



Department of
AGRICULTURE
FISHERIES &
FORESTRY -
AUSTRALIA



National Food Industry Strategy



National Food Industry Strategy

An Action Agenda for the Australian Food Industry

WHAT IS AN ACTION AGENDA

THE PURPOSE OF THE ACTION

AGENDA PROCESS IS TO ENGAGE

STAKEHOLDERS IN THE DEVELOPMENT


OF THE STRATEGY, WITH INDUSTRY

IDENTIFYING THE ACTIONS AND TASKS

THAT NEED TO BE TAKEN TO REALISE

ITS FULL POTENTIAL.

June 2002



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Acknowledgements

This publication was developed by the Department of Agriculture, Fisheries and Forestry - Australia

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*The Hon. Warren Truss
Minister for Agriculture, Fisheries
and Forestry*



Foreword

Australia's food industry plays an integral role in the Australian economy by providing significant employment opportunities and investment, particularly in rural and regional Australia. Australia is an important component of the world's food supply system in producing fresh fruit and vegetables, meat and dairy products, through to highly value added consumer products, and food science and technologies.

Over the course of the 1990s there has been rapid growth in Australia's horticulture industry, with horticulture exports doubling to around \$680 million. The processed food industry is Australia's largest manufacturing sector, adding value to Australia's agricultural commodities for markets in Australia and around the world, and generating a significant and growing trade surplus of around \$11.9 billion in 2000–01.

While the sustained growth of the food industry in Australia is good news, it is important to recognise that the structure and operation of the global food industry is changing. And the pace of that change is accelerating.

In Australia we have already seen impacts of this trend. Recent rationalisations and investments in food processing, increased merger, acquisition and divestment activity in food, and the entrance of foreign retail chains are all elements of the fundamental changes occurring in the global food industry.

Historical advantages and approaches will not be sufficient to ensure success in the global food industry of the future. Industry and Government must work in partnership to capture the opportunities and meet the challenges arising from this global trend.

The National Food Industry Strategy represents a joint industry and whole of government partnership in addressing these issues. The National Food Industry Advisory Committee has worked with the Government to develop an integrated Strategy to ensure the sustainable growth and future success of Australia's food industry. This Strategy will build on work on globalisation undertaken by the Prime Minister's Supermarket to Asia Council, which convinced the Government that an integrated Strategy was necessary for the industry.

The Strategy highlights actions designed to increase the focus on innovation, supply chain management and firm level competitiveness. Industry and Government will join forces to continue and build on efforts to enhance exports, develop robust trading standards, and provide the infrastructures of an innovative and competitive industry.

I am confident that the implementation of this Strategy will ensure the Australian food industry continues to be a significant player with a sustainable and profitable role in the global food industry of the future. I look forward to working in partnership with industry through the new National Food Industry Council in achieving the industry's vision.

The Hon. Warren Truss
Chair, National Food Industry Council
Minister for Agriculture, Fisheries and Forestry

**THIS ACTION
AGENDA AIMS TO
STRATEGICALLY
POSITION THE
AUSTRALIAN FOOD
INDUSTRY FOR
DEVELOPMENT AND
GROWTH BY
ADDRESSING THE
KEY ISSUES ARISING
FROM THE RAPIDLY
INCREASING RATE OF
GLOBALISATION OF
THE FOOD INDUSTRY.**



NATIONAL FOOD INDUSTRY ADVISORY COMMITTEE

3rd Row (Rear): John Doumani, Jim Kennedy, Michael Eyles, Iain McGregor, Phil Naylor, Malcolm Irving, Barry Watts

2nd Row: Michael Taylor, Mitch Hooke, Reg Clairs, Ian Donges

1st Row (Front): Barbara Isaacson, the Hon. Warren Truss MP, Senator the Hon. Judith Troeth, Andrew Reeves

Members not present: Joe de Bruyn, Dianne Davidson, William Duncan, Mike Ginnivan, Paul Little, Ray O'Dell



Executive Summary

The food industry is a vital part of the Australian economy. In addition to contributing a significant trade surplus each year, the food industry is an important provider of employment and business opportunities, particularly in rural and regional Australia.

Now however, the industry is at the crossroads.

The global food product system is undergoing significant change and the pace of change is accelerating. This change is fuelled by the removal of barriers to the flow of information and capital, and driven by rapid technological advancements in information and communications technology, transport and financial services.

Globalisation has been confirmed by broad-ranging consultations with the industry and research and analysis by the Prime Minister's Supermarket to Asia Council as the key issue facing the food industry. Industry agrees that urgent action is required. The Government accepted the Council's recommendation that a Strategy be developed through an action agenda process.

The success of the Australian food industry in the future, in this increasingly competitive and globalised market, will depend on dynamic businesses actively pursuing growth and development along the entire food supply chain.

If the food industry is to continue as a key industrial sector in Australia, there needs to be a radical shift in thinking, changes in policies by Government and re-invigorated effort by industry. Growth for the future is inextricably linked to increased exports, as the domestic market is mature and has limited growth prospects.

The National Food Industry Advisory Committee responded to the Government's challenge in assisting to develop a Strategy for the industry's future. The Strategy sets out action in four key areas to assure the future of the Australian food industry. These areas include encouraging innovation through leveraging Australia's science and technology capabilities, developing a more integrated export strategy, enhancing the business environment and ensuring environmental sustainability.

Australia's food industry has enormous potential for growth by positioning itself to meet the needs and expectations of existing and emerging markets. Through enhancing its capacity and capabilities in these four key areas the food industry's full potential can be realised.

To realise this potential, the Government and the food industry need to adopt a new approach to deal with the challenges and to capture the opportunities created by globalisation. This new approach will provide benefits to Australia in terms of exports, investment and jobs. The consequences will be particularly beneficial for rural and regional Australia, where much of Australia's food production and processing is located.

BY 2007, THE AUSTRALIAN FOOD INDUSTRY WILL BE A SIGNIFICANT GLOBAL PLAYER WITH A SUSTAINABLE AND PROFITABLE ROLE IN THE GLOBAL FOOD PRODUCT SYSTEM.



Challenges and Opportunities

Australia's Food Industry

Australia's food industry produces a wide range of products and high quality ingredients. Combined with cutting edge technology, this makes Australia an important global supplier for a number of food products.

The food industry is a vital component of the Australian economy. Food products, incorporating processed food including meat, dairy, processed seafood, beverages and ingredients, and fresh horticultural produce, account for 43 per cent of total retailing turnover in Australia and around 20 per cent of Australia's merchandise exports. Exports of these food products have averaged nine per cent growth per year over the past decade to reach \$16.9 billion in 2002–01. The industry directly employs over 225,000 people throughout Australia in around 25,000 horticultural establishments and other food businesses.

Australia's food product system makes a significant contribution to the economies of regional areas through employment, business and service opportunities.

Processed Food

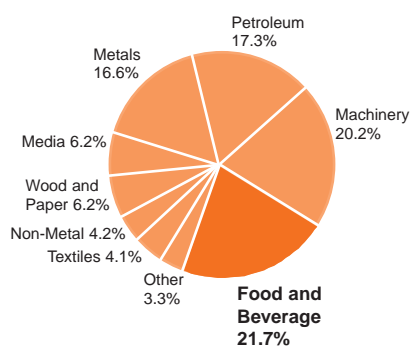
The processed food and beverage industry is Australia's largest manufacturing industry with a turnover of over \$55 billion in 2000–01 (Figure 1). The industry is three times larger than the automotive industry and four times larger than the textiles, clothing and footwear industry. The industry contributes around \$14.3 billion or 2.2% to Australia's GDP.

The industry covers a number of sectors including meat and dairy products, wine and other beverages, fruit and vegetables, bakery, sugar and confectionery manufacturing.

The industry comprises around 3,400 firms employing over 163,000 people. Around half of Australia's processed food and beverage firms and 40 per cent of employees are located in rural and regional areas.

The food processing sector is one of the fastest growing manufacturing sectors in Australia due to growth in exports, greater value adding to agricultural produce, and the development of more sophisticated processed food products¹ (Table 1). The sector created more than 10,000 jobs in regional Australia in the decade to 1996, partly offsetting a decline in agricultural employment.

Figure 1 Turnover by Manufacturing sector 2000–2001*



Source: ABS, Manufacturing Industry, Australia, Preliminary, Cat. No. 8201.0

* Based on preliminary figures

Table 1 Change in turnover, Australian manufacturing, 1980–2000, (AUD \$ M)

Turnover	1980	Proportion	1990	Proportion	2000	Proportion
Food and beverage processing*	16 135	21.9%	32 934	19.6%	51 089	22.1%
Machinery and equipment	14 321	19.4%	32 076	19.1%	44 350	19.2%
Metal products	15 601	21.2%	34 142	20.3%	41 304	17.9%
Petroleum, coal and chemicals	7 069	9.6%	20 268	12.1%	36 002	15.8%
Printing and publishing	3 320	4.5%	9 313	5.5%	17 256	7.5%
Wood and paper products	5 612	7.6%	12 150	7.2%	14 060	6.1%
Textiles clothing and footwear	4 724	6.4%	9 096	5.4%	9 337	4.0%
Non-metallic mineral products	3 305	4.5%	7 821	4.7%	10 560	4.6%
Other	3 576	4.9%	8 076	4.8%	7 088	3.1%
Total manufacturing	73 663		167 866		231 145	

Source: ABS, Manufacturing Industry, Australia, Preliminary, Cat. No. 8201.0; compiled by the AFGC updated by AFFA

* Includes tobacco product manufacture, excludes non-food grocery

Around 22 per cent of processed food and beverage sales is exported. The processed food industry is one of only two Australian manufacturing sectors that are net exporters², as shown in Figure B. In 2000–01, Australia exported \$16.3 billion and imported \$4.3 billion of

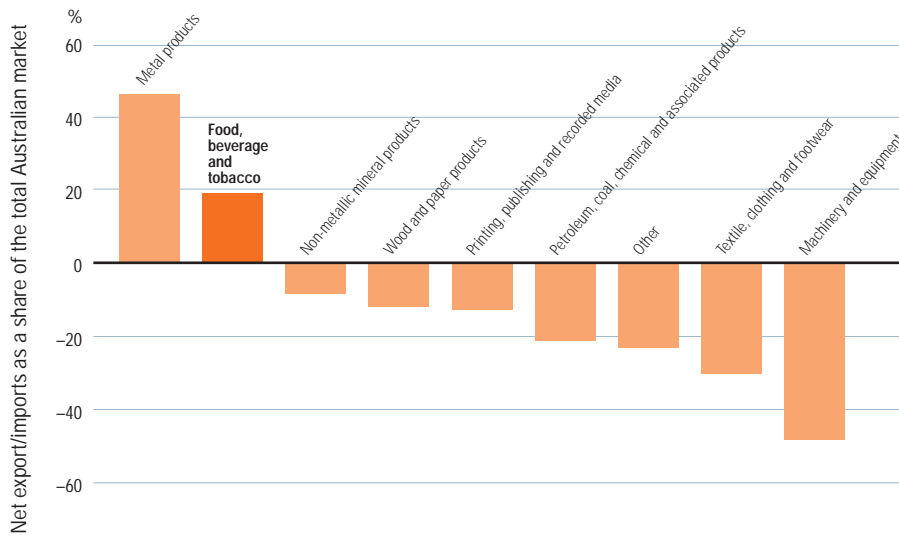
¹ Australian Food and Grocery Council (AFGC), 2001

² AFGC, 2001



processed food and beverages. This represents a significant trade surplus in processed food of \$11.9 billion (Figure 3). The top five export destinations—Japan, USA, Korea, Indonesia, and UK—account for over half of total processed food exports.

Figure 2 **Net Trade Surplus (deficit), Australian Manufacturing Sectors, 1998–99**



Source: ABS, compiled by the AFGC

Food processing in Australia is highly concentrated, with the 20 largest food processing companies located in Australia accounting for almost 50% of total industry turnover. Food industry employment and value added is more highly concentrated in larger firms, with a relatively higher concentration than for the broader manufacturing industries (Table 2). For consumer food product categories, it is common for the one or two largest suppliers to own or share over 50 per cent of the domestic market.

Table 2 **Industry contribution by size of establishment 1999–2000**

Industry	Employing less than 20 persons		Employing 20–99 persons		Employing 100 or more persons	
	Proportion of total employment	Proportion of total IVA (Industry Value Added)	Proportion of total employment	Proportion of total IVA	Proportion of total employment	Proportion of total IVA
Food	11.6	5.4	22.7	19.3	66.2	75.3
Manufacturing	24.4	19.6	28.5	26.0	47.1	54.7

Source: ABS Cat No 8221.0 Manufacturing Australia 1999–2000

Fresh Food

Changing consumer tastes in Australia have resulted in a 15 per cent increase in the consumption of fruit and vegetables over the last decade and over 40 per cent in the last 50 years. This trend has supported significant growth in Australia’s horticulture industry.

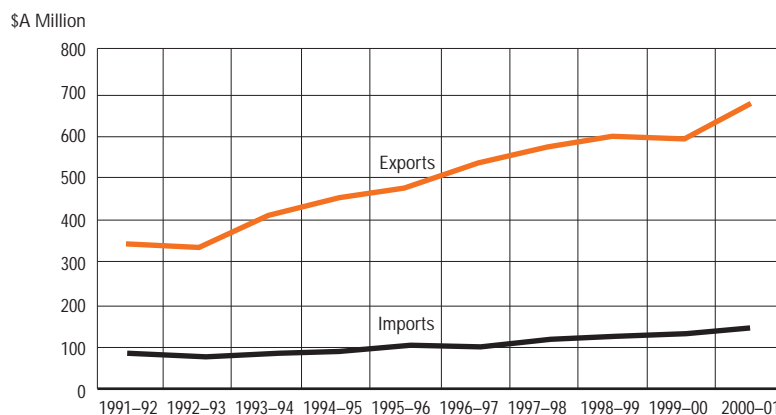
Australia’s horticulture sector generated around \$5 billion in turnover at the farm gate, generating significant value from the production of grapes, potatoes, apples, bananas and other niche fruits and vegetables such as nashi pears, lychees, olives and herbs.

Horticultural products contribute around five per cent of the value of Australia’s food exports and have doubled in value over the 1990s to around \$680 million in 2000–01 (Figure 4). The industry makes a significant contribution to rural and regional economies with over 60,000 employees located in these areas.

Australia’s location in the southern hemisphere enables the horticulture industry to supply counter-seasonal fresh produce to many northern hemisphere markets. Australia’s major markets for horticulture exports include Hong Kong, Singapore, Japan and the US.



Figure 3 Exports and imports of processed food and beverage



Source: AFFA, Australian Food Statistics 2002

Food Retailing

Australian food sales for domestic consumption were valued at \$71 billion in 2000–01. Supermarkets and grocery stores (the retail sector) make up around 66 per cent of food sales, restaurants account for around 13 per cent, take-away food outlets represent ten per cent, with the balance sold through other outlets³.

In addition to being the largest component of food sales, the retail end of the market is highly concentrated, with over 70 per cent of sales being realised through two major retailers. Competition between these players is intense, with profit margins around 2–3 per cent; significantly lower than most international comparisons. However, the dynamics of the Australian retail industry are changing rapidly with a likely increase in the market share of independents due to the divestment of Franklins, and the entry to the market of German retailer Aldi, and South African retailer Pick'n Pay.

International Food Trade

While agricultural commodities and processed food products have long been internationally traded, the composition of world food trade has changed significantly in recent years.

Figure 5 shows the relative importance of the four major components of world food trade: bulk commodities, processed intermediate products (such as skim milk powder, bulk cheese and boned meat), fresh horticultural products, and processed consumer goods (such as beverages, smallgoods, biscuits, and confectionery).

Since 1980, the international trade in processed consumer goods has increased rapidly, while the proportion of bulk agricultural commodity trade has declined.

More recent figures show that trade in processed food products has increased further to 75 per cent of global agricultural trade this year, from 50 per cent in 1985 and is growing at twice the rate of trade in primary products.

The major processed foods traded in world markets are meat products, vegetable oils, dairy products and grain products.

This underscores the importance of processed consumer and intermediate food products to Australia's participation in world food trade. In fact, the largest growing sector of Australian food exports is the dairy products sector, most of which has been in highly processed products⁴.

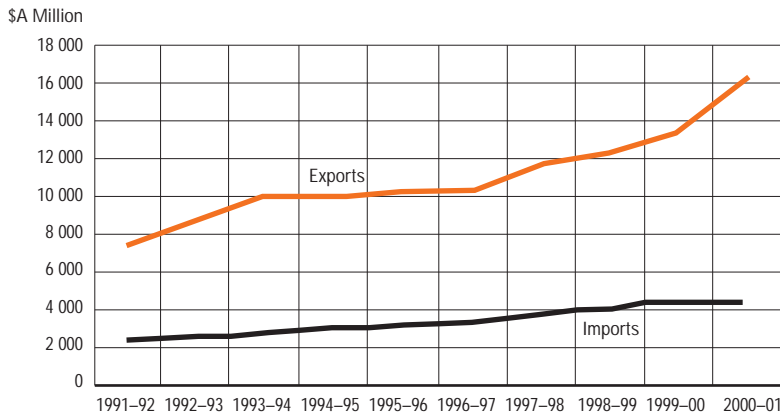
An examination of Australia's share of global processed food trade reveals our current participation in this international trend (Figure 6). Australia is a relatively small player with around three per cent of global trade in processed food. While this figure has remained steady over the last few years, Australia's major competitors have been steadily increasing their global market share.

³ AFFA, ABS, Australian Food Statistics, 2002

⁴ AFGC, 2001



Figure 4 Exports and imports of horticultural products



Source: AFFA, Australian Food Statistics 2002

Globalisation—Key Driver of Change.

The global food product system has undergone significant and accelerating change in recent years, fuelled by the removal of barriers to the flow of information, capital services and goods, driven by rapid technological advancements in transport, financial services, telecommunications and computer technology, particularly the Internet. While global economic and trade developments present opportunities for the Australian industry, they will increasingly test its competitiveness.

As urbanisation and industrialisation progresses, food consumption is increasingly divorced from the source of production of the raw material or the transformation to a consumer product. It signifies the process of specialising in the production of goods and services that deliver the greatest economic return, and over time, provide the basis for the further development of marketing, processing and distribution systems and increasingly sophisticated food products.

Historical comparative advantages will not be sufficient to sustain competitiveness onshore in meeting import competition, or offshore in capturing new opportunities in export markets. With a number of long term supply arrangements currently being established around the world, Australia must quickly position itself to participate in these global supply chains or risk erosion of existing markets and losing the opportunity to capture or participate in new ones.

Emergence of the Global Consumer

Consumers in many countries are becoming more affluent, sophisticated and discerning, driving innovation and differentiation of products and services. In addition, global deregulation and advanced technologies have encouraged the convergence of consumer tastes and demands across national and cultural borders. This emerging 'global' consumer is driving change throughout the production chain, presenting opportunities and challenges for the food industry.

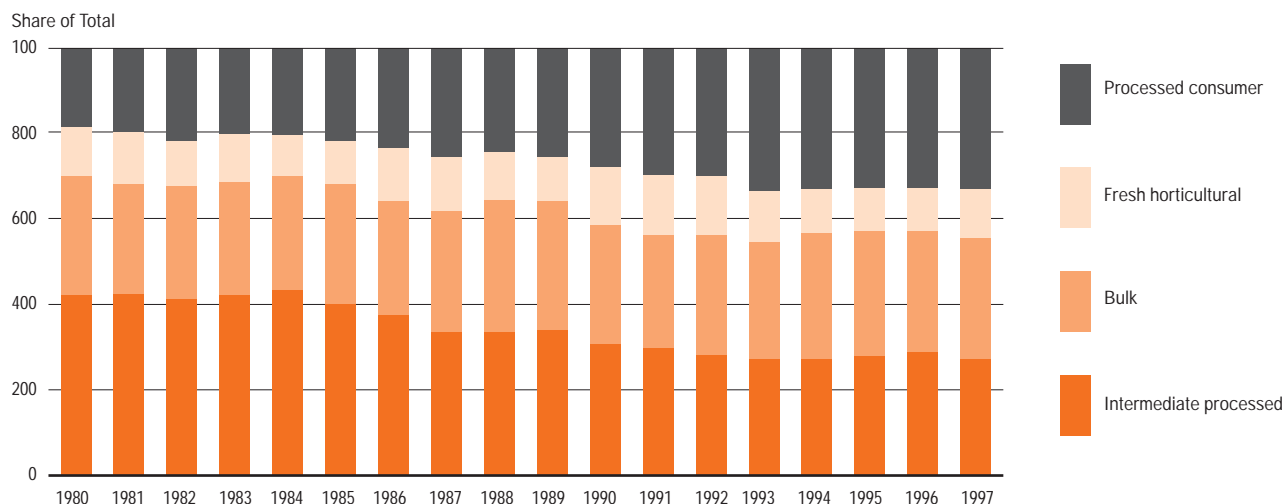
Food safety has always been the basic price of market entry and is simply not negotiable. However, consumers now also expect convenience, health and nutritional benefits, increased choice, flavour, consistency and reliable functional properties. At the same time, consumers are demanding food tailored to meet their individual requirements and lifestyle expectations. Traditional elements such as freshness, naturalness, brand and price remain key factors in choice.

The need for retailers and processors to meet these increasing consumer demands, while maintaining price competitiveness, highlights the importance of innovation in products, services, production processes and packaging technology. Of the 24,000 packaged food products currently on Australian supermarket shelves, 75 per cent are new within the last five years⁵.

⁵ Based on data reported in Allen Consulting Group, *Costs and benefits study: Evaluating proposed percentage labelling and nutrition information panel requirements*, November 2000



Figure 5 **Composition of world food trade**



Source: UN Comtrade, ERS classification

Events in the US over genetically modified foods and in Europe around outbreaks of Bovine Spongiform Encephalopathy (BSE) and Foot and Mouth Disease, have demonstrated an emerging ‘crisis of confidence’ among global consumers. This generates a number of niche market opportunities for firms to capitalise on Australia’s reputation for the production of safe food from a clean environment. Marketing this reputation through the use of eco-labelling, organic certification or GM-free assurances, requires the use of effective supply chain management systems to achieve product integrity goals such as including QA, traceability, identity preservation and segregation. The overall lack of a supply chain ethos in Australia’s food industry is a barrier to the development and adoption of these systems⁶.

Globalisation of Food Processing

Globalisation allows firms to treat whole regions, or the whole world, as one market.

This supports the global sourcing of inputs and the manufacturing and marketing of products at very large scale and highly competitive cost. In addition to these cost reductions, international expansion through greenfields investments, mergers or acquisitions provides new growth opportunities for processors faced with mature and low growth domestic markets. The trend to global mega-mergers is accelerating with the value of mergers and acquisitions in the food industry in 2000 around 12 times the historical norm⁷. Table 3 demonstrates the scale of these global mergers.

Table 3 **Selected food processing industry mega-mergers 2000–2001**

Date	Acquirer	Target	Equity \$b
15/01/2001	Nestle	Ralston Purina	10.4
7/12/2000	PepsiCo	Quaker Oats	14.0
6/12/2000	Tyson Foods	IBP Inc	3.2
26/10/2000	Kellogg	Keebler Foods	3.6
18/09/2000	Cadbury Schweppes	Snapple Beverage Group	0.9
17/07/2000	General Mills	Pillsbury	5.1
25/06/2000	Phillip Morris	Nabisco	14.6
2/06/2000	Conagra	International Home Foods	1.6
2/05/2000	Unilever	Bestfoods	20.2

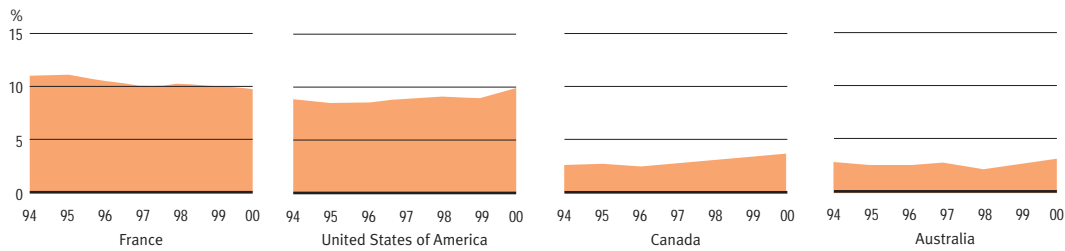
Source: The processed food product system in Australia, 2001

⁶ Leading Dog Consulting and Peter Flottmann & Associates, Segregating Gene Technology Products—Requirements, Costs and Benefits of Identity Preservation, Segregation and Certification, May 2001

⁷ Australian Expert Group in Industry Studies (AEGIS), The processed food product system in Australia, 2001



Figure 6 Percentage share of global processed food trade (by exports) 1994 – 2000



Source: International Trade Centre UNCTAD/WTO

Note: France and US have leading market share, Canada is shown as a comparison to Australia

International businesses are restructuring and extending their operations on global lines, siting their operations globally to centralise elements of the organisation, such as marketing, R&D or procurement, in locations that demonstrate some competitive advantage. This worldwide trend will have a significant impact on Australia's food industry due to the relatively high concentration in the industry.

Australian businesses are increasingly under pressure to justify Australia as a strategic location for corporate production and global supply, irrespective of whether they are Australian or foreign owned. This builds pressure to further rationalise and restructure to reduce costs, to improve economies of scale and to innovate in product, processes and packaging and marketing to compete with the very large global players (Table 4). These efforts need to be coupled with Government policies conducive to international competitiveness in meeting import competition and forging export markets.

Table 4 World's Top 10 Food and Beverage Companies

Rank	Company	Home market	Year end	Food Sales US\$ millions
1	Nestle	Switzerland	Dec 99	41,422
2	Philip Morris Company	United States	Dec 99	31,139
3	ConAgra Foods Inc	United States	May 99	24,594
4	PepsiCo Inc	United States	Dec 99	20,367
5	Unilever	UK/ Netherlands	Dec 99	20,310
6	The Coca-Cola Co	United States	Dec 99	19,805
7	Cargill	United States	May 99	17,143
8	Diageo	United Kingdom	Jun 99	16,419
9	Mars Inc	United States	Dec 99	14,500
10	Archer Daniels Midland	United States	Jun 99	14,283
64	New Zealand Dairy Board	New Zealand	May 99	3,380
96	Coca-Cola Amatil	Australia	Dec 99	2,207
100	Goodman Fielder	Australia	Dec 99	1,981

Source: National Graduate School of Management, Innovation in the Global Food Industry, 2001

A large part of this rationalisation and restructuring is achieved through direct foreign investment in own facilities or joint ventures. Direct investment facilitates the flow of management expertise and technology transfers that generate positive spillovers for the rest of the industry. Improved industry wide skill levels, productivity and performance are often the result of exposure to international best practice and experience. It is for these reasons that national governments around the world are competing for a share of this investment.

Around one third of processed food trade is currently being transacted by transnational firms via intra-firm transfers. In addition to the links formed through direct investment and joint ventures, global processors are using established supply chain networks to source inputs from the most competitive producers, anywhere in the world. With increasing global concentration of capital in food processing, it is likely that the proportion of intra-firm trade will increase.

Increasingly, the development of long term, strategic supply chain relationships, from the farm to the retailer, is crucial to the success of producers and firms. This is in response to the trend towards global competition between ‘product chains’ rather than firms.

Globalisation of Food Retailing

Concentration in the retail sector has increased globally. Mergers between Carrefour and Promodes, Wal-Mart and Asda have strengthened their position as the two largest global retailers. Other retailers are also expanding the reach of their businesses to the point where the top 10 global mega-retailers are operating in at least 7 and up to 28 countries. Aldi and Pick’n Pay, other global retailers, have recently entered the Australian market.

The globalisation of retailing is an extension of the domestic consolidation of retail in various countries aimed primarily at reducing costs of procurement and administration, and at leveraging or ‘buying in’ knowledge, talent and innovation. Six retail chains, including the US chain Wal-Mart, control about 80 per cent of food retail outlets in the UK. In Australia, over 70 per cent of sales are realised through two major retailers. A selection of the major global retailers is in Table 5.

If the current trend continues, it is likely that the majority of global retail food sales will be controlled by only a handful of global retailers within five or ten years. In particular, multinationals now dominate modern retail expansion in Asia and this trend is set to continue given announcements of plans for new store openings and investments.

Table 5 A selection of major global retailers

Company	Home market	% non domestic sales	Store numbers	No of countries	Sales 2000/01 Euro millions
Wal-Mart	US	14%	3,989	10	208,533
Carrefour	France	38%	9,600	28	64,802
Casino	France	19%	5,423	11	64,802
Ahold	Netherlands	75%	7,853	27	52,471
Metro	Germany	39%	2,114	21	43,804
Costco	US	22%	313	7	34,464
Aldi	Germany	33%	5,556	11	30,013
Tesco	UK	10%	821	10	29,752
Tengelmann	Germany	51%	6,689	11	27,300
Delhaize	Belgium	80%	2,360	11	18,206
Woolworths	Australia	0	585	1	9,560*
Coles/ Bi-Lo	Australia	0	427/163	1	7,408*

Source: IDG Global Retail Index, IDG Online; Woolworths Annual Report; Coles Annual Report, Inside Retailing Yearbook 2001

* Converted to Euro millions for comparison purposes

Like the multinational processors, the major international retailers are building long term global supply chain relationships with a select number of suppliers. These large retailers, by enforcing adherence to ‘proprietary’ food safety and quality systems, are discouraging the ‘sharing’ of suppliers. Gaining exclusive supply agreements is a form of vertical integration that allows retailers to maximise their returns from efficiency improvements along the chain.

The capacity of both manufacturers and retailers to source globally and supply locally could be significantly enhanced with the electronic trading hubs being established on the Internet and particularly so when coupled with improved fulfilment capability through advances in transport, biotechnology (eg extended shelf life) and ‘smart’ packaging.

The emergence of retailer driven, rationalised and exclusive supply arrangements is of particular significance to Australian fresh and processed food suppliers. With the increasing presence of European retailers in Asia, it is important for Australian suppliers to form strategic relationships with these global retailers. With the headquarters of many of the major global retailers situated in Europe, it will not be easy for Australian firms to form these relationships.



The Changing Focus on Brands

Retailers carrying private labels can generate advantage by offering 'own' branded products across similar markets. The offering of private label products gives the retailer the ability to take margins at several points along the value chain, and provides greater control over quality, price and range. This is particularly the case for 'generic' private label products.

Global sourcing and retailing of large volumes of branded products is limited by the consistency of product demands of consumers in different countries. More consistent consumer demands between countries reduces the need to tailor products to individual country requirements, thereby supporting global sourcing in very large volumes.

The convergence of consumer demands has also allowed a number of retailers to market 'premium' private label offerings in direct competition with processor brands. This strategy provides opportunities for smaller food processors to manufacture under contract for the retailers.

International manufacturers are increasingly focussed on developing a smaller range of stronger global brands. Maintaining fewer brand lines allows for reductions in overheads, marketing and distribution, and reduces marginal costs through longer production runs. This rationalisation process has begun in Australia, with a number of the larger firms consolidating their major brand lines and divesting themselves of minor brands.

Mass customisation is increasingly a feature of processor operations as firms seek to differentiate products and services to cater for the shifting emphasis in consumer values with increased purchasing power, reconciled with the business imperatives for rationalisation and economies of scale.

Innovation

Innovation is an essential element of the processed food industry's ability to successfully compete in the global market place, sustainably manage its resource base and improve the industry's cost and technical competitiveness. It also provides the foundation for new and improved products and processes tailored to meet customer expectations in target markets.

From a business perspective, innovation should not be viewed as a single process, but one that varies across different facets of business. Innovation can be segmented into at least five distinctly different groups, which have different risks and rewards according to the business focus. These include⁸:

- **product innovation**, including new products, new types of products and ingredients
- **process innovation**, dealing with cost reduction or efficiency improvement through new equipment and process applications
- **packaging innovation**, including the packing material itself and the process of packaging the product
- **transport and logistics innovation**, often covering the distribution method and critical time for delivery
- **chain innovation**, through building supply chain competitiveness and relationships that enable non-price factors to be developed.

The development of genuinely 'new' products, or new types of products, usually requires significant investment in R&D, often in basic research. The high failure rate of new food products makes this form of innovation very high risk.

The more common form of product innovation in food may involve product line extensions or incremental improvements to existing products or processes. These incremental improvements may or may not need to be supported by large investments in R&D⁹.

Expenditure on R&D by the Australian processed food and beverage industries grew strongly from around \$75 million in 1988–89 to \$291 million in 1995–96, before falling back to \$186 million in 1999–2000. The 1999–2000 figure represents only 1.31 per cent of processed food and beverage Industry Value Added (IVA), as indicated in Table 6. This is relatively low R&D intensity compared to other industry sectors, and is below the levels achieved by many other countries.

⁸ Supermarket to Asia Ltd, 2001

⁹ AEGIS, The processed food product system in Australia, 2001



Table 6 Comparison of R&D intensity in Australian manufacturing industries

Industry Sector	1995–96	1996–97	1997–98	1998–99	1999–20
Machinery and equipment	8.65	7.79	7.86	6.87	7.83
Petroleum, coal, chemical and associated products	3.62	3.40	3.22	3.47	4.23
Metal products	2.79	3.30	2.86	2.46	2.14
Wood and paper products	4.57	5.17	3.06	2.07	2.25
Non-metallic mineral products	2.83	2.49	2.57	1.88	1.31
Food beverage and tobacco	2.56	2.03	1.32	1.44	1.31
Other manufacturing	0.76	2.06	1.68	0.77	0.90
Textile, clothing, footwear and leather	0.81	0.67	0.69	0.58	0.55
Printing, publishing and recorded media	0.67	0.25	0.28	0.39	0.20

Source: ABS Cat No 8221.0 Manufacturing Industry; ABS Cat No 8104.0 R&D Expenditure

This low level of R&D intensity has led the food industry in Australia to be classified as a low technology intensive industry. Notwithstanding, the industry invests large sums in incremental innovation, transferring technology from other R&D and technical advances in platform technologies such as gene technology, information technology, nutritional science and associated therapeutic benefits of particular foods and diets.

Australian firms have difficulty achieving the critical mass required to undertake basic research. This is particularly important with respect to meeting emerging consumer demands for cutting edge technologies such as ‘functional foods’. Meeting these demands will require significant investment in basic research in food science, and a coordinated marketing effort to effectively commercialise these high technology products¹⁰.

¹⁰ AEGIS, The processed food product system in Australia, 2001



Role of Government

In developing a strategy for the future of the Australian food industry, it is important to recognise that material improvements to the industry's performance in terms of investment, employment, contribution to GDP, and other such measures, will only result from the successful commercial activities of food businesses themselves. It is the role of industry to conduct business and generate wealth for shareholders and the nation. It is the role of governments to facilitate the conduct of business by ensuring the necessary institutions of the market are in place, and taking measures to protect the health, safety and social wellbeing of all Australians, while maximising industry's contribution to the economy.

In general, activities which governments undertake include ensuring that: there is a set of laws and rights including property rights which allows business to be transacted freely and fairly; and business and consumers have access to adequate and appropriate information. This set of laws and rights encompasses rules and regulations relating to taxation, health, education, investment attraction and international trade.

Where competitive markets are working properly within such a legislative framework they allocate the economy's available resources to their most valued uses. Markets allocate resources to individuals according to the value they place on them. However, in some cases, markets fail to produce economically efficient or socially desirable outcomes. In such situations a case may be made for government intervention.

Regulatory intervention by government is often employed to address market failure and attain socially desirable outcomes such as worker safety, consumer protection and equity.

The major areas of government activity in the food industry cover:

Trade: The Commonwealth Government supports food product trade through the development and refinement of various exports controls to ensure that Australian food exports meet importing country standards, and to provide quarantine controls to minimise pest and disease incursion. Further, the Commonwealth continues to negotiate with countries to reduce barriers to international trade including tariff and non-tariff barriers. There is a continuing role for Government, at the State and Commonwealth levels, in trade facilitation and working with individual companies to improve their skills and capacity to deliver sustainable food exports.

Food standards: Government regulation through the setting and enforcement of food standards and relevant fair trading laws provides surety to consumers that commercially available foods are safe for human consumption and that the contents of foods are true to label.

Science and Technology: Government can facilitate economies of scale in research and development and share research risks that private companies would not bear where a potentially greater social outcome may be available. Government partnership with food businesses in encouraging and supporting commercialisation of R&D can enhance the returns from investment in innovation, build the required skills in the industry for the management of innovation, and maximise the opportunities for follow-through investment and increased employment.

Operating environment: There is an important role for policy setting to promote industry growth, which covers removing distortions in input and labour markets, creating an efficient tax system, ensuring the provision of efficient infrastructure and developing a culture of innovation. The Government also has an important role to play in the provision of education and training appropriate to industry needs.

Environmental sustainability: Government seeks to ensure the protection of the environment for future generations and to ensure social outcomes that would not be guaranteed by individual actions in a decentralised economic framework.



The division of responsibilities for business between the Commonwealth and State Governments is set out in the Constitution but there are areas of overlap and areas where the boundaries have blurred over time. In the past, different regulations and standards have been applied in different States and this has adversely affected the competitiveness of the processed food industry whose markets and operations transcend State borders. Advances in technology particularly relating to transport and information technology transfer, mean that new approaches need to be developed which facilitate Commonwealth/State cooperation to manage a single national market in Australia. Governments are continually seeking ways to define and harmonise their roles and responsibilities.

While governments have a distinct role in setting the overall business environment for industry and markets determine the priorities for business, there are issues that require joint government and industry action. An example is where Government and industry are jointly responsible for enhancing Australia's reputation as a supplier of competitive, safe and quality food products to global markets. Government has the overall priority for managing issues such as quarantine, export inspection and certification, and industry has a responsibility to implement these standards. A single firm supplying substandard products to an offshore market, or the outbreak of a major disease may significantly damage Australia's international reputation.

In response to changes in technologies (including information, communications and transport) and to facilitate innovative responses, the regulatory environment in Australia is shifting from a highly prescriptive system to a more flexible performance based approach. The new Food Standards Code, and the food industry's initiative in developing the National Packaging Covenant, are examples of this shift.

As an economic phenomenon, globalisation is manifested in a shift from a world of distinct national economies toward one global economy. This has significant implications for the scale and structure of industries, and the role of governments. The role of national governments is also likely to become significant in overseeing management of the global economy while ensuring positive domestic outcomes. It is important that the interfaces between the food industry, State governments, and the Commonwealth are effective at all levels to ensure continued competitiveness in the emerging global market.



The Need for a Strategy

If the food industry is to continue as a key industrial sector in Australia, there needs to be a radical shift in thinking, changes in policies by Government and re-invigorated effort by industry. Ensuring a stronger performance by Australian firms into the future will require a coordinated and cooperative effort from industry and Government.

Market outcomes will ultimately be achieved by the industry identifying and meeting emerging customer demands. Governments, however, play a central role in setting policies and in the provision of essential infrastructure and services that allow business to be conducted most efficiently.

Government and industry agree that a Strategy is required to ensure the Australian food industry continues to make a significant contribution to economic growth, exports, employment and investment.

The scope of the Action Agenda encompasses processed foods, including meat and dairy produce, processed seafood, beverages and ingredients and fresh horticultural produce and the whole food chain and related services.

The Strategy recognises the critical interdependence of public policy, market structures and business imperatives, in implementing strategies to build on the industry's strengths and minimise impediments to industry's growth and development.



The Industry's Vision

The first step in developing a strategy to capture the opportunities and meet the emerging threats of the rapidly globalising food industry was to agree on a common vision for the Australian food industry. Industry and Government have agreed the focus of the Strategy will be to ensure that:

- By 2007, the Australian food industry will be a significant global player with a sustainable and profitable role in the global food product system.

This vision will be achieved through pursuit of the following goals:

- **By 2007**—Australia's food industry will have increased its investment in innovation and follow-through commercialisation, supported by a world class national innovation infrastructure, to ensure the industry's products and processes are globally focussed and aligned.
- **By 2007**—Australia's food industry will be internationally competitive in cost, quality and consistency of supply. Australia's globally competitive inputs and innovation services, supported by world class transport and distribution links into global markets, will make Australia a destination of choice for foreign investment in productive food industry capacity.
- **By 2007**—Australia's food industry will have increased its profitability and exports through long term strategic partnerships in global networks supported by improved access to markets and an enhanced competitive position.
- **By 2007**—Australia's food industry will be demonstrating high levels of consumer responsiveness, sustained by superior supply chain management skills, and effective use of tools such as e-commerce and product integrity systems.
- **By 2007**—Australia will have global consumer and customer acknowledgment for the production of clean and safe food, through sustainable practices with minimal environmental impact.



The Strategy— Achieving the Vision



This Strategy comprises actions under the four integrated themes. Successful action on each theme will underpin the achievement of the Strategy. A particular focus on any one element will not be sufficient.

The globalisation of food retailing and processing underscores the importance of achieving a high level of competitiveness for all components of the food supply chain, and the capacity to respond quickly to the needs of the emerging 'global' consumer. It is also clear that achieving the vision will depend on the ability of our firms to form long term strategic relationships with the key players in global value chains through a demonstrated understanding and delivery of customer needs and expectations. Issues of competitiveness will arise for the Australian food industry regardless of whether they export or not.

A secretariat, established as a private company, will support the Council and give industry ownership to the administration and implementation of the Strategy and delivery of the industry actions described later in this document.



A New National Council – Driving the Strategy

To oversee the development of the industry and the implementation of the Strategy a new, high-level, government and industry council, The National Food Industry Council, is to be established. The Council will replace the Prime Minister's Supermarket to Asia Council and will have a global focus and broad coverage of all the issues impacting on the competitiveness of the Australian food industry. This Council will bring together key industry leaders and other key Commonwealth Ministers and will report to the Minister for Agriculture, Fisheries and Forestry.

Table 7 **National Food Industry Council Membership**

The Hon. Warren Truss MP	Minister for Agriculture, Fisheries and Forestry (Chair)
The Hon. Mark Vaile MP	Minister for Trade
The Hon. Ian Macfarlane MP	Minister for Industry, Tourism and Resources
The Hon. Peter McGauran MP	Minister for Science
Dr Michael Eyles, Chief Executive	Food Science Australia, CSIRO
Mr Rob Robson, Chief Executive Officer	Harvest FreshCuts Pty Ltd
Ms Jane Bennett, Production Manager	Ashgrove Cheese Pty Ltd
Mr Andrew Reeves, Managing Director	Coca-Cola Amatil Ltd
Mr Alan Williams, Chief Operating Officer	Food Liquor & Logistics Group, Coles Myer Ltd
Mr Nigel Garrard, Managing Director	SPC Ardmona Ltd
Mr Roger Fletcher, Managing Director	Fletcher International Exports Pty Ltd
Mr Graham Laitt, Managing Director	Peters and Brownes Foods Ltd
Mr Tom Park, Chief Executive Officer	Goodman Fielder Ltd
Mr Enzo Allara, Chairman	CPC/AJI (Asia) Ltd
Mr Peter Corish, President	National Farmers Federation
Ms Cindy Luken, Chief Executive	Luken and May Pty Ltd
Mr Max Ould, Managing Director	National Foods Ltd
Mr Peter Barnes, Chairman	Yalumba Wines
The Hon. Tony Abbott MP*	Minister for Employment and Workplace Relations
Mr Michael Taylor, Secretary	Department of Agriculture, Fisheries and Forestry
Mr Peter O'Byrne, Managing Director	Austrade

* To be co-opted when issues relevant to his portfolio are being discussed.



The Four Key Themes

Leveraging Science and Technology

Product and service innovation is a dominant feature of the fast moving consumer goods market globally, with trade in processed food products growing at twice the rate of trade in bulk food commodities. With lower levels of innovation compared with some of our major competitors, the Australian food industry may not be well placed to improve its export performance over the longer term.

It is important to ensure that the Australian food industry improves its innovation performance, particularly in those emerging areas of consumer demand, to take full advantage of the more open global trading environment. This requires a flexible and responsive industry, able to effectively meet the challenges and capture the opportunities both here and overseas. This will depend on the fostering of innovative activity superior to our competitors. This in turn will depend on senior management embracing long term strategies for innovation.

A report into the competitiveness of Australia's food industry found that weakened investment in innovation for product, process and packaging development is limiting the ability of firms to develop products that will compete in the global market¹¹. The challenge is to establish the necessary environment to facilitate greater research and development and innovation and to further the interests of the industry and Australia as a whole. A vital component of this is the development of a coordinated national innovation infrastructure.

■ Government will:

Establish a food innovation grants initiative that provides incentives to encourage greater R&D activity.

The Government recognises that sound intellectual property (IP) protection is critical for a successful innovation system. The Government has made fundamental changes to the patents system, to provide better protection and better meet the needs of users of the IP regulatory regime. *Backing Australia's Ability* builds on these changes by strengthening firms' ability to protect ideas and better capture the returns from commercialisation. Major Commonwealth R&D programs (such as the R&D Tax Concession and R&D Start) already consider the management and exploitation of Intellectual Property through application and compliance frameworks.

■ Government will:

Have agencies that fund R&D examine the issue of ownership of Intellectual Property and reflect this through their individual contracting arrangements noting that major Commonwealth R&D Programs already consider the management and exploitation of Intellectual Property.

Investment capital is fundamental to increasing research and development as an input to product development, however, investment by food companies in Australia seems to be falling¹². This is a particularly important issue for SMEs in the food industry. There is a need to educate investors as to the benefits to be obtained through investment in the food industry in the longer term. Additionally, concerns on the internal competencies and investment readiness of SMEs in the industry must be carefully addressed before greater investment levels can be facilitated.

¹¹ *Instate Pty Ltd, Exporting Australian Processed Food—Are We Competitive?, 2000*

¹² *AEGLS, The Processed Food Product System in Australia, 2001*



The Government has a number of venture capital programs that are open to all industries. The Innovation Investment Fund (IIF) provides equity to new companies to encourage the commercialisation of their research and development. The IIF had initial Commonwealth funding of \$130 million over 10 years, with an additional \$90 million provided for Round 2 of the Program. This will be matched by private sector capital of approximately \$137 million. The Commercialising Emerging Technologies (COMET) program offers assistance for the commercialisation of innovative products, services and processes. COMET has funding of \$70 million over 6 years until June 2005. The \$78.8 million Pre-seed Fund for universities and public sector research agencies seeks to address the gap between promising scientific discoveries and commercialisation. It will assist the commercialisation of public sector R&D activities by further developing the management and entrepreneurial skills of public sector researchers and build links with the finance and business community.

■ **Government and Industry will:**

Encourage the food industry to seek full use of current venture capital schemes and make innovation investment funds more aware of the benefits of investing in the food technology, processes and related service industries.

Recent research has established that there are a large number of food-related research entities and higher education resources in Australia, which are fragmented, lack critical mass and provide minimal returns to the industry. The development of coordinated, internationally recognised centres of excellence is important to maximising the returns to the industry of public sector R&D. It is also central to ensuring multinational food corporations consider Australia a strategic location for R&D activities. Achieving this will depend on commitment from industry, government and research institutions to provide coordination, focus, and appropriately skilled scientists and food technologists.

■ **Government and Industry will:**

Support activities that contribute to establishing Australia as an international centre of excellence for food industry innovation.

■ **Government will:**

Establish an initiative to develop human capital around fields of research that demonstrate strategic potential for the future.

The critical linkages between industry competitiveness and high skill levels are well recognised. Australia cannot afford to fall behind its main competitors in this area. The future competitiveness of the Australian food industry depends on an appropriate education and training system targeted at building a highly skilled workforce with new and more extensive skill sets. This improved resource will in turn support and drive innovation and increased productivity. The extent to which opportunities and growth can be realised will also be heavily dependent on the capabilities and skills of our food industry managers.

■ **Government will:**

Encourage Industry, State and Commonwealth agencies to continue to work together within existing arrangements under the recently announced Australian National Training Authority Agreement to progress the implementation of nationally consistent vocational education and training (VET) arrangements. Government will encourage industry to work with the National Food Industry Training Council to progress improvements to the VET system for the food industry, including through implementing the recommendations of Stage 1 of the Review of the Food Processing Training Package.

■ **Industry will:**

Work with universities and research agencies to develop and implement mechanisms to attract and retain highly qualified food technologists and scientists to work in the Australian food industry.



■ Industry will:

Work with appropriate graduate schools of management to establish a national food industry management development program within an existing graduate management school to strengthen the capabilities of food managers.

■ Government will:

Provide seed funding to support this.

Developing an international food market entry strategy

Australia's domestic market for food products is mature with low growth. The globalisation of the food industry provides growth opportunities for Australian firms, through increased trade. Moreover, the global sourcing practices of major multinational companies, including processors and retailers, provide opportunities for Australian exporters to tap into global networks and supply increasing volumes. It is important for Australian firms to capture the benefits arising from the emergence of these global networks and build a significant and sustainable presence in the global food product system of the future.

Market access, including trade barriers and subsidised competition, continues to be a major issue for processed food exporters. At the same time, however, it is important to maintain an effective food regulatory system that ensures the delivery of safe food to global consumers, while minimising firm and industry level costs. Australia is committed to multilateral, regional and bilateral trade reform, including the current mandated agriculture negotiations that encompass processed food issues. A strong government and industry partnership can address these issues and set the scene for food industry export growth.

■ Government and Industry will:

Develop an integrated approach to market and technical market access, trade development and promotion, through an international food market entry strategy that will integrate State and Commonwealth activities. This will include the establishment of a board of senior industry leaders and Government representatives, aligned with State Food Councils.

The Government has demonstrated its belief that exporting is vital to the growth of Australian business through a number of initiatives. These include the decision to continue the Export Market Development Scheme and commitment of \$450 million over a three year period from 200/2001 for smaller Australian exporters to seek out and develop export business and the recent 40 per cent reduction in charges for The Australian Quarantine Inspection Service (AQIS) export related services for its seven commodity programs.

The AFFA Technical Market Access Program addresses sanitary and phytosanitary issues that impact on gaining new market access and the servicing of existing markets. The program comprises both agricultural and veterinary counsellors in North Asia and a team of technical specialists based in Canberra. The early intervention of technical specialists has been shown to avert the occurrence of seriously disruptive decisions and actions by import agencies. Technical specialists also play a vital role in securing new market opportunities.

■ Government will:

Continue and expand the Technical Market Access Program to underpin the implementation of the international food market entry strategy.



In addition to technical market access issues, it is important to ensure a more coordinated approach to market development activities. Many Australian firms currently export opportunistically rather than as a strategic business priority. A more strategic approach requires a cultural shift within food businesses. Cooperation between States and the Commonwealth Government will work towards better export outcomes for Australia, particularly through knowledge sharing and learning from the experiences of successful exporters.

■ **Government will:**

Establish a Food Industry Market Development Program to underpin the implementation of the international food market entry strategy.

Achieving these goals will require an ongoing commitment to a strategic partnership between industry and government in conducting Australia's trade and market access negotiations with a focus on commercially viable outcomes. This includes increasing Australia's role in the development of the Codex Alimentarius and other international trade standards to ensure outcomes are science based and do not act as non-tariff barriers to trade.

■ **Government and Industry will:**

Increase their commitment to pursue Australian objectives in international standard-setting bodies, particularly the Codex Alimentarius Commission, to underpin the implementation of the international food market entry strategy.

■ **Government will:**

Provide additional resources within the Department of Agriculture, Fisheries and Forestry - Australia to undertake these activities.


Ensuring a Better Business Environment

Government policy and regulatory positions, at the Commonwealth or State level, directly or indirectly affect many of the issues faced by the food industry. Research indicates that patterns of global commerce in processed food are influenced by public policies addressing transportation, communication, rules for regional and multinational trade, food product and process standards, the environment, and intellectual property resulting from technological innovation.

The recent strong performance of the Australian economy is partially the result of a series of significant microeconomic reform policies including National Competition Policy, deregulation and privatisation policies, reducing tariffs and promoting foreign direct investment in Australia, and taxation and labour market reform.

Notwithstanding these significant policy achievements, both Government and industry recognise that reform is an ongoing process. Though reform has delivered significant savings, particularly in costs of utilities such as electricity, gas, water and roads to industry, the reform process has created new issues relating to availability, quality, and reliability. For example, recent research has highlighted wide price differentials between Australian electricity and comparison countries such as the USA, Canada, Germany and Israel¹³.

¹³ *Sayers and Shields, Electricity Prices and Cost Factors, Staff Research Paper, Productivity Commission, August 2000*



The Council of Australian Governments (COAG) has agreed to a reform agenda and timetable for a range of reforms, including road and water, and is pursuing these reforms. Reforms to the electricity market have resulted in restructuring of the electricity supply industry, a competitive wholesale spot market, third party access and improved customer choice. COAG agreed to an independent review of energy market directions and the food industry will be encouraged to make submissions to this inquiry.

■ **Industry will:**

Encourage its members to make submissions to an independent review of energy market directions recently agreed to by the Council of Australian Governments.

Internet reach and supporting telecommunications infrastructure are essential in driving productivity improvements. The Government funds a number of targeted programs including Networking the Nation (NTN) and Untimed Calls in Extended Zones that are providing enhanced telecommunications infrastructure and services, and reducing disparities in access to services and facilities. The additional infrastructure is assisting business by improving communication networks, providing the opportunity for business to go online, or to work from home and therefore helps to promote the preconditions for B2B e-commerce in non-metropolitan areas, where the majority of food businesses are located.

NTN is designed to enhance telecommunications infrastructure and services, and to reduce gaps in the quality and cost of telecommunications services between urban and non-urban Australia. A broad range of organisations are participating in the programme, directly or indirectly, including local government authorities, regional organisations or associations, training institutions, phone companies and internet service providers.

The Government has allocated around \$1 billion to improve telecommunications services in regional Australia over recent years, including \$250 million in 1997 to NTN, an additional \$214 million to NTN in 1999, \$150 million for untimed local calls in the Extended Zones and \$25 million for mobile phone coverage along major highways. In addition, the Government allocated a further \$163.1 million in May 2001 to further improve regional telecommunications services, as part of the Government's response to the Telecommunications Service Inquiry, including \$88.2 million to improve and extend mobile phone coverage and \$52.2 million for a National Communications Fund.

In addition, in January 2000 the Government announced the extension of the Information Technology On-Line program (ITOL) by \$13 million over five years. ITOL is a catalyst for the development of business to business e-commerce solutions and encouraging industry groups and small and medium sized enterprises to maximise the commercial opportunities of the Internet. This program will allow the continued seeding of B2B e-commerce projects that will lead to increased efficiencies throughout the economy.

Tax issues may impact on the competitiveness and profitability of Australian companies and therefore their ability to be globally competitive or globally focused. In a globalised industry such as the food industry, international differences in tax laws and tax obligations may affect decisions about where to locate key operations of a company. The recent implementation of business tax reform in Australia was an important demonstration of the Government's commitment to improving the international competitiveness of Australian businesses.

Tax reform, however, is an on-going process, as illustrated by the current renegotiation of the 1982 Australia-US tax treaty. Under this treaty a Protocol has recently been agreed that will amend the convention between Australia and the US for the avoidance of double taxation and the prevention of fiscal evasion. The Protocol will, amongst other things, remove withholding tax on certain dividends, enabling major Australian public companies to bring profits made by their US subsidiaries back to Australia without any further tax being payable.

This zero per cent withholding tax on dividends will provide a benefit to Australian corporate groups with US operations where, in general, their holding is greater than 80 per cent. Dividends derived by companies from other direct investment (where their shareholding is



ten percent or more but not greater than 80 per cent) will now be subject to five per cent withholding tax (compared with the current 15 per cent). It is expected the new arrangements will apply from 1 July 2003.

■ **Industry will:**

Work with Government to identify future reform priorities and food industry-specific impediments to ensure a better business environment.

Significant labour productivity improvements have occurred in Australian industry over the last decade. In the 1990s, productivity growth averaged over two per cent, well ahead of most other high-income countries. However, in an increasingly competitive market, the boundaries of business competitiveness continue to shift. As a result, Australia cannot rest on its laurels.

■ **Industry will:**

Encourage its members to pursue productivity improvements supported by the current workplace relations framework.

Assist Government to identify and progress labour supply issues in the horticulture sector.

The increasing presence of multinational and global firms in the industry highlights the importance of Australian firms being able to demonstrate world class supply chain management skills. The supply chain and partnering skills required to achieve the scale and consistency of supply demanded by global customers, must also be supported by other appropriate skills such as e-commerce, logistics management, marketing, and export management.

Another major component of the industry's competitiveness in offshore markets is Australia's reputation for clean and safe food. This reputation must be supported by effective domestic and export food regulations. The Government is committed to the uptake of preventative food safety management systems by industry to optimise the safety of Australian food exports. Cooperation between industry and government on these issues is vital to building and maintaining Australia's international reputation.

■ **Government, with the support of Industry, will:**

Establish a Supply Chain initiative to facilitate the development of supply chain management practices and enhance competitiveness of the Australian food industry.

Strengthen the efficiency and effectiveness of Australian food safety and quality assurance management systems. Government will support this through the Food Safety and Quality Assurance Initiative.

■ **Government, with the support of Industry, will:**

Continue the development and implementation of a national system for consistent, cost effective and science-based food safety regulatory arrangements aligned with international standards through the Australian New Zealand Food Regulation Ministerial Council, announced in the Council of Australian Governments Food Regulation Agreement announced in November 2000.



Environmental Sustainability

In addition to demanding clean, safe, convenient and nutritious food, the emerging global consumer is increasingly demanding food that is produced in an environmentally sustainable way. Associated issues include efficient energy use, management of waste-water and other by-products, animal welfare, biodiversity and a minimal environmental impact. International retailers are responding by requesting environmental assurances.

Long term resource availability and responsible management of the environment, energy and waste, support the sustainability of the food industry in Australia. By maximising resource use efficiency, industry can reduce costs, ensure access to adequate resources in the future and become more internationally competitive.

Through the application of eco-efficiency tools and concepts, such as environmental management systems and public environmental reporting, the food industry can continually improve its environmental and economic performance across the whole supply chain.

It is important that the food industry achieve best practice for environment, waste and recycling management through the chain. One industry initiative already in place is the National Packaging Covenant. The Covenant is a self-regulatory agreement between industries in the packaging chain and all spheres of government, based on the principles of shared responsibility through product stewardship, and applied throughout the packaging chain, from raw material suppliers to retailers, and the ultimate disposal of waste packaging.

If industry is going to become environmentally sustainable in the long term, it has to achieve standards which go beyond compliance with minimum government regulation. Industry based initiatives and minimum effective regulation should be used to protect and maintain Australia's resource base for a sustainable and environmentally responsible food production sector.

■ Industry will:

Develop regular and systematic reporting of environmental performance by producers and companies operating throughout the food chain to deliver net reduction in per unit environmental impact of the food production process.

Continue to implement market-based approaches to through-chain environmental management through initiatives in areas such as waste management, recycling and energy conservation, including commitment to initiatives such as the National Packaging Covenant.

■ Government will:

Encourage the food industry to include natural resource management (including biodiversity and land and water conservation) and to produce public reports on their environmental performance.



Implementation and Resourcing

Implementation of the Action Agenda will rely on a clear, positive commitment from Government and industry leaders. For this reason, the new National Food Industry Council will be established to oversee the development of the industry and implementation of the National Food Industry Strategy.

The Council will encourage industry responsibility for achieving the vision and outcomes. Other key implementation functions will include:

- continuing research and analysis to underpin the direction of the Strategy
- a communications campaign to promote the Strategy, its benefits and outcomes
- a monitoring and evaluation capability.

The role and responsibilities of the Council are described in more detail in Appendix 3.

■ Government and Industry will:

Establish a National Food Industry Council to oversee and advise on the National Food Industry Strategy.

■ Government will:

Provide funding for communication, research and analysis capability and monitoring and evaluation processes for the National Food Industry Strategy.



The Way Forward

The Strategy and Actions contained in this document will assist the Australian food industry to improve its global competitiveness, capture new markets and build its market share. However, industry has the responsibility to capitalise on the opportunities the Strategy provides and realise the industry's full potential.

THE AUSTRALIAN GOVERNMENT'S COMMITMENT TO THE NATIONAL FOOD INDUSTRY STRATEGY

To underpin the Strategy's success, the Government has committed \$102.4 million over five years, commencing on 1 July 2002, to a number of targeted initiatives that will:

- enhance the innovative capacity of firms
- build industry skills and capabilities
- put in place an integrated and focussed export strategy
- provide infrastructure and capabilities to enhance product integrity and supply chain management in international markets.

Funding has been provided for the following initiatives:

- a \$47.1 million package aimed at enabling superior innovation performance by Australian based firms, including a \$12.4 million centres of excellence initiative and a \$34.7 million innovation grants program
- \$17.1 million to continue and expand the Technical Market Access Program
- \$5.3 million to establish a Food Industry Market Development program
- \$2.5 million to increase Australia's capacity to pursue its objectives in international standard-setting bodies
- a \$15.6 million initiative to underpin the integrity of Australia's food products
- \$14.7 million to establish and operate the new Council and to fund other tasks to support its work.



Summary of Identified Actions

No.	Recommendation	Responsibility
LEVERAGE SCIENCE & TECHNOLOGY, EDUCATION & TRAINING		
1.	Government establish a food innovation grants initiative that provides incentives to encourage greater R&D activity.	Government
2.	Government Agencies that fund R&D will examine the issue of ownership of Intellectual Property and reflect this through their individual contracting arrangements, noting that major Commonwealth R&D programs already consider the management and exploitation of Intellectual Property.	Government
3.	Government and Industry will encourage the food industry to seek full use of current venture capital schemes and make innovation investment funds more aware of the benefits of investing in the food technology, processes and related service industries.	Industry/Government
4.	Industry and Government support activities that contribute to establishing Australia as an international centre of excellence for food industry innovation. Government will establish an initiative to develop human capital around fields of research that demonstrate strategic potential for the future.	Industry/Government
5.	Government will encourage Industry, State and Commonwealth agencies to continue to work together within existing arrangements under the recently announced Australian National Training Authority Agreement to progress the implementation of nationally consistent vocational education and training (VET) arrangements. Government will encourage industry to work with the National Food Industry Training Council to progress improvements to the VET system for the food industry, including through implementing the recommendations of Stage 1 of the Review of the Food Processing Training Package.	Industry/Government
6.	Industry will work with universities and research agencies to develop and implement mechanisms to attract and retain highly qualified food technologists and scientists to work in the Australian food industry.	Industry
7.	Industry will work with appropriate graduate schools of management to establish a national food industry management development program within an existing graduate management school to strengthen the capabilities of food managers. The Government will provide seed funding to support this.	Industry/Government
INTERNATIONAL EXPORT MARKET ENTRY STRATEGY		
8.	Government and Industry will develop an integrated approach to market and technical market access, trade development and promotion, through an international food market entry strategy that will integrate State and Commonwealth activities. This will include the establishment of a board of senior industry leaders and Government representatives, aligned with State Food Councils.	Industry/Government
9.	Government will continue and expand the Technical Market Access Program to underpin the implementation of the international food market entry strategy.	Government
10.	Government will establish a Food Industry Market Development Program to underpin the implementation of the international food market entry strategy.	Government
11.	Government and Industry will increase their commitment to pursue Australian objectives in international standard-setting bodies, particularly the Codex Alimentarius Commission, to underpin the implementation of the international food market entry strategy. Government will provide additional resources within AFFA to undertake these activities.	Government



No.	Recommendation	Responsibility
BUSINESS ENVIRONMENT		
12.	Industry will encourage its members to make submissions to an independent review of energy market directions recently agreed to by the Council of Australian Governments.	Industry
13.	Industry will work with Government to identify future reform priorities and food industry-specific impediments to ensure a better business environment.	Industry/Government
14.	Industry will encourage its members to pursue productivity improvements supported by the current workplace relations framework.	Industry
15.	Industry will assist Government to identify and progress labour supply issues in the horticulture sector.	Industry
16.	Government, with the support of Industry, will establish a Supply Chain initiative to facilitate the development of supply chain management practices and enhance competitiveness of the Australian food industry.	Government
17.	Industry, supported by Government, will strengthen the efficiency and effectiveness of Australian food safety and quality assurance management systems. Government will support this through the Food Safety and Quality Assurance Initiative.	Industry/Government
18.	Government, with the support of Industry, will continue the development and implementation of a national system for consistent, cost effective and science-based food safety regulatory arrangements aligned with international standards through the Australian New Zealand Food Regulation Ministerial Council, announced in the Council of Australian Governments Food Regulation Agreement announced in November 2000.	Government
ENVIRONMENTAL SUSTAINABILITY		
19.	Industry will develop regular and systematic reporting of environmental performance by producers and companies operating throughout the food chain to deliver net reduction in per unit environmental impact of the food production process.	Industry
20.	Industry will continue to implement market-based approaches to through-chain environmental management through initiatives in areas such as waste management, recycling and energy conservation, including commitment to initiatives such as the National Packaging Covenant.	Industry
21.	Government will encourage the food industry to include natural resource management (including biodiversity and land and water conservation) and to produce public reports on their environmental performance.	Industry/Government
IMPLEMENTATION, EVALUATION AND COMMUNICATION		
22.	Government and Industry will establish a National Food Industry Council to oversee and advise on the National Food Industry Strategy.	Industry/Government
23.	Government will provide funding for communication, research and analysis capability and monitoring and evaluation processes for the National Food Industry Strategy.	Government



DEVELOPING THE NATIONAL FOOD INDUSTRY STRATEGY

In 2000, the Prime Minister's Supermarket to Asia (STA) Council established a taskforce to analyse the issues likely to impact on the Australian food industry. The taskforce identified globalisation of food processing and retailing as the key force exerting pressure on the industry and that the emergence of global retail chains would result in major changes to the structure and operation of the food industry over the next 5 to 10 years.

The taskforce concluded that with a number of long term supply arrangements currently being established around the world, Australia must quickly position itself to participate in these global supply chains, or risk erosion of existing markets and losing the opportunity to capture or participate in new ones.

The taskforce also found that these trends would create a number of opportunities for Australia to increase its share of the global food market through targeting new and increasing consumer demands, participating in global supply chains, taking up new technologies, such as e-commerce, and adapting to a changing regulatory environment.

In response to these findings, the Prime Minister tasked the Minister for Agriculture, Fisheries and Forestry in March 2001 with developing a Food Industry Action Agenda as the vehicle for putting in place a National Food Industry Strategy.

To develop the Strategy a specially convened industry body, the National Food Industry Advisory Committee (NFIAC), comprising senior representatives from the processed food, horticulture and related service industries, was established.

The committee was chaired by the Minister for Agriculture, Fisheries and Forestry, Warren Truss, with the Parliamentary Secretary to the Minister, Senator Troeth, as Deputy Chair.

NFIAC was asked to:

- **develop an agreed vision for the future of the Australian food industry in the global market place**
- **use rigorous research, analysis and broad industry consultation to identify the key outcomes of achieving this vision**
- **develop and take responsibility for actions by both Government and industry that would be designed to deliver these outcomes.**

The Government, through the Department of Agriculture, Fisheries, and Forestry - Australia (AFFA), acted as a catalyst for the Strategy's development by providing the logistical framework for process and actions. As part of this, AFFA organised a national series of regional food industry forums in partnership with State Government agencies and industry associations to discuss the Strategy's development. Senator Troeth chaired these forums.

The NFIAC provided regular progress reports to the STA Council during the development process prior to the presentation of NFIAC's recommendations to the Government in September 2001.

NATIONAL FOOD INDUSTRY ADVISORY COMMITTEE (NFIAC)

The Hon. Warren Truss, MP	Minister for Agriculture, Fisheries and Forestry (Chair)
Senator the Hon. Judith Troeth	Parliamentary Secretary (Deputy Chair)
Mr Joe de Bruyn	National Secretary, Shop, Distributive & Allied Employees' Assoc.
Mr Reg Clairs AO	Company Director, Supermarket to Asia Ltd
Ms Dianne Davidson	Managing Director, Davidson Viticultural Consulting Services
Mr Ian Donges	President, National Farmers Federation
Mr John Doumani	Managing Director, Arnott's Biscuits Ltd
Mr William Duncan	Managing Director, Mars Confectionery of Australia
Dr Michael Eyles	Chief Executive, Food Science Australia
Dr Mike Ginnivan	Managing Director, Tassal Ltd
Mr Mitchell H Hooke	Chief Executive, Australian Food & Grocery Council
Mr Malcolm Irving AM	O'Connell Street Associates Pty Ltd
Ms Barbara Isaacson	Executive Director, Australian Persimmon Export Company
Mr Jim Kennedy	Executive Director, Supermarket to Asia Ltd
Mr Paul Little	Managing Director, Toll Holdings Ltd
Mr Iain MacGregor	Managing Director, Bakewell Foods Pty Ltd
Mr Phil Naylor	Chief Executive Officer, Australian Retailers Association
Mr Ray O'Dell	Executive Chairman, Consolidated Meat Group
Mr Andrew Reeves	Managing Director, Australia, Coca-Cola Amatil Ltd
Mr Barry Watts	Consultant



NATIONAL FOOD INDUSTRY ADVISORY COMMITTEE

3rd Row (Rear): John Doumani, Jim Kennedy, Michael Eyles, Iain McGregor, Phil Naylor, Malcolm Irving, Barry Watts

2nd Row: Michael Taylor, Mitch Hooke, Reg Clairs, Ian Donges

1st Row (Front): Barbara Isaacson, the Hon. Warren Truss MP, Senator the Hon. Judith Troeth, Andrew Reeves

Members not present: Joe de Bruyn, Dianne Davidson, William Duncan, Mike Ginnivan, Paul Little, Ray O'Dell

ROLE AND RESPONSIBILITIES OF THE NATIONAL FOOD INDUSTRY COUNCIL

Role

The National Food Industry Council (NFIC) will oversight the development of the industry and direct the implementation of the National Food Industry Strategy (NFIS), providing leadership and high-level industry and government engagement in its development and adoption. It will also provide strategic direction, set priorities and encourage competitiveness and growth, working closely with responsible departments, agencies and industry bodies.

The NFIS will provide the framework to develop and implement a partnership between the food industry and government to achieve increases in output, profitability, investment, commercialisation of innovation, export sales and employment.

The Council will:

- provide strategic direction and a sense of common purpose to develop the Australian food industry
- provide leadership in building competitiveness and improving linkages through the value chain
- provide advice to government on priority and emerging issues to ensure the NFIS is dynamic and responsive to emerging opportunities and constraints
- foster a working partnership between the food industry and governments and a shared commitment to delivering the NFIS objectives.

Responsibilities

The key responsibilities of the Council will be to:

- provide a joint government/industry forum to focus efforts to identify and address impediments and capture opportunities for industry growth
- gain industry engagement and commitment to delivering the NFIS
- direct the implementation of the NFIS, including advising the Government on industry priorities, regularly reviewing progress in achieving NFIS outcomes and providing guidance on implementation arrangements for government program components of the NFIS
- achieve a whole-of-government approach to food industry issues by integrating the activities of the Council with those of State Food Councils and State agencies, together with relevant activities of the Primary Industries Ministerial Council, the Natural Resources Management Ministerial Council and the Food Regulation Ministerial Council to deliver the vision of the NFIS to Australian food businesses
- establish, provide terms of reference and broad direction to subsidiary committees, including a food R&D Committee as required
- advise the Minister for Agriculture, Fisheries and Forestry on the appointment of the Executive Director of the secretariat and ensure effective operation of the secretariat.

Council Membership

The Council brings together key industry leaders and other key Commonwealth Ministers and will report to the Minister for Agriculture, Fisheries and Forestry. Coverage includes the processing sectors of the meat, dairy, horticulture, grains, wine and retail industries.

Operation

- The Council will meet up to four times a year.
- The Council and its secretariat will operate for the duration of the Action Agenda.
- Linkages with any subsidiary committees the Council may form will be strengthened through cross membership with the Council.

The National Food Industry Council will replace the Prime Minister's Supermarket to Asia Council from 1 July 2002. The new Council will have a global focus and broad coverage of all the issues impacting on the competitiveness of the Australian food industry.



FURTHER INFORMATION

Further information regarding the Strategy and its initiatives can be obtained from:

National Food Industry Strategy Ltd

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Facsimile: 02 6273 1718

E-mail: sta@supermarkettoasia.com.au

or

Food and Agriculture Group

Department of Agriculture Fisheries and Forestry

Address: Edmund Barton Building Kings Avenue BARTON ACT 2600

Postal Address: GPO Box 858 CANBERRA CITY ACT 2601

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