AUSTRALIAN FOOD & GROCERY COUNCIL

# AFGC SUBMISSION

2021-2022

PRE-BUDGET SUBMISSION

Sustaining Australia

The Australian Food and Grocery Council (AFGC) welcomes the opportunity to make a Pre-Budget submission for the 2021-2022 Federal Budget.

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food and grocery manufacturing industry.

There are more than 180 member companies, subsidiaries and associates who together comprise 70 per cent of the gross dollar value of the processed food, beverage and grocery products industries.

With an annual turnover in the 2018-19 financial year of $127.1 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. It also plays an important role through supply chains, particularly the sourcing of local agricultural produce.

This diverse and sustainable industry is made up of almost 16,000 businesses and accounts for over $75.1 billion of the nation's two-way international trade. These businesses range from some of the largest globally significant multinational companies to small and medium Australian enterprises. The industry made $2.8 billion in capital investment in 2018-19.

Food and grocery manufacturing together forms Australia's largest manufacturing sector, representing 31.4 per cent of total manufacturing turnover in Australia. The industry employs more than 274,800 Australians, representing 32.2 per cent of total manufacturing employment in Australia.

Many food manufacturing plants are located outside the metropolitan areas. The industry makes a large contribution to rural and regional Australia economies, with almost 40 per cent of the people employed being in rural and regional Australia.

Given the importance of the industry to the economic and social development of Australia, particularly in rural and regional areas, it's magnitude, significance, and contribution needs to be reflected in the Government's economic, industrial and trade policies.

The AFGC welcomes the Government's recognition of food and beverage manufacturing as an essential service and a national strategic priority, as reflected in its inclusion in the Modern Manufacturing Strategy (grocery manufacturing was not included in the Government's strategy but is recognised as a vital industry). The AFGC has been involved in assisting Government in the development of the Modern Manufacturing Food and Beverage Roadmap to ensure the scale, competitiveness and resilience of the food and beverage industry.

This process has highlighted that while there are significant growth opportunities for the industry, it also confronts a number of challenges that could impact its growth potential. Addressing these productivity, cost competitiveness, regulatory and investment challenges through broader policy, regulatory and budget measures is essential to ensuring that food and grocery manufacturing can increase its contribution to jobs and the economy in the post-COVID recovery.

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 and grocery manufacturing industry and in turn benefiting all Australians.

To achieve this, this submission is in two key parts:
1 (A & B) **Industry Development**
2 (A & B) **Sustainable Production**

# PART 1. INDUSTRY DEVELOPMENT

## 1A. STIMULATING INVESTMENT IN FOOD AND GROCERY MANUFACTURING

### The issue: Falling competitiveness of Australia's food and grocery manufacturing industry

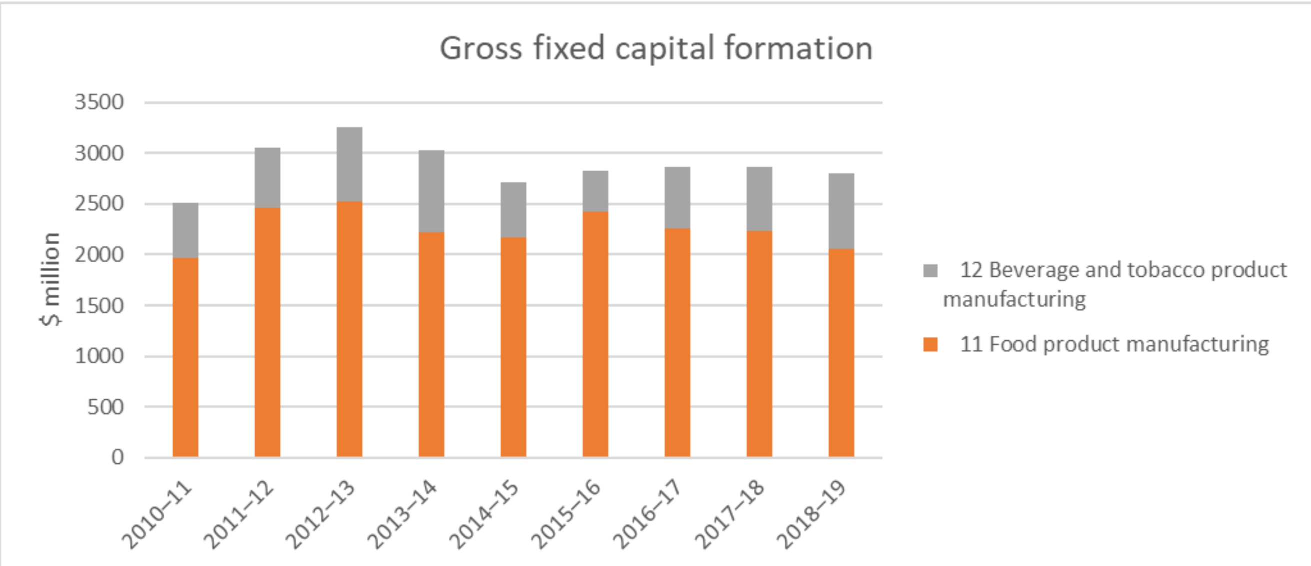
The food and grocery manufacturing industry is essential to the community and economy and faces strong growth potential in domestic and international markets, leveraging Australia's high quality agricultural inputs and global reputation for high quality, safe products. However, the industry is currently hamstrung by:

- Declining international competitiveness
- Declining productivity growth
- Stagnant investment

Food and grocery manufacturing requires significant investment to bring it into the modern age, utilising automated and digital technologies to improve the industry's competitiveness and agility to meet rapidly changing consumer expectations with respect to health, wellness, sustainability and convenience.

The whole industry, large and small, needs to invest additional capital into more productive plant and machinery for businesses to maintain jobs and investment, as well as invest in new capacity to take advantage of export opportunities. The industry also needs to invest significantly to meet community and government expectations, for example to deliver the National Packaging Targets and new healthier choice and convenient products.

Yet over the last ten years, investment has slowed due to high domestic costs, including regulation, higher business taxation than international competitors, and the effects of retail concentration, factors that have reduced industry's profit margins and the availability of capital for re-investment.



Meanwhile, Australia is competing against foreign markets that benefit from greater impetus from their governments to sure up their own markets and domestic supply, for example through grant and tax incentive programs. It is not a level playing field, and for Australia to succeed, it is vital to kick-start investment to neutralise higher costs and raise innovation and productivity.

Without investing to improve efficiency and innovate, there is a risk that import penetration will continue to increase and businesses will either need to reduce the scale of their operations or move offshore in order to remain globally competitive.

The Federal Government's commitment to growing a strong manufacturing sector in Australia through the Modern Manufacturing Strategy (MMS) and the recent instant asset write-off scheme (full expensing) are a step in the right direction, but as currently structured may not be sufficient to stimulate investment in the food and grocery manufacturing industry.

The current structure of the MMS funding has three elements – two of which are limited to SMEs, and the third is for very large collaborative projects to build scale. Neither of these programs supports large businesses, which comprise the majority of the industry's jobs and turnover, in their ability to modernise and improve the competitiveness of their manufacturing operations. To address this, the AFGC proposes a co-investment grant program that supports the industry to invest in modern manufacturing technologies, such as automation, digitalisation, virtual reality and predictive analytics, which improve the industry's ability to innovate and its efficiency and competitiveness.

In the past, large food and grocery manufacturers have responded well to co-investment grant programs such as the Clean Technology Investment Program, which resulted in a significant leverage rate over and above Government contributions.

Similarly, the instant asset write-off measure announced this year was greatly welcomed; however, it does not go far enough to capture the businesses that can bring forward investment and help with the COVID recovery.

The original $5 billion aggregate turnover test excluded many businesses in the industry, yet it is the largest businesses in the industry that provide a significant proportion of the industry's jobs and output. The alternative income test that was introduced requires statutory turnover of $5 billion and local investment of $100 million over the last three years.

Given the long-term nature of manufacturing assets, the pressure on industry profitability in recent years and the decline in capital investment across the industry, it would be difficult for many multinational companies that manufacture food and grocery products to demonstrate a local capital spend of the above amount.

In addition, the short-term nature of the stimulus also does not address the fact that Australian based manufacturers are competing against other countries that provide significant ongoing capital and research incentives to their food and grocery manufacturing industry given its strategic importance. With much of the income and manufacturing asset value of the industry in Australia resting with multinational companies in both metropolitan and regional areas, it is vital that they are able to access the temporary full expensing provisions, which will provide an incentive to bring forward investments and will shore up investment in assets in Australia. These investments will stabilise or have the potential to generate additional job opportunities.

In contrast, the effect of excluding these businesses from the temporary full expensing provisions is not just the lost growth potential for jobs and investment, but also the risk of losing some of these large manufacturing facilities from Australia. Multinational companies have mobile capital and will be attracted to relocate manufacturing capacity, and therefore jobs, to other countries that have more advantageous tax incentives and grants for food and grocery manufacturing. We have already seen this happen in a number of instances as

Australia loses competitiveness. With a change in the test for the full expensing provisions, and the introduction of a co-investment grant program, it is possible to not only stem this loss, but potentially re-shore manufacturing capability and build domestic scale for growth.

## Proposed solution:

1. Smart food and beverage manufacturing co-investment grants

The AFGC recommends that the Government develop a new co-investment grant program specifically for food and grocery manufacturers to adopt modern manufacturing technologies that improve efficiency, innovation and global competitiveness.

2. Changes to full expensing

The AFGC suggests implementing a test based on capital expenditure as **a percentage of total income**, or alternatively as a percentage of overall expenditure (a capital expenditure "intensity threshold") to increase the eligibility for the full expensing measure.

The following table outlines a proposed change to the alternate test, that is, for local investment to equal one per cent of total income and statutory income per annum. As with the existing test, this could be averaged across three years. This is more reflective of an equitable and realistic target for corporate taxpayers within the Australian food and grocery manufacturing industry to demonstrate a strong history of significant investment.

| Description | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |
|---|---|---|---|---|---|
| (A) Total ordinary and statutory income (p.a) | $250,000,000 | $500,000,000 | $1,000,000,000 | $2,000,000,000 | $5,000,000,00 |
| (B) Average spend on depreciating assets (p.a.) (A)x(C) | $2,500,000 | $5,000,000 | $10,000,000 | $20,000,000 | $50,000,000 |
| (C) Proposed capital intensity percentage | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |

The AFGC also suggests including an additional alternative test regarding expenditure which looks at current year and future, committed, capital expenditure to encourage businesses to spend over and beyond what may have been expended in the past.

This proposed model would see a greater uptake of the incentives and, for the largest of businesses, bring forward consideration of substantial investment. The AFGC proposes that this is incentive is extended to five years from the current start date in 2020, instead of two years.

# 1B. WORKFORCE UPSKILLING FOR THE FUTURE

### The issue: Develop workforce skills for food and grocery manufacturing business to drive production modernisation

The food and grocery manufacturing industry is a large employer, with nearly 275,000 direct jobs, many of which are full-time, long term, stable roles.

Research, including at Swinburne University's Factory of the Future, on Industry 4.0 - the Fourth Industrial Revolution - highlights the ongoing automation and digitalisation of traditional manufacturing using smart, advanced technology. The modernisation of manufacturing - including robotics, virtual reality, 3D printing, AI, and predictive analytics - brings with it the need for higher skills to install and operate automated production equipment and digital based systems.

Australia lacks the necessary skills, with industry often relying on overseas markets to recruit the necessary skills and experience. The lack of access to higher skills in Australia, and the lack of support for relevant industry training programs, is often a barrier to companies investing in advanced manufacturing technologies. The success of other programs in stimulating capital investment will be constrained if not coupled with an advanced skills development program. The COVID pandemic has further highlighted the need to develop local capabilities to ensure the future resilience of the industry in Australia.

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.

The Government's focus on upskilling and technology enhancement has been evident through the Modern Manufacturing Fund Round 2 however, this is limited to SMEs and is available at an individual business level, rather than an industry wide level.

Upskilling of the workforce needs to occur right across the industry, from small to large businesses, to ensure employees are capable of using new advanced manufacturing equipment, and digital information and analytics systems, which are essential to the future competitiveness of the industry in domestic and export markets.

With nearly 40 per cent of the industry's jobs in rural and regional areas, a skill development program can enhance job opportunities in these areas and ensure the ongoing viability of regional manufacturing.

The AFGC proposes that Government undertake a study to better understand the gap between the industry's current capabilities and skills needed to support the adoption of advanced manufacturing technologies, and evaluation of current training programs. Funding to develop an industry wide training centre and in-house training, tapping into global expertise, virtual reality and augmented reality technology, will not only assist in building the skills base for the future, but will also help overcome a shortage of skills exacerbated by COVID restrictions on people movement.

Investment in Australian workers will help to ensure the growth of the industry and for it to remain competitive on the international stage as well as within the domestic market.

### Proposed solution:

The AFGC proposes that the Government provide funding for:

- a skills audit to understand the gap between industry's current skills capabilities and the needs of a more automated and digitalised food and grocery manufacturing industry,
- an industry-wide, advanced food and grocery manufacturing training centre[1] with access to virtual and augmented reality technology to help train local workers to operate advanced manufacturing equipment and digital technologies, and
- a grant process that supports food and grocery manufacturers to offer on the job training or integrated learning programs that connect industry and education/ training providers.

[1] A relevant example is the Dassault Systems Virtual Shipyard, https://www.amgc.org.au/project/dassault-systems-virtual-shipyard/

# PART 2. SUSTAINABLE PRODUCTION

## 2A. SUPPORTING SUSTAINABLE PACKAGING INNOVATION TO ACHIEVE A CIRCULAR ECONOMY

**The issue: Support the industry with a grant program to install new packaging lines that will allow for updated packaging technologies, reduced waste and increased use of recycled content, meeting government and consumer demands.**

Australia's food and grocery manufacturing businesses are committed to playing their part in developing a circular economy, and achieving the National Packaging Targets, including 100 per cent of packaging in Australia being reusable, recyclable or compostable by 2025; and an industry average recycled content of 50 per cent by 2025. Meeting these targets will require research, development and safety/ quality testing of new packaging formats, and changes to packaging equipment such as moulds and packaging lines, which come at a significant cost.

The costs arise from the investment in human capital needed to undertake research and development, through to the capital infrastructure and resources needed to deliver the outcomes. These costs are incurred through R&D and changes to manufacturing processes, as well as through meeting additional regulatory requirements that arise when making these positive changes.

While significant Government funds have been provided to support an increase in recycling rates, much of this has been aimed at the waste industry, with little consideration for the significant costs borne by food and grocery manufacturers.

**Proposed solution: Supporting packaging innovation to achieve a circular economy**

The AFGC proposes the Government implement a grants program that supports and fast tracks food and grocery manufacturers' research, development and testing of new sustainable packaging formats, and changes to packaging equipment that facilitate a circular economy.

# 2B. BACKING BUSINESSES SUPPORTING FOODBANK

**The issue: Australia's food and grocery manufacturers support our community in so many ways and one key avenue is through Foodbank. Reducing food waste, promoting sustainability, and feeding our most vulnerable is vital.**

A large number of AFGC members donate to Foodbank, Australia's largest hunger relief organisation, which distributes food and grocery items to thousands of charity organisations and schools. Last year, Foodbank sourced more than 48.8 million kilograms of food and groceries. It supplies 74 per cent of all food received by charities from food rescue organisations.

The AFGC supports Foodbank's call for tax incentives in the form of credits or deductions to encourage food manufacturers, retailers and farmers to make the necessary changes that will make it easier for them to donate additional food to the organisation rather than dump it. Foodbank is also seeking new tax mechanisms to incentivise donations of essential operational services across the entire supply chain, for example transportation and storage.

Sustainability is a key focus for the AFGC and reducing food waste is an essential part of the sustainability effort. It is estimated Australians waste more than 5.3 million tonnes of food a year, coming at a cost of about $20 billion. This is occurring against a backdrop where many Australians – about 21 per cent – do not have adequate access to food. However, for food and grocery manufacturers giving can be costly.

Australia's current tax framework does not adequately motivate manufacturers and producers to donate surplus products – in fact it is no better than if they were to dump it. The AFGC considers that if tax settings were recalibrated to incentivise donations to food relief, it would increase the donations from manufacturers, retailers and farmers.

While the AFGC understands the extensive considerations that must be taken into account in formulating tax policy, we consider the changes proposed by Foodbank to be minimal in scale but with the potential of big positive outcomes for Australians in need.

### Proposed solution: implement Foodbank's tax incentive proposal

Tax incentives in the form of credits or deductions to encourage food manufacturers, retailers and farmers make the changes necessary to donate additional food to the organisation rather than send excess to landfill.