

ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Manufacturing in Victoria

Melbourne — 23 November 2009

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Dr G. Annison, Deputy Chief Executive Officer, Australian Food and Grocery Council.

The CHAIR — I welcome Dr Geoffrey Annison from the Australian Food and Grocery Council to our all-party parliamentary committee hearing, which is taking evidence on the Inquiry into Manufacturing in Victoria. All evidence taken at this hearing is protected by parliamentary privilege but comments made outside the hearing are not afforded such privilege.

Please state your name, business address, the capacity in which you are appearing and your position in the Australian Food and Grocery Council.

Dr ANNISON — The Australian Food and Grocery Council is at 2-4 Brisbane Avenue, Barton ACT 2600. I am appearing as the Deputy Chief Executive of that organisation, and also as the Director of Health, Nutrition and Scientific Affairs.

The CHAIR — Thank you very much for the submission you have lodged with the secretariat; it is now on our website. I also understand you are going to make a couple of comments in relation to the introduction and then we will move to questions.

Dr ANNISON — Yes, that is fine. I thank the Inquiry for giving the Australian Food and Grocery Council an opportunity to speak. I remind the Committee that the Australian Food and Grocery Council is the peak national organisation representing Australia's food, drink and grocery manufacturing industry; so that we are clear, we represent both food and non-food grocery manufacturers in Australia, 'non-food grocery' being items you would also find in the supermarket such as healthcare products like toothbrushes, toothpaste, toilet paper; also home care such as household cleaners and that type of thing; and of course pet food manufacturing.

We have a membership of about 150 companies and subsidiaries, and we constitute about 80 per cent of the dollar value of the industry in Australia. The industry is a sizeable industry. In fact, I would like to leave with the committee two further documents to our submissions, and I will give you a little bit of background to these. The first one is a state-of-the-industry report. The Australian Food and Grocery Council recently completed the study with the help of KPMG. It defines the food and grocery sector in Australia for the first time.

Within it are some facts and figures and just to quote one of them, for example: the size of the combined industry is \$100 billion a year, so it is a sizeable industry. The second document is entitled *A Growing and Sustainable Industry: the Case for a National Food and Grocery Agenda*, which reiterates a point that is made in the submission that the Australian Food and Grocery Council has been calling for the establishment of a national food and grocery agenda, or a comprehensive food and grocery policy, if you like, at commonwealth, state and territory levels to support the industry, and I will speak to that as I go through just a few comments that I will make, if I may.

The CHAIR — Before you go any further, are the documents on your website?

Dr ANNISON — Yes, they are both on our website, and I have left two copies with secretariat.

The CHAIR — It is handy for people who are reading the evidence so that they can find what you have just tabled, on your website.

Dr ANNISON — They are on the website; they were released three weeks ago at the AFGC annual industry leaders conference which was held in Canberra on 27 and 28 October.

Moving on to a couple of comments which build on what we have said in our submission: we notice that not only does the food and grocery manufacturing sector make a large contribution to Australia's economy but of course it is also a significant contributor to the Victorian economy. This is both in terms of relative size and also in absolute size.

It is interesting that the sector has weathered the global financial crisis comparatively well, so we make the point that it is not only a large sector but it is also a somewhat resilient sector and perhaps not subject to the boom-and-bust cycles of other cycles in the Australian economy. I am not sure whether we said this in the submission, but it is possible that the fact that Victoria's economy has been quite resilient through the global financial crisis as well may be a reflection of the substantial size of the food and grocery sector within this state.

Notwithstanding that, the food and grocery industry is faced with a number of challenges which need to be addressed, not only at commonwealth level but also at state and territory level, particularly in those states that have a significant industry. Specifically, I am referring to a number of issues, the first — which is being debated this week — is the Commonwealth Government's proposed carbon pollution reduction scheme.

One of the points we have made in our submission is that, as it was originally proposed by the Commonwealth Government, there appeared to be scant interest paid to trade-exposed industries, such as the food and grocery industry now. The food and grocery industry tends to be a low-intensive carbon industry. Notwithstanding that, with the way proposals were originally put forward, which suggested that there will be substantial increases in power costs, there are flow-on effects, obviously, through to the manufacturing industry and the point that we made was that whilst we do not dispute the Commonwealth's determination to have a policy initiative in this area, we note and have asked for it to be equitable both to manufacturing industries in Australia and also products that are possibly imported.

Australia competes globally, both here and in markets overseas. We had two issues: one of which was the imposition of costs which manufacturers overseas would not have and therefore they would compete more vigorously against our products in overseas markets, but also in the Australian market, since there was no measure to levy similar costs on the imported goods.

We also note that the effects on power prices will possibly have an even greater effect in Victoria than other parts of the country due to the reliance of the state on energy from brown coal and the setting of mandatory renewable targets. As I said before, this will increase costs that competitors in other parts of Australia, and indeed in Victoria, may not need to face, thus limiting investment attractiveness and threatening employment here in Victoria. It will be interesting to see what the Commonwealth Government decides in those terms, in terms of the current negotiations in Canberra.

Another critical issue for the Australian Food and Grocery Council recently has been food and policy regulation in Australia. In fact, as an appendix to the submission, we included the executive summaries for two submissions for a similar inquiry to the Productivity Commission in terms of food and regulation in the manufacturing sector.

It has a lot of detail about the types of concerns that the Australian Food and Grocery Council has had in the past and that we think should be addressed. So we have called for substantial reforms specifically in the area of food regulation both in terms of the governance of the Australia and New Zealand Food Regulation Ministerial Council but also in areas of food labelling policy, specifically to provide clarification on what the role of food labelling regulation is and to address issues such as the intersection of food labelling regulations with other labelling regulations such as those administered by the Therapeutic Goods Administration, the ACCC and Standards Australia.

I will not go into detail about other parts of the reform but within a submission we list a number of case studies where we feel the industry has been significantly disadvantaged by a poorly functioning food regulatory system. We note that the activities of the Commonwealth Government, and indeed with the support of the Victorian Government, are moving towards addressing some of those issues.

For example, in October 2008 it was announced that there would be a food labelling policy review. That labelling review is now under way, really just commencing four weeks ago and we look forward to the outcomes of that. We think it is critically important that that review establish a very sound basis for food labelling policy as it can guide food companies in future as to the way food labels can be used not only to promote food products but also to provide useful information to consumers about how foods may protect and promote good health.

Other issues of importance include the sustainability issue and it is not just in the carbon pollution reduction scheme and the possible impost from that but also in the area of water management. We note in our submission that the industry is faced with uncertainties of water supply and that there are two sources of uncertainty: one is the vagaries of whether it will in fact rain; the other is the vagaries of government policy in terms of addressing this. Again the food and grocery industry, in terms of manufacturers, is not a very large user of water.

However, the inputs that the food and grocery industry use, namely the products from agricultural and horticultural production, are major users of water and since in approximately 90 per cent of the food manufacturing industry the input is in the form of food and produce grown in Australia, that has the potential to significantly impact upon the industry.

Water policy also has the potential to impact on industry on the consumer side. Whereas the food and grocery council recognises that as we move forward there will be the potential for more and more water recycling, the use of recycled water within the food and grocery industries is not without its controversies for consumers. There will be issues around the use both in terms of cleaning down equipment but ultimately also in the potential use of recycled water within food products themselves.

That will again raise issues of food labelling for example, and this is another reason we think it is critically important that issues around food labelling policy, and particularly the roles of food regulation and food labelling regulation, need to be addressed with clear policy guidance.

Within the submission we have proposed an approach to not only food labelling regulation but also food regulation in general which we have basically termed 'best practice regulation'. This reflects very closely the COAG principles of good regulation that were developed by governments in the early 1990s and provide a very good and clear framework for the appropriate imposition of regulation on industry. It is indeed a regulatory approach such as that that can also help to address issues such as the ongoing debate about container deposit legislation.

We have concerns about the developments in that area, as members of the Committee may know. There have been calls for national container deposit legislation. The Food and Grocery Council's position is that that has the potential to undermine kerbside recycling, which has a good and improving record of addressing recycling in Australia. Indeed Victoria is one of the states which has supported that initiative very well.

The CHAIR — Dr Annison, we would like to keep the presentation as close as possible to 10 minutes. How are you going?

Dr ANNISON — I was just about to wind up, even though I am turning the page. I was just going to say that I do not intend to say much more in regard to what we have said in the submission. However, we do still support what we have said in the submission, and particularly the recommendations that appear within that submission as well. I am certainly very happy to take questions.

The CHAIR — My question goes to the future of food manufacturers depending upon primarily Australian markets and then obviously overseas markets. It has been put to me that the two major supermarkets have an incredible capacity to decide the future of the manufacturing plant, in fact the very business, if they decide they are going to refuse to stock a particular product. I will give you a case in point.

Recently I was at a function where it was put to me that one of the supermarkets had refused to stock a particular item. There are only two companies providing this range of produce and we now only have one range on a particular supermarket's shelves because of what some might say was inappropriate behaviour, that is, an up-front payment to a supermarket chain and a lower price to get the other one out of that supermarket chain. Of course that has huge ramifications for that manufacturer.

Does the Council get involved in such issues? Have you heard of such things happening? If you were a member of the Committee, what would be some of the recommendations you would make to help to address that?

Dr ANNISON — As the Committee would know, in 2007 the ACCC looked into the issue of grocery prices and particularly retail concentration and the impact on competition that that might have. The ACCC was unable to come up with a finding that indicated supermarkets were abusing the market power they have.

Notwithstanding that, the AFGC in its submission to the ACCC expressed — and still has — some concerns about the concentration of market power by the two major retailers. Whereas we have no direct evidence of market power abuse, which I think was very similar to the findings of the ACCC, we do occasionally hear of complaints although no companies with direct evidence have ever come forward, or not to me as an individual within the AFGC, with specific cases of that type of behaviour. I am unaware of that.

But having said that, the AFGC does not get involved directly in the trading terms negotiated between individual companies and the major retailers. We have noted that Aldi came into the Australian market six or seven years ago and they still have a very aggressive expansion program so to some extent there is an argument that the retailer concentration issue will resolve itself over time as Aldi gets stronger.

We also know that here in Melbourne, Costco has recently come into the market with a new business model, if you like, for retailing in the food and grocery sector, and indeed in other sectors because they have a very broad range of categories that they will be addressing. We are also aware that the independent retailers under the Metcash brand are also very strong and expanding. So at least with the indicators that are clear, it would seem that there is more competition coming into the Australian market. However, I can say that we would echo your concerns, and if you are hearing cases of activities in the market which go beyond market power, towards market abuse, then certainly we would encourage them to be followed up.

The CHAIR — I would say the same. You commented on Aldi. Having walked through an Aldi shop — not on a regular basis but perhaps twice or three times in my life — each time what struck me was that you were battling to find any recognised Australian manufacturers on the shelf. Those who shop at Aldi may dispute my limited observations — —

Mr ATKINSON — There aren't any.

The CHAIR — There aren't any? So we can expand the Aldi market, but it does not do much for our Australian manufacturers.

Dr ANNISON — I think if you look at Aldi, they actually contract manufacturers here in Australia. So where they market under their own brand, a product is often being manufactured by leading Australian manufacturers who manufacture under contract.

The CHAIR — Okay. I was just looking at some of my colleagues here, and their impression was the same as mine.

Mr ATKINSON — No, the manufacturing is done here, but they do not have branded products that you would recognise.

The CHAIR — Alright, that was my question. So perhaps we should look at your submission, of what year in relation to potential abuse?

Dr ANNISON — I am just trying to remember. I think the submission was made in 2007 or 2008. I think the ACCC inquiry into grocery prices was 2007 .

The CHAIR — Alright. We will pull that up, and the recommendations are much the same?

Dr ANNISON — Yes.

The CHAIR — Thank you.

Dr ANNISON — I did not actually prepare that submission but I am pretty sure that they are not dissimilar.

Mr TEE — I wanted to follow up the evidence you gave both in terms of climate change and water scarcity; and, I suppose, the thrust of the submission and the recommendations are along the lines that you want certainty from government, and I suspect as we go through the processes we will end up with that certainty. But I am curious in terms of how your members are going in adjusting to, in terms of water, a drier future in Victoria.

Does that mean that the nature of food will change? And how are your members adjusting to that? Where are you up to in terms of grappling with those issues, be they climate change or reduced water?

Dr ANNISON — I think in terms of climate change and the Australian Food and Grocery Council, individual companies have been reporting on what they have been doing. This is in response to the climate change issue, and has even greatly preceded the more heightened debate that that is having in the public arena in the last 18 months to 2 or 3 years under the green house gases office in Canberra, which required companies to report. So companies have been adjusting their operations to become more efficient at using energy, which of course lowers their greenhouse gas emissions.

They have been doing the same in terms of water. Individually, companies have been reducing their water use through more efficient watering and also to some extent recycling of water within plants, and they have been reporting on that; so, for example, every two years the AFGC does an industry sustainability report, and you can refer to the latest report on our website, which has just been released.

Also some of the major companies have been conducting research into this area. For example, most recently the Mars food company, based in the Albury-Wodonga area, did a study with the CSIRO, where they looked at the amount of carbon and water embodied in food products. The reason for that was to get a better appreciation of exactly that — how much water is embodied in each product as it comes from production of the raw materials, through the manufacturing process, and that can then inform the company about where it might get the greatest benefit in terms of reducing energy use and therefore carbon intensity as well as the water-use intensity. So there has also been that type of higher research. Mars and the CSIRO share the outcomes of that research with the whole of the industry, and the industry can then pick up on that as an issue.

I suppose the food and grocery industry is in the position at the moment, as is the rest of the Australian economy, of waiting for some clear government policy direction in terms of carbon trading, and some clear indication of the likely impact that that will have on energy prices in the longer term.

I suspect that the better resourced companies, which tend to be the larger companies, are already imagining what that might be and are already taking steps to reduce their exposure. To what extent the smaller manufacturing companies are able to do that — I am unsure. It is highly likely that

many of them are not even planning for it. They will just be simply expecting to have higher energy input costs.

I think there is a real challenge for the industry and to some extent for government as well to help the industry adjust to whatever the policy environment is, going forward. And that is both for carbon but also for water. I think ultimately, as well, there will be a challenge, with government working with industry, about mitigation strategies.

If, in fact, the predictions associated with climate change and the extent of the drought come to pass, and if the drought continues and becomes the norm as opposed to the exception — and I think the jury is still out on that one way or the other — but if the drought conditions here in the south-east part of Australia become the norm, then I think it is going to be incumbent on government and industry to think very, very carefully about the changes that need to be made structurally within operations on the economy, to adjust to that.

Mr TEE — Essentially, then, you are saying that I suppose the larger companies have spent a bit of time on it and have probably done a bit of work getting ready for those changes. If there is a role for government, we need to be focusing on those smaller businesses that probably do not have the resources to appreciate what is occurring and ready themselves for it.

Dr ANNISON — I think so. The larger international companies see particularly the climate change debate from a global level and a global perspective. Many of those are already positioning themselves that obviously government policies around the world will affect it, but they are intent on reducing their carbon emissions, period. And the reason why they are doing that is because of their corporate social responsibility — policy agendas internally.

A very good example is Nestlé. If you go to the Nestlé website you can download a report called their *Creating Shared Value* report, which lists a whole range of areas in corporate social responsibility where they are already taking action. Indeed, they list what they are doing to reduce their carbon emissions; they list what they are doing with regard to water, as well as a whole range of other social issues.

To some extent, the policy debate at government level for the large companies, particularly in industries that are not major emitters of carbon — and the food industry is not in its own right — they will just move and they will move faster than the policy.

A very good example is Woolworths. Woolworths announced two years ago that it would reduce its carbon footprint by 40 per cent by the year 2013 and they were giving themselves five years to make an absolute reduction of 40 per cent in their carbon emissions.

That is far in advance of any policy position that either the government — at state or territory level — or the coalition has. So I think there will be a lot of examples of food companies moving faster and further than policy demands because they think it makes sense in terms of what their corporate values are and what the community is expecting them to do.

Mr TEE — What is the role for the government in promoting, encouraging and supporting that?

Dr ANNISON — I think a government's role is to recognise it and applaud it, but also make sure their policies are such that they assist companies understand the importance of similar initiatives, particularly at the small to medium enterprise level.

Mr CRISP — I would like to revisit the important food issue which we saw in your State of Industry 2009 report, that the terms of trade and industry have declined considerably and caused some of the reasons around why that is occurring, and also look at that 40 per cent growth in imported food.

The CHAIR — Do you want to give those figures because I think they are relevant to the transcript?

Mr CRISP — The trade surplus in 2008-09 was \$150 million compared to \$4.5 billion in 2004-05.

Dr ANNISON — I think those refer to the industry as a whole, so that is food and non-food grocery products. Just to give you a little bit of background on why we include food and non-food grocery products together, it is simply because — and it relates to what I said initially — these are products that people use every day that they find on their supermarket shelves, and which contribute to their health and wellbeing, both as food and non-food groceries.

So there is an argument that goes: if you cannot replace your toothpaste when you go to the supermarket, then it can directly affect certainly your comfort levels for a period of time, possibly even your health, so people are buying these products every day to support their quality of life. The reason why they are dealt with within the Australian Food and Grocery Council is they come down the same supply chain and they are faced with many of the same issues. So supply chain efficiency, impact on the environment through packaging and packaging waste, and so on and so forth. That is why they are dealt with together.

In terms of imported food and non-food grocery products, until we essentially completed this body of work — and it was literally only completed six or seven weeks ago before we went to press — we did not have any idea about how those figures would turn out. It is certainly true that we have not done an analysis on the key drivers for the points that you have noted.

We will say, however, that the food and grocery manufacturing industry is becoming more competitive worldwide. Food and groceries are manufactured all over the world. There is very little protection in terms of the Australian domestic market. There is no formal protection so we do not have tariffs, unlike other countries, for food and grocery products, but we are protected to some extent through the tyranny of distance and the size of the market, and we also have very rigid and sophisticated food regulations that other countries have to meet if they sell their products here, so they have to meet the Food Standards Code, for example.

Notwithstanding that, because food manufacturing is getting more sophisticated around the world, in particular, more and more products can meet our standards, and therefore they can compete against domestically prepared products. Also, the food industry has been under pressure. We talked about the consolidation of the retail chain, and that may be part of it, but also in more recent times the raw material costs have gone up significantly because of the drought, not only in absolute terms, but there has been a lot of volatility in prices that has undermined some of the manufacturing industry. So that plus uncertainty in terms of government policy and what the future might hold all contribute to making manufacturing here in Australia, and more so in Victoria, more of a challenge for food companies.

The CHAIR — Can I pick up a little further on the point you made that some countries have a greater degree of protection than we do here. Protection is probably now one of the words that we are not allowed to use in political circles here in Australia. What we can use, though, are the rules that apply internationally in — let's pick 10 countries — and how they give stronger vibrancy to their food and grocery manufacturing sector.

Could you run through some of those or would it be in your report that you have referred to? I wanted to know what were some of the rules that apply and if we could have 10 countries as examples of where they allow greater support for their manufacturing than we do.

Dr ANNISON — When I say 'protection', I guess the point that I am actually making is that other countries have tariffs on imported food that we do not have here.

The CHAIR — That is right. So could you run through some of those or are they in that report?

Dr ANNISON — They are not in the report, and I could not just list them off the top of my head from memory, but they are readily available and I could get you a list.

The CHAIR — That would be very helpful.

Mr TEE — How much is that downturn a product of 10 years of drought? How much is the downturn in those trade figures of \$150 million surplus versus a \$4.5 billion figure of some five or six years ago?

Dr ANNISON — I am not sure, because, as I think I said, we have not done an analysis of the data to try and find what the key drivers are. Certainly I think it is true to say that there has been less of an emphasis in terms of government policy and government support for the food and grocery industry since the turn of the century as an industry that can and does export large volumes.

If you think historically, I think it was in 1992 that the AgriFood Council stated that by the year 2000, Australia would export about \$7 billion worth of processed food, and that was off approximately \$2 billion in 1992, I think it was. So they identified that Australia had a lot of opportunity for processed foods and at the same time other interesting things were happening so, for example, the Centre for Food Science and Technology was created with Food Science Australia down at the Werribee site.

In 1996 the Supermarket to Asia Council kicked off under John Howard. The Australian Food and Grocery Council was formed. The trans-Tasman arrangements for the Australian New Zealand Food Standards Authority, as it then was, and then it became FSANZ, kicked off and, if you remember, there was a lot of talk about Australia having clean and green food products manufactured to the world, and we would be the food bowl of Asia.

Indeed, the target that was set by the AgriFood Council in 1992 was met and Australia went through \$7 billion worth of processed food exports in the year 2000, and it continued up, until it is now \$16 billion to \$17 billion, but the last few years it has flattened off and it has flattened off probably because of the drought. Import prices going up are more difficult for manufacturing conditions, but that is just a guess in some ways, and we do not have a lot of data to support that, and I think it is also true that the regulatory burden on the food industry has gone up in Australia.

There has been less direct support for the food industry so, for example, in recent years there has been a reduction in the level of R and D support for innovative food manufacture in Australia with the demise of the FIG scheme in 2007.

The CHAIR — FIG?

Dr ANNISON — The Food Innovation Grant scheme that the Government had. That has been replaced with another scheme, but it is less money and it is more targeted at simple technology adoption rather than real innovation, so we have concerns that the government policy focus on the food industry has waned at both commonwealth and state and territory level, and indeed that is really why we have produced the second document that I referred to, which is the case for a national food and grocery agenda.

We think it is time for governments to recognise the contribution this industry makes to economies, both nationally and at state and territory level, particularly on the eastern seaboard, and start thinking about coordinated government policies which support the industry rather than undermine its competitiveness, so issues like streamlining the regulatory practice for food regulation, issues like container deposit legislation was an issue. We need to address things like

the supply chain. We think there are issues around the infrastructure support that could be addressed as well.

The CHAIR — Would you like to outline that?

Dr ANNISON — Certainly we think it is very important that the expenditure on infrastructure in the country, if you like, keeps pace with the growth of the economy, otherwise it becomes a constraint to economic growth. We have been supportive of the debate that has been going on at both national and state and territory level of the need to make sure that as we invest in the country going forward that those investments are also in infrastructure.

We have had concerns about the level of spending in the rail network, in the road network and in the ports network, which can all add significant costs to the industry in the longer term. They can all be addressed at a national level, but what we have been calling for is a recognition that it is important that they are addressed and it is done in a coordinated way in order to support an industry like the food and grocery manufacturing industry in Australia.

Mr CRISP — I am interested in your thoughts about FSANZ not keeping up in industry regulation.

Dr ANNISON — We have had a lot of concerns about the food regulatory system in Australia for quite some time. We have been concerned about the speed at which standards are developed by FSANZ. We have been concerned about the lack of good policy overlay for the food standards development. For example, I have mentioned the food labelling area. We hope that what will come out of the food labelling review is an overarching policy on food labelling.

It is incredible to think that food labelling takes up approximately one-third of the food standards code, yet there is no policy guiding regulation in the food labelling area. From time to time food labelling issues bubble to the fore. Most recently in the federal arena we have calls for yet another revisiting of the country-of-origin labelling debate. Every time this happens it highlights that, without policy, at state and territory level different jurisdictions see that there is a different role for food regulation, therefore this slows down the development of regulation and the development of good regulation that can underpin innovation in the food area.

In the health claims debate, for example, for over 20 years the Australian food industry has been calling for a relaxation on the prohibition on health claims to allow companies to make truthful, scientifically substantiated statements about how food or particular food products, if consumed in the context of a healthy diet, can contribute to good health and protect and promote good health.

For 20 years we have been asking for this regulatory relaxation, and we still do not have a health claims standard. FSANZ has had a go at it, and ANZFA had a go at it before FSANZ, yet we seem to be unable to land a health claims standard. In other words, in the regulatory area nobody is really asking the question when it comes to food labelling, and indeed food regulation: what is the justification for prohibiting industry telling consumers about its products, and what is the justification for mandating information to be put on food labels and food products. Nobody is asking those questions, and nobody is answering them. We are asking them, but we have yet to receive answers.

The CHAIR — But someone is free to put whatever they want on their label — are they not? — as long as they do what the government stipulates they must do.

Dr ANNISON — No, they cannot.

The CHAIR — Can they not make up, for example, that this particular enzyme keeps you young and fresh and energetic for 24 hours a day? If they are able to prove it scientifically, are they allowed to put it on the label?

Dr ANNISON — They are allowed to make some claims relating to nutrition and health as long as they are not overt health claims. Let me give you an example. We can make a nutrient claims, which is — —

Mr CRISP — Daily requirements?

Dr ANNISON — We can make a nutrient claim — for example, that this yoghurt is a dairy product that contains calcium. It is a nutrient claim that this product contains calcium. We can make a nutrient function claim that calcium is important for healthy teeth and bone development, but we cannot make the claim that an adequate intake of calcium, which is provided by this product consumed as part of a healthy diet, may protect against osteoporosis. That is a health claim.

We are allowed to make the former claims, but not the latter claims. We are the only section in the community that is forbidden to make these claims. You can turn on the television and watch TV personalities make them about Australia's products. You can read stories in the newspaper and the women's magazines and hear them on the radio, but the food companies themselves are not able to link the intake of nutrients within a food product with a particular health outcome.

Mr ATKINSON — In terms of that change in balance for imports, have you assessed direct sourcing by the supermarket chains?

Dr ANNISON — We know that when supermarkets market any products under their own brands that they can potentially source the product from anywhere in the world, and they do.

Mr ATKINSON — What is the trend?

Dr ANNISON — The supermarkets would argue that they go to the cheapest source that meets their own product specification. The supermarkets — at least the major chains with which I am a little more familiar — set product specifications that they want to be met by manufacturers, and they will look generally, as I understand it, to the cheapest supplier of that. But of course they also have to indicate on their food packs where the produce comes from. If it is tinned tomatoes, for example, if it is not produce of Australia and comes from outside, that will have to be marked on the label. As with all other manufacturers, they are bound by the food standards code in product labelling requirements.

Mr ATKINSON — Has the push by Coles to make around 30 per cent of their product to be 'product' label — Woolworths, whilst not specifying quite so high a figure has also been very aggressive in developing product label — coincided with a substantial increase in direct sourcing of overseas product?

Dr ANNISON — I really do not know the reason for that. We have not done that type of analysis, but we would assume that theoretically the more they go for their own house brands and their own private label brands as a percentage of the total turnover that goes through the supermarket, if they are prepared to source from anywhere in the world, then it is likely that that will help drive the importation of more products. However, we do not have any data that would necessarily support that, so it is conjecture mainly.

The CHAIR — Would you see a role for our committee in specifying particular dimensions or types of labelling in relation to the source, because a lot of people who could be visually challenged simply cannot read the source of a particular product because it is so microscopic they cannot always read it?

Dr ANNISON — The legibility requirements of labelling on food packs are stipulated in the food standards code. I would advise strongly against moving down that line outside the current mechanisms that there are for looking at food labels. Certainly input to the labelling review is an

option that you would have. You could explore that, but I do not think we need an alternative mechanism for legislating what should be put on food labels outside the food standards code.

The CHAIR — No. We can make recommendations to our minister to take such and such to a particular ministerial council from where it would be sent to Standards Australia or somewhere else where appropriate.

Mr TEE — Would it make any difference?

Dr ANNISON — No. None.

The CHAIR — When you drive past the shop of our next witness you see branded in gigantic letters out the front where their goods are manufactured — in Australia. You go through that shop door and you know who you are supporting.

Dr ANNISON — There is no doubt there are all sorts of drivers to consumer choice. There is absolutely no doubt about that. The first driver is usually price. Then it comes down to quality, taste and other things like country of origin labelling which may play a role with some consumers. Then there are also other things like the health positioning of the product and the brand support it gets within the marketing system.

Mr ATKINSON — Can you just tell me where there is a survey that says that price is the most important factor, because every survey I am aware of conducted by the supermarket industry lists price at usually the no. 3 or 4 position.

Dr ANNISON — I am not referring to any particular survey, but often when we have these discussions with our member companies, price is one of the first things that is mentioned as to being a driver of consumer choice. It is not the only thing, and with different consumers there is a difference of importance. Brand loyalty is a very strong driver as well for consumer choice and consumer behaviour.

Mr ATKINSON — It is interesting that we often say consumers really want. It occurs to me, having just come back from overseas, that everybody says prices are important regarding airline fares. But I always think safety is the most important thing, because I would rather get there and get home.

Dr ANNISON — It is certainly true that often what consumers say and what they do are two completely different things as well.

Mr ATKINSON — Coles indicates that the trading terms enjoyed by Australian manufacturers are rather luxurious compared to manufacturers overseas and is indeed pushing to try to get tougher trading terms. What is the view of your members and what is the likely implications or impact on the industry of Coles succeeding in pushing for tougher trading terms?

Dr ANNISON — As I think I said before, we do not actually work in the trading terms space. The trading terms for very good reason, I hasten to add, are basically a negotiation between two companies which are the retailer and the manufacturer or supplier. There is no role really for an industry association in that.

Mr ATKINSON — Except — just to interrupt — that manufacturers are too frightened to actually discuss what some of the retailer demands are upon them because they are concerned about vindictive behaviour subsequently. Therefore it would seem to me that an industry association is a good way of actually sanitising some of those concerns but still getting them out so they can actually be assessed properly by government agencies, particularly the Australian Competition and Consumer Commission.

Dr ANNISON — In the end, and I think this is one of the problems the Australian Competition and Consumer Commission ran into when it did its inquiry, was that it expressed the same concerns that you have — that is, individual companies were not prepared to come forward and make strong complaints against the retailers.

The retailers have argued that what they do is conduct fair and reasonable trade. Our view is that we do not think it is embedded within any of the supermarket chains to not ultimately work with industry and work collaboratively with industry. We work collaboratively with retailers on many projects. But what there is, however, are individual companies which negotiate with individual account managers within the retail sector and trading terms are negotiated at that level.

It is quite possible that some of the negotiations might be tougher than others. But we do not routinely have member companies coming to the AFGC complaining specifically about specific trading terms. To date the AFGC has not provided that forum, and there has not been a drive from the membership to do so.

Mr ATKINSON — Can I just say, from our point of view, we could not care less about trading terms either. In terms of government I do not think government has a role in telling people what their trading terms should be. The only concern is that obviously market power abuse or suchlike might be of concern to the ACCC.

Our concern at this level I guess is that if these problems exist, despite the fact they are an elephant in the room and no one wants to talk about them, then we need to be assured there are not implications for the health and future growth opportunities of the food and grocery industry, and the manufacturing side of that industry, here in Victoria. In other words I guess what I am sort of seeking in that line of questioning is not to actually get stuck into the retailers or, as I said, intrude on the trading terms, but we really as a committee need to understand what are the implications of some of these issues going forward for the manufacturing sector in food and groceries which has always been so important in Victoria.

Are some of your members looking to start manufacturing overseas to transfer manufacturing overseas of some division or some product areas? Are some of them looking at bringing manufacturing back into Australia for quality reasons or whatever? What is the sort of investment trend from multinationals and so forth now looking towards food and beverage manufacturing in Australia? Are we looking at a contraction going forward? Are there things we can do about that if that were the case?

Dr ANNISON — I think with regard to investment in Australia as a manufacturing site — and clearly there are a lot of drivers to the attractiveness or otherwise of either starting manufacturing here or continuing manufacturing here and I think major companies, particularly multinationals, continually assess where they manufacture and where they are going to place their next investment dollar — what we do not have is a good understanding of the magnitude of what each of those drivers is.

It could be the availability of raw material, the stability of the political system; it could be the relative nature of the retail sector and whether there is concentrations of market power. But certainly we have not done an analysis, and I am not familiar with any that has been done that says these are the absolute key drivers. I suspect it probably differs from category to category. Certainly one of the major drivers for manufacturing in Australia is the fact that there is an abundance of raw material, notwithstanding the fact of the volatility in prices we witnessed regarding raw material over recent years.

The CHAIR — We are definitely going to have to finish shortly. Brian, do you want to explore that?

Mr TEE — I just wanted the indication that there are a number of drivers. But I am wondering whether that is a role perhaps for government to do some research to sort of flesh out what they

are and where they sit relative to others in terms of providing information that would be helpful against the government to say, 'These are the drivers. This is where they fit' and then you use that information to develop policy.

Dr ANNISON — I think that would be a very sensible thing to do.

Mr TEE — In doing so are you identifying a gap in the available knowledge that is out there for government to make sensible policy decisions?

Dr ANNISON — I think you are absolutely right. You probably have put your finger on it. In terms of calling for a national food and grocery agenda or national food and grocery policy, we have asked to work with government at the state, territory and commonwealth levels. Clearly policy without information is probably not what we are seeking. We would rather it being done on an information base. We would certainly like to work with governments to identify what the information requirement is and perhaps help find it.

The CHAIR — Could you take this on notice? My worry in identifying that particular information is that from my recent experience, food manufacturers here in Australia are very reluctant to come out and speak about what the two major supermarkets chains are doing to our food manufacturers in particular.

Mr TEE — I suppose that is a separate issue to the issue I was talking about.

The CHAIR — But we are trying to identify policy and drivers and how that impacts on manufacturing. There is a whole range of factors, but in the end they have to sell their products. Ideally they need to be able to have access to markets here in Australia. If there is inappropriate behaviour going on, and very few people are prepared to talk publicly about it, we have a huge policy gap because the information is not being presented because of fear.

Mr TEE — On that, do you think that is a concern out there, that we have got an industry that is dominated by two main players, that it is operating unfairly?

Dr ANNISON — We certainly have concentration of market power between the two major retailers. From memory, the ACCC inquiry said that there was evidence of significant market power, but I do not think they were able to demonstrate market abuse. You have indicated that you have heard an anecdote of market abuse. We have heard anecdotes before, but they remain anecdotes. That is not a good basis for an industry association to move, and it is not a good basis for government policy either.

The CHAIR — I agree with you, but the worry is they are so fearful. I said, 'I have got a parliamentary inquiry on. Why do you not come and present on oath the kind of evidence you have just spoken about?'. But no, they are too scared.

Mr ATKINSON — I was just wondering what members are saying about, as I said, transferring production of any food or beverage products overseas or in fact bringing any back. The last thing I also want you to comment on — because I might get chopped otherwise — is dumping. Is dumping a problem for your members?

The CHAIR — Dumping into Australia?

Dr ANNISON — On the dumping first, it is not an issue that is constantly being logged — which is frequently brought up within the Food and Grocery Council. If it was a big issue that they thought the Food and Grocery Council could do something about, then presumably they would. Whether it occurs or not and how dumping might be demonstrated, I know there have been cases in the past, but it is not something that appears to be happening all the time. Dumping probably is not a major issue. It is certainly not on our radar.

The other question about the location of manufacturing resources within Australia. We know that companies are still investing in Australia and building new plant and manufacturing capabilities, but they are also shutting down manufacturing capabilities. Sometimes it is a rationalisation.

On some occasions it results in manufacturing moving offshore — I cannot remember the last time that happened. But in terms of the sorts of things that the AFGC addresses, we do not spend a huge amount of time looking at the investment decisions of each individual company or the industry as a whole, so we have not done any systematic analysis of the amount of money that is being spent and why. But we do know that when manufacturers consider their operations in Australia, they take a number of things into consideration, and we have already discussed what those are.

The CHAIR — We appreciate your evidence, Dr Annison . A transcript will be provided to you within about a fortnight. You are free to correct any typographical errors and obviously not change the substance of your submission. Thank you very much.

Dr ANNISON — Thank you very much. Thanks for the opportunity.

Witness withdrew.