



AUSTRALIAN  
**FOOD &  
GROCERY**  
COUNCIL

# **AFGC SUBMISSION**

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2019-2020  
PRE-BUDGET SUBMISSION

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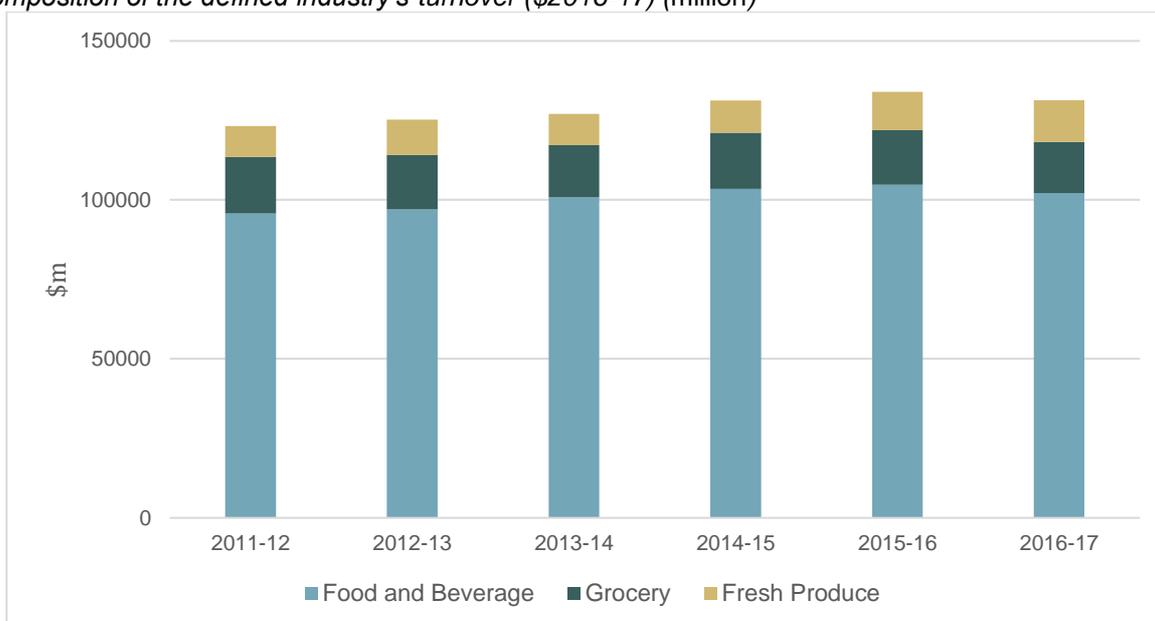
*Sustaining Australia*

The Australian Food and Grocery Council (AFGC) welcomes the opportunity to make a Pre-Budget submission for the 2019-20 Federal Budget.

The AFGC is the leading national organisation representing Australia's food, beverage and grocery manufacturing industry.

The membership of AFGC comprises more than 180 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the processed food, beverage and grocery products sectors.

*Composition of the defined industry's turnover (\$2016-17) (million)*



With an annual turnover in the 2016-17 financial year of \$131.3 billion, Australia's food and grocery manufacturing industry makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity.

Manufacturing of food, beverages and groceries in the fast moving consumer goods sector is Australia's largest manufacturing industry. Representing 36 per cent of total manufacturing turnover in Australia.

The diverse and sustainable industry is made up of over 36,086 businesses and accounts for over \$68.7 billion of the nation's international trade. These businesses range from some of the largest globally significant multinational companies to small and medium enterprises. Industry made \$2.9 billion in capital investment in 2016-17 on research and development.

The food and grocery manufacturing sector employs more than 324,450 Australians, representing 39 per cent of total manufacturing employment in Australia.

Many food manufacturing plants are located outside the metropolitan regions. The industry makes a large contribution to rural and regional Australia economies, with almost 42 per cent of the total persons employed in food and beverage being in rural and regional Australia. It is essential for the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

Australians and our political leaders overwhelmingly want a local, value-adding food and grocery manufacturing sector.

Food, beverage and grocery manufacturing is a resilient industry compared to other manufacturing industries, however it is currently hampered by a tough domestic trading environment, including eight years of retail price deflation, low domestic growth, high regulatory costs plus rising input costs, including significant increases in energy costs.

Australian processors have very little capacity to pass rising production costs through in a deflationary retail environment. Consequently, given the small margins for operation, any increase in input costs such as energy has a significant impact on the industry.

The Australian Government is currently reviewing the Food and Grocery Code of Conduct which is a code in place to help regulate the standards of business conduct, to build and sustain trust and cooperation; ensure transparency and certainty in commercial transactions and to minimise disputes that may arise. This Code is vital to ensure economic viability for the sector and a cohesive working relationship with the retail sector, while ensuring that the FMCG sector operates effectively as a competitive market, without distortion from undue market power dynamics.

Without a strengthened Code and the continuing pressures on the sector, this is forcing companies to cut costs across every part of their business, using capital to invest in automation and efficiency, which has limited the capital available to invest in new product development, innovation and growth in scale.

In the current environment, businesses have stripped out costs and become more efficient, but there is a reduced confidence and ability to undertake significant growth related investments, at a time when Australian industry could be taking advantage of the free trade agreements to grow exports.

Due to this, the sector is facing some challenges. There has also been a downturn in capital investment, to the second lowest level in ten years, which is a sign of the challenges in the domestic industry and is of concern for the future viability of the industry.

**Australians and our political leaders overwhelmingly want a local, value-adding food, beverage and grocery manufacturing industry.**

**Government policies to encourage industry investment in the food, beverage and grocery manufacturing industry will help to ensure a return to all Australians with a reliable, safe and affordable food and grocery industry that also provides jobs and stability for local economies, mainly in rural and regional Australia.**

The AFGC would like to take this opportunity to outline in this submission proposals that will work to strengthen the sector and provide confidence for the future of the food, beverage and grocery manufacturing industry and in turn benefiting all Australians.

# FOOD, BEVERAGE AND GROCERY SITE MODERNISATION PROGRAM

## The issue – falling competitiveness of Australia’s food, beverage and grocery manufacturing industry

The food, beverage and grocery manufacturing industry is currently operating in an environment of:

- Declining international competitiveness
- Declining productivity growth (non-labour)
- Declining investment
- Import growth

Food, beverage and grocery manufacturing site modernisation has slowed due to high domestic costs and higher business taxation than international competitors, which have reduced Australia’s productivity and international competitiveness (for exports and import replacements).

The industry needs to invest additional capital into more efficient plant and machinery for businesses to maintain jobs and investment, as well as invest in new capacity to take advantage of export opportunities, however confidence in investing is low given the outlook for energy prices and constraints in domestic market conditions.

Without investing to improve efficiency and innovate, there is a high risk that businesses will either need to reduce the scale of their operations or move offshore.

## Industry has responded by:

- Short term sweating of old assets - changes at the margins to reduce energy use through a range of measures but many are still using the same capital equipment
- Declining capital expenditure within the Food Product manufacturing sector contracting 10.8 percent to \$2.4 billion (noting a smaller average annual decline of 4.6 percent) in 2016-17
- Limited investment in automation and efficiency measures, but more work needs to be done

## Proposed solution:

The AFGC proposes that the Government adopt a Food, Beverage and Grocery Site Modernisation program with the following elements:

*Options to restore confidence to invest:*

### *Part A: Three year instant asset write off or grants program*

- Three year instant asset write off or a grants program (with dollar for dollar industry matched funds) for resource efficiency expenditures up to \$100,000
- For expenditures that improve the resource efficiency of the site (e.g. energy and water efficiency, reduce waste); or energy self-sufficiency

### *Part B: Three Year Investment Allowance*

- Aimed at stimulating new investment or bringing forward planned investments that have been held back
- Aimed at expenditures that automate operations, adopt more efficient production technologies, or increase scale of operations
- 30 per cent investment allowance that allows companies to claim 30 per cent of the expenditure on plant, property and equipment as reduction in their taxable income for that year
- The allowance would be in addition to existing depreciation allowances
- Companies must have a minimum spend of \$100,000 to claim the allowance in any year, and
- The allowance would be limited to three years.

### **Modelled Benefit of the investment allowance**

- A 4.1 per cent - 8.1 per cent (or \$250 million to \$490 million in 2009-10 terms) increase in industry investment in each of the 3 years of application
- 750 – 1,475 additional FTE jobs
- A 1.1 per cent - 2.0 per cent (or \$340 million to \$600 million on average, each year, in 2009-10 terms) higher industry value-add
- Up to \$140 million annual net cost to taxation revenue in each of 3 years
- Positive boost of taxation revenue of \$425 million - \$750 million once investments operational.

### **The AFGC calls on the Government to:**

- Implement a Food, Beverage and Grocery Site Modernisation Program that provides short term incentives for the food, beverage and grocery manufacturing industry to bring forward investment in manufacturing plant infrastructure and equipment through an instant asset write off or grants program for smaller investments and targeted and efficient investment allowance for larger investments.

## WORKFORCE UPSKILLING FOR SME

### The issue – develop skills for SMEs to better engage with the retail industry

The food, beverage and grocery manufacturing industry is currently operating in a highly competitive global market both domestically and overseas as shown by rises in both exports and imports of processed food and grocery products, and an overall decline in Australia's market share in some key markets.

The industry continues to work to improve productivity but investment in some areas particularly research, development and workforce training still lags behind industry norms suggesting targeted government assistance would be effective.

In the recent Australian Industry Group's *Workforce Development Needs: Survey Report 2019*, there has been an increase in the percentage of respondents, 56 per cent in 2016 to 62 per cent in 2018, indicating that a lack of leadership and management skills is having a high impact on the business.

In addition, the survey also found that skill shortages is an increasing issue. In the last 12 months employers facing skills shortages has increased from 48 per cent in 2014, to 49 per cent in 2016 and to 75 per cent in 2018.

Ensuring SMEs have the necessary skills to grow their business, access to the Australian Grocery Academy and adequate Food and Grocery Code of Conduct training will help to strengthen SME supplier's negotiation position given market power imbalance.

Investing in a pilot or ongoing access to training will help to see a future for the sector with skilled employees helping take Australia's food and grocery manufacturing further.

### Proposed solution:

The AFGC proposes a dollar matching by Government for SME food and grocery suppliers to undertake Food and Grocery Code of Conduct and/or Australia Grocery Academy training programs.

Investment in Australian workers will help to ensure access the necessary skills for advancing Australian SME food and grocery manufacturing and for it to remain competitive on the international stage as well as within the domestic market.

The Australian Grocery Academy, an initiative of the Australian Food and Grocery Council, has been designed to provide the necessary skills and capabilities for the future leadership of the fast moving consumer goods (FMCG) sector. Developed by industry for industry, keeping the content relevant in the current trading environment.

Equipping future leaders with development and performance of sales skills; insight based selling and category management; commercial management; advanced customer management and negotiations; as well as effective personal performance through linking in with professionals across the FMCG segment will help grow and retain the next generation of FMCG leaders.

Whilst the Australian Grocery Academy has been established to focus on doing business with Australia supermarket retailers the concepts, capabilities and skills are transferrable to other channels to market (e.g. foodservice, on-line, convenience) and other geographical export markets.

### **Australian Grocery Academy (AGA)**

- The AGA is a partnership between AFGC and RealWorld Marketing to accelerate the capability of FMCG professionals.
- Specifically focussed on building capabilities necessary to be successful in the FMCG Supermarket Retail world, including in negotiating with the major supermarkets.
- The program is highly flexible and customisable allowing companies (FMCG only) to choose any combination of modules to meet their specific needs.
- Focus is on four key modules
  - Insight based selling and category management
  - Commercial management
  - Advanced customer management and negotiations
  - Highly effective personal performance.
- Each module is three full days of training
- Supplemented coaching and mentoring
- Cost per module per delegate starts at \$3440

Equally as important as training with the Australian Grocery Academy, access to training on the Food and Grocery Code of Conduct is vital for ongoing relations with the retail industry.

The Food and Grocery Code of Conduct is a voluntary code that governs certain conduct by grocery retailers and wholesalers in their dealings with suppliers. It has rules relating to grocery supply agreements, payments, termination of agreements, dispute resolution, delisting, range reviews and a series of other matters. The Code has been effective in driving behavioural change to encourage fair and effective competition in the fast moving consumer goods sector and remains vital to the long term interests of consumers.

### **Food and Grocery Code of Conduct**

- The Food and Grocery Code of Conduct (FGCC) was introduced into the market in 2015.
- Its aim is to help regulate the standards of business conduct, to build and sustain trust and cooperation; ensure transparency and certainty in commercial transactions and to minimise disputes that may arise.
- AFGC has partnered with NextGen in the development and deployment of a training program aimed at suppliers servicing the retailers. Note that other training providers are available.
- The training provides suppliers with a detailed understanding of the FGCC obligations, legal requirements and most importantly practical application of the obligations with their trading partners.
- Given market power of supermarkets there is a need for FGCC training by all suppliers to level the playing field
- Costs are very competitive ranging between \$640 to \$800 per delegate, for a full day training program, on-going support and includes all program material.
- To date the AFGC has had extremely good take up of the training by multinational and large Australian businesses.
- Very few SME's have completed the training program (42/3000 individuals). The single biggest reason for SMEs not completing the program is the cost.

Investment in upskilling Australian workers to ensure the future of smart manufacturing in Australia will help keep the Australian food and grocery manufacturing sector market competitive on the international stage as well as within the domestic market.

### The AFGC calls on the Government to:

- provide subsidised training for industry to invest in upskilling food, beverage and grocery manufacturing workers to ensure they are equipped with the necessary skills as delivered in via the Australian Grocery Academy. Skilled leaders will help to drive the future of the industry.
- provide funding through targeted grants/ tax concessions for businesses to access Food and Grocery Code of Conduct training.

# INNOVATING THE FOOD AND GROCERY INDUSTRY'S COMMITMENTS TO COMMUNITY HEALTH, ENVIRONMENT AND PRODUCT INFORMATION

**The issue – support the industry's positive contribution to meeting community health, environmental and consumer information demands.**

Australia's food and grocery manufacturing businesses are progressive and mindful of consumer expectations. Over time, industry has responded to various community concerns relating to the nutritional value of food through reformulation, environmental responsibility through innovative packaging solutions and product transparency through enhanced product information.

Yet meeting these ongoing community expectations comes at a cost. A cost to invest in human capital to develop and drive the necessary changes and the infrastructure and resources to deliver the outcomes. This cost is incurred through R&D and changes to manufacturing of both product and packaging, while also meeting the additional regulations that is incurred when making these positive changes.

Better partnership with industry will help to ensure that government and community expectations are met as well as allowing industry to operate and provide the safe and reliable food source that Australia is known for. Government partnerships will also ensure industry can provide digital information to empower consumers to make informed decisions on, and have trust in the products they purchase.

## **Proposed solution: Supporting innovation in product and packaging**

The AFGC proposes the Government implement a grants program which will encourage food manufacturers to innovate their products and packaging in line with Government commitments to encourage healthier diets and enhance sustainability of packaging. Examples of such Government policies include:

- The AFGC and its members support the Government's Healthy Food Partnership which is working with public health groups and other industry groups to cooperatively tackle obesity, encourage healthy eating and empower food manufacturers to make positive changes through reformulation.
- Similarly the Environment Ministers targets of 100% of packaging in Australia being reusable, recyclable or compostable by 2025 and to reduce waste generation in Australia by 10 per cent per capita by 2030, will also demand increased funding by industry to improve the sustainability and recovery of packaging.

There is scope for these grants to be structured to deliver funding to encourage companies to innovate their products and packaging in line with these stated Government policies.

### The AFGC calls on the Government to:

- implement a grants program which will encourage food manufacturers to innovate their products and packaging to meet community and government policies relating to reformulation and sustainable packaging.

### The issue – Empowering Consumers through Enhanced Product Information.

The ever increasing use of smart phones and mobile technology is changing shopping behaviour for ever. The rise of smart phone technology is empowering shoppers by literally putting in their hands the ability to access the product information they want to see from a source they trust and in a way that they relate to.

Mobile communications technology (i.e. through barcode scans etc.) can take the consumer well beyond the limitations of one physical label to a world of ‘extended labelling’ via mobile data with almost limitless variations that can be personalised, organised and presented in real time, and individually tailored to the consumer.

For government and industry the “one size fits all” approach to product information is fast becoming redundant as consumers can increasingly determine the information they want to assist in their purchasing decisions. This provides an opportunity for industry, government and consumer groups to progress older policy debates regarding product labelling to more effective discussions on empowering consumers with product information that is consistent with their path to purchase.

For industry and consumers, extended labelling offers a significant productivity gain. While consumers may reduce their information search time, the food and grocery sector could save up to \$30 million per year from reduced re-labelling costs, if there is widespread uptake. This could have flow on benefits in reduced cost of living pressures.

In addition to providing increased transparency, digitisation of information about products and production processes can assist will verifying product authenticity, which aids food and product safety in domestic and export markets. Standardised digitised information at an industry level also has the potential to improve operational supply chain efficiencies beyond what would result if any one company were to “go it alone” with a proprietary solution.

However extended labelling also poses a significant cost to upgrade backend ICT systems to be able to transform this information on an online platform. Equally further consideration is needed of how much data is needed before it results in information overload for consumers.

### Proposed solution: Supporting digitised product information, including extended labelling

There is a role for Government to provide an effective assessment, trial and evaluation of how best to introduce this technology in a meaningful and cost effective way. AFGC supports an extensive program which will enable industry, consumers groups and Government to work together to test, trial and measure the opportunities for digitised product information, including extended labelling, in meeting:

- consumer demands for product information which is cost effective for industry to implement;
- verification of the authenticity of food and grocery products, which aids food and product safety in domestic and export markets; and
- supply chain efficiencies by providing standardised and digitised information from ingredients and product inputs through to final products and retail.

Given the variety of technologies which exist, the range of information demanded and the changing patterns of consumer behaviour, an extensive analysis of the options available to utilising this technology is warranted. Further it would encourage increased collaboration between Government, industry and consumer groups to meet the competing and complimentary demands of providing effective and usable information to consumers, while educating consumers on how to use this information.

Government structure for a “Digitised Product Information Strategy” grant could include:

1. A scoping study on the range of technology solutions that currently exist or are being developed that could meet consumer and supply chain information demands, and complement existing consumer information
2. The state of “consumer preparedness” and “industry preparedness” in being able to use and provide digitised product information
3. A set of panel recommendations on the technologies could be used to meet consumer and supply chain information demands
4. A trial involving specific companies to test and measure the applicability of these technologies and an assessment of the consumer path to purchase in using this technology.
5. A “Digitised Product Information Strategy” which provides the opportunity for broader industry to roll out a program of extended labelling and digitised supply chain information based on the learnings of the trial.

### The AFGC calls on the Government to:

- Commit to investigating and supporting the development of a “Digitised Product Information Strategy” which effectively tests, trials and measures the opportunities for Government, Industry and consumers to use mobile communications technology to complement existing consumer and supply chain information.