Government, inconsistent legislation for exporting companies ie companies can be subject to different rules between states and yet are expected to export under the one set of rules.

The introduction of an agreed audit and food safety program standards throughout Australia should be a priority of Government.

The Environmental Protection Authority is very dogmatic with the management of offsite 'organic waste' which can be a prohibitive cost to the food processing sector. There appears to be a lack of willingness for Government to investigate alternatives and assist in the provision of cost effective treatment facilities.

Planning mismatches impact on the food processing sector in WA between urban encroachment and zoning decisions with no tangible evidence of a preparedness to provide suitable precinct alternatives. The fact that cities encroach on older food processing facilities is evidence of the historical importance attached to this sector in supporting the local population.

(v) biosecurity,

The food processing sector believes that a strong biosecurity regime is essential. While there is recognition that there is a higher cost associated with not being able to access cheaper ingredient/input products, in the long run strong biosecurity measures protects the local quality food chain for Western Australian consumers.

The changes to AQIS to fee for service has been controversial and an additional cost impost on the food processing sector. Comments by processors suggest that they haven't seen enough changes to the regime to justify the 'fee for service' changes and that the charges are at a level which do not represent value for money.

(vi) export arrangements

Recent increases in AQIS meat export licence charges (\$2 500 pa to \$12 000pa) has significantly decreased export profit margin in a difficult market with no indication of an equivalent increase in the value of the service.

There is currently inconsistent legislation for exporting companies which can be potentially subject to different regulatory rules between states and yet are expected to export internationally under the one set of Federal rules.

The international free trade arrangements currently in place should be applied equitably. Australia has willingly accepted commitments to open and free trade arrangements, however many of our trading partners continue to artificially protect their food based

industries. Australia should use the mining boom to apply leverage to extract greater market access for its food industry.

For SME in the food processing sector compliance with AQIS legislation and regulations is often considered a deterrent to export market development.

**(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;**

The duopoly of Coles and Woolworths in the supermarket sector and the resultant market power is a constant course of concern for the small and medium enterprises in the food processing sector. Issues raised include the cost of placing locally made goods on the shelves of the two chains, the downward pressure of prices and the impact of 'homebrands' on the purchase demand for local produce.

The challenge for the WA food processing sector is exacerbated as much of the buying decision making is centred on the East coast, which reduces the capacity of local processors to influence or access the major outlets. This has contributed to processors rationalising their businesses over east and distributing to the West coast.

Despite this trend, WA has a healthy small retail sector which supports fresh local produce but offers limited expansion potential for the domestic processing sector.

From a food manufacturer;

*"My company has been servicing a niche market for about 14 years. We got out of the clutches of the two supermarket companies as we could see the business would go to the wall if we continued supplying them. If you are a regional supplier only, i.e. state based, there is every chance your product will be deleted off the shelf if they want that space for a national supplier. You are 'screwed to the wall' on price and the only ones making money are the major supermarket chains."*

**(d) the effectiveness of anti-dumping rules;**

The food processing sector in WA is relatively small, dominated by small and medium size enterprises and therefore very sensitive to pressure from cheaper imported products and dumping practices. The anti-dumping rules have recently been investigated with the view to making the system more streamlined.

Historically the requirement by processors to lodge an anti-dumping application has been onerous and the timeframe for action often protracted and viewed, in most instances as a pointless exercise.

It is hoped that the review has improved the effectiveness of this legislation and results in a system which genuinely counteracts the pricing of imported foods at less than their cost of production plus 'real' transport and handline charges.

**(e) the costs of production inputs including raw materials, labour, energy and water;**

In Western Australia the cost of labour, energy and water has increased dramatically in recent years. While the issues associated with labour have been addressed earlier in this submission, there is concern about the current and future availability and cost of water and energy in this State.

From a food manufacturer;

*Feed costs in WA have increased in the region of 26% in the last year due to the increase in grain prices. You can pretty much bet on a 4% increase in labour costs each year with little to no improvement in labour efficiency. Energy and water has increased from anywhere between 4 % and 45%. Finished product price have not increased in the last year and, if anything, have probably reduced. The food industry is under a significant cost - price squeeze. Food production in Australia is probably one of the highest in the world yet margins of food processors are being eroded. I suppose the question boils down to, 'Are food processors in Australia inefficient?' If not, then what is driving the cost of food production and where can cost be taken out of the chain?*

*My business has seen massive increase in the prices of ingredients, with flour and full cream milk powder prices increasing by 50 to 100% over the past 5 years, whilst labour costs have risen with no increase in productivity. Electricity prices have doubled and water charges have increased by 60%. These prices cannot be readily absorbed and must be pass on. However, there comes a time when there is a limit and your competitiveness is affected.*

Food processing is energy and labour intensive. The price elasticity of demand for food reflects a competitive market and limits the capacity to pass on the costs of inputs to consumers. Therefore processors are unable to recoup the significant increases of input costs from the market place.

From their *Cost of Doing Business* report the CCIWA suggested a number of measures to help businesses reduce the cost of electricity;

- *Introduction of cost-effective tariffs for different classes of customers*
- *Tariffs to be set by the Economic Regulation Authority*
- *Introduction of full retail contestability*

The impact of the costs of raw materials in WA is exacerbated by the size of the industry and the lack of incentives for ingredient suppliers to 'gear up' and invest in infrastructure to establish a consistent supply of quality raw materials tailored to the needs of the manufacturer.

Efforts to decentralise away from inner city locations can be thwarted by a lack of services, infrastructure and the cost of directing energy or water supplies to rural locations prevent what, in many regards, would be a desirable outcome from a development perspective.

There are no incentives to explore the production of new raw material options (new product development) suited to the manufacturing or value adding sector. Ingredient supplies must be imported from interstate and overseas which increases production costs.

The 'local market' attitude towards infrastructure and systems will inevitably support the spot market norm rather than longer term contracts with manufacturers. There is also a lack of contractual and organisational structures to collectivise growers.

(e) the effect of international anti-free trade measures;

Addressed earlier in the submission.

- (f) the access to efficient and quality infrastructure, investment capital and skilled labour and skills training;

Currently in WA there is limited access or government support for efficient and quality infrastructure. The urbanisation pressures on productive land and lack of support for the establishment of food processing precincts unless under 'user pay' arrangements are limiting the opportunity for food processing in WA. There is no apparent interest or will by government to invest in infrastructure or provide utility assistance to support or expand the food processing sector in WA.

In WA access and attraction of investment capital for the food processing sector is limited by a number of factors including the high cost of food processing, the high risk associated with success in the sector, the size of the market, the lack of government support for the sector and reluctance of government to establish food precincts in the state.

The WA food manufacturing sector generally lacks the professional marketing and business development skills available to larger food corporations. The ability to attract and retain skilled technical expertise is a challenge, especially when larger food corporations are rationalising their manufacturing to the East Coast, with skilled staff either relocating or taking up occupations in other industries.

WA food manufacturers are under pressure to compete on wages for technical skills with more attractive packages on offer by Eastern state's processors and in other industries, such as the mining and petroleum sector.

The following constraints on WA food processors have been determined by an analysis of WA Companies (Plan to Support Food Industry Development 2009-2012, Department of Agriculture and Food, WA) and have significant implications for workforce development:

- lack of reliable skilled and unskilled workforce
- unattractiveness of food manufacturing work
- limited career opportunities for young workers
- unstable industry sector as larger food corporations move their operations interstate or overseas
- costly, basic industry training for operators
- high staff turnover rates increase the cost of maintaining a skilled workforce
- tertiary courses do not provide all technical aspects of food production and manufacturing operations.

The food processing sector, particularly the meat industry utilises a number of migrant/refugee visas for workforce. The process needs to be streamlined in terms of getting positions included on the list as the current legislation hinders a company's ability to be flexible and to adapt to changing conditions, in a tight labour market.

The issue of 'base rates' applied to positions, as the rates continue to rise, is higher than most local position wages, there needs to be a differentiation between mining and other industries.

The recent restrictions imposed by the Federal Government (May 2011) on access to Certificate II level qualifications will have a negative impact on the food processing sector. The food processing and meat processing sectors typically use Certificate II qualifications as a 'point of entry' for new staff who operate and maintain the operation lines.

From a local food processor;

*Labour is probably the most significant cost to the industry. Labour is expensive in Australia as compared to what is available in other large producing countries of the world. This makes it extremely difficult to compete on the world arena. An indication of this is the amount of raw materials that are exported from Australia as compared to finished good. It is cheaper to import finished goods than to manufacture within Australia. I do not believe any industry in Australia is immune to this. I do not believe it is about skilling labour or training labour. It is more basic than that, labour is too expensive for industries to be competitive.*

The general perception of the food processing sector is poor and there is a lack of a training culture, with the exception of butchers, bakers and pastry cooks where trade qualifications are the industry standard.

Language and literacy has been identified as a significant barrier to training with between 20 and 30 per cent of students having low literacy and numeracy levels.

Risk management and contingency planning is generally lacking across the entire food and beverage sector. Specific training is required to develop skills in industry on how to develop plans that deal with crises.

The need for relevant training options for an industry dominated by relatively small operations remains relevant to the industries long-term survival options.

(h) any other related matter.