

SUBMISSION TO REPORT ON FUTURE DIRECTIONS IN AUSTRALIAN GOVERNMENT POLICIES AND PROGRAMS AFFECTING THE AGRICULTURE AND FOOD SECTOR

Ensuring a profitable, competitive and sustainable agriculture and food sector in Australia

The Submission introduces the National Food Industry Strategy (NFIS) and the company that is charged with delivering many of the programs under the Strategy, NFIS Ltd. It describes recent work by NFIS Ltd to engage industry leaders in the update of the Strategy as a catalyst for change to a more competitive agrifood industry.

BACKGROUND

National Food Industry Strategy and NFIS Ltd

The National Food Industry Strategy aims to position the Australian food industry as a significant global player with a sustainable and profitable role in the global food product system. The Strategy is a five-year (2002-2007) blueprint for growth through increased investment in innovation and research and development, increased export opportunities and improved efficiency, productivity and skills development.

The Strategy comprises actions aimed at the following outcomes. By 2007, Australia's food industry will

- have increased its investment in innovation and follow-through commercialization, supported by a world class national innovation infrastructure to ensure the industry's products and processes are globally focused and aligned.
- 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.
- 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.
- 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.
- have global consumer and customer acknowledgement for the production of clean and safe food, through sustainable practices with minimal environmental impact.

NFIS Ltd is responsible, under an agreement with the Commonwealth of Australia, for the delivery of many of the programs under the National Food Industry Strategy.

Much of the analysis that underpins the National Food Industry Strategy was done in 1999 and 2000. An initial study was based on input from a mailed survey of 316 firms

and in-depth interviews with owners or senior managers of 103 food businesses representing a spectrum of the industry. The findings then were sobering', eg:

- Mixed outlook for exports: smaller companies were interested but lacked scale to make a significant contribution to overall performance
- Tough competition in foreign markets: through a combination of protective tariffs and export subsidies and inefficiencies in the Australian economy
- Many raw materials too expensive: due to lack of scale at the primary producer level and less developed vertical integration with food processors
- Little competitiveness gained through value-adding: little focus on demand chain management issues for export markets
- Investment in innovation too low: Australian product not highly differentiated or capturing the 'value of values' (eg clean, safe and eco-efficient)
- Corporate capabilities below world benchmarks: in management, technical and export skills.

The Board of NFIS Ltd decided that it was important to update the information on the international competitiveness of the Australian food industry. The objective of the update process was to capture the 'voice' of food industry leaders across sectors around the country to hear what they feel are the competitive realities and importantly what are the changes needed 'for Australia to be a player in the global food industry'.

This was done in two ways: 1) through a series of meetings with over 100 food industry leaders around the country and 2) through an update of the INSTATE study based on in-depth interviews with 35 food companies throughout Australia during June and July 2005.

1. The first meeting on 20-21 June was with Council members, members of the Innovation, Trade and Chains Committees and a few invited guests representing smaller innovative companies. The results of that meeting have been circulated to Council members as the Summary Outcomes Report of the Combined Committees Meeting.

Following the June meeting, State food agencies invited industry leaders in their states to meet with NFIS Ltd to discuss the results of the Combined Committees Meeting and provide their input. Over 75 industry leaders attended sessions in five states in July.

Participants focused on six key issues

- extent of internationalisation of Australian food business;
- salient features of the Australian domestic market;
- extent of product and process innovation;
- extent of demand chain competitiveness;
- workforce skills; and

¹ 'Exporting Australian Processed Foods - Are We Competitive?' Prepared by INSTATE, February 2000. ²The 'food industry' includes all differentiated and value-adding agrifood and fishing sectors ³ NSF, Tasmania, Victoria, AS, and Queensland. (FA meeting will be held in mid-August)

- impact of the regulatory and business environment on competitiveness All

groups discussed:

- 'What will happen in 10 years if we continue on the path we're on?' - Probable Future'
- What could happen if we make significant changes?'- Preferred Future
- 'What are the most important changes we need to make?'
- How can we deliver the changes?

The results have been summarised and the implications for both industry and Government will be discussed at the National Food Industry Council meeting on 11 August 2005.

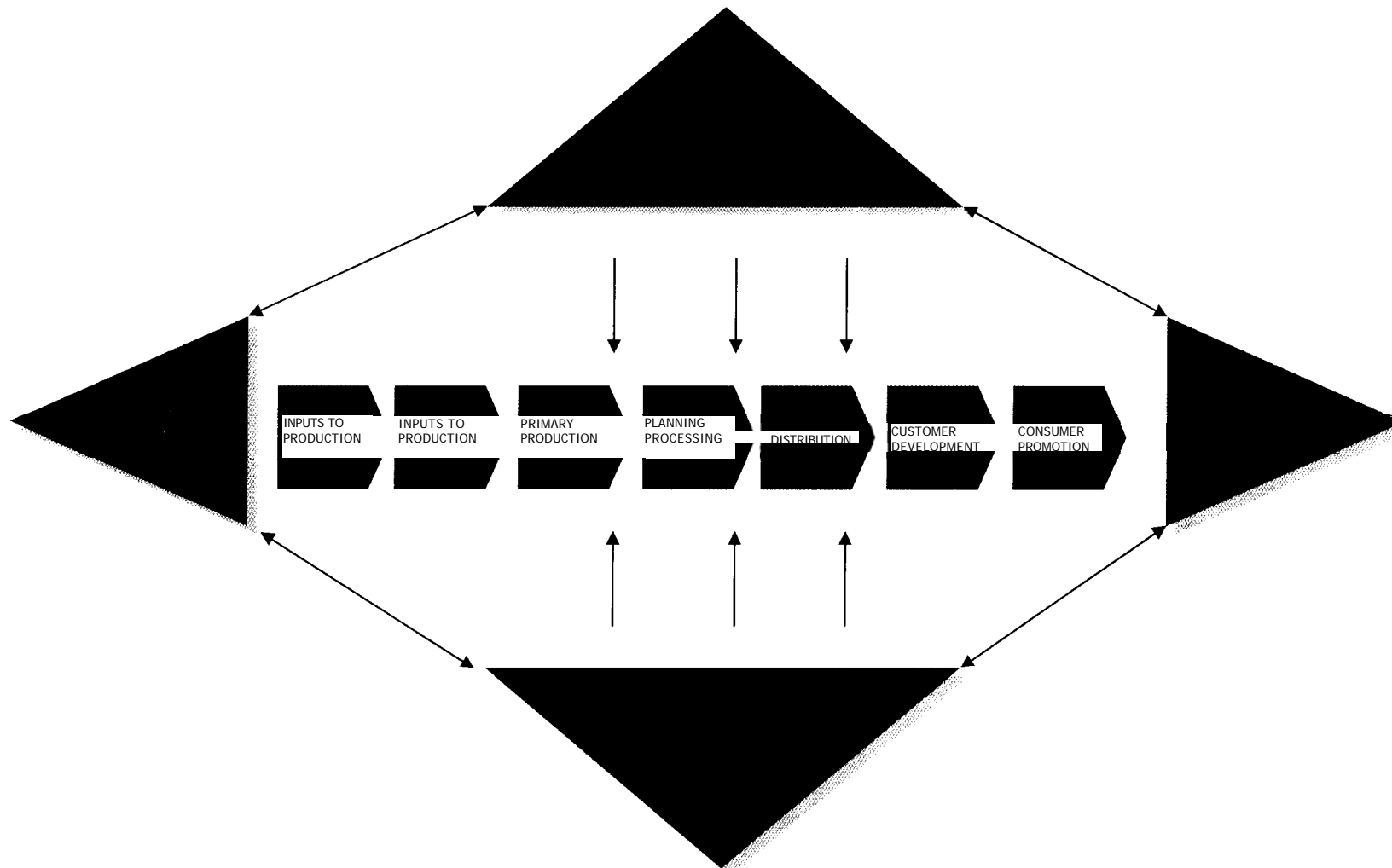
2. The INSTATE study focused on competitiveness in exports markets and canvassed many of the same issues in depth. The conclusions are included in this paper and the Food Industry Opinion Survey Report is available under separate cover.

The results have been summarised using an adaptation of the Porter Diamond⁵ of conditions of international competitiveness shown in Figure 1 that emphasises the importance of both market and supply conditions all along the value chain as well as the contributing conditions related to industry structure and supporting industries.

⁴ National Food Industry Strategy - Combined Committees Meeting, Summary Outcomes Report. (available under separate cover)

An internationally recognised industry development framework developed by Prow Michael Porter ow the Harvard Business School based on a major study ow more than one hundred industries in ten nations. Porter has summarised the determinants ow national competitive advantage into four broad sets ow conditions which he labelled collectively as the 'diamond'.

Figure 1
International Competitiveness along the Value Chain



AND
PACKAGING

THE RESULTS

The issues were not substantially different than in 2000. As one industry leader said at the Combined Committees Meeting, 'We're good at defining the issues'. We know what the challenges are. The INSTATE interviews also did not uncover fundamental shifts in the underlying business environment or in industry opinions; however there were changes in degree of concern.

Most industry leaders believe that the rate of change has accelerated. Competitors from developing countries in Chile, Brazil and China have improved much faster than anticipated. Also, the two major supermarkets and other large customers are following the lead of overseas retailers and moving to global sourcing practices putting severe price and shelf space pressures on local suppliers.

Some specific observations about the performance and prospects for the Australian food industry in overseas markets included:

- Australia seems to be falling behind in the battle for international markets - falling behind some competitor countries that seem to be better equipped to succeed and losing market share in some key markets.
- There is a mixed perception internationally of our status as a food supplier - generally favourably regarded at the commodity end of the value chain but generally ignored at the high-value end.
- The food sectors' 'commodity' culture is inhibiting innovation and value adding which is contributing to weaker export performance.

Interview respondents also identified the increasing degree of difficulty in developing new markets. Examples included:

- Factor related issues such as costs of inputs given the relative lack of scale of growers and skills shortages.
- Increased logistics costs.
- Growing requirements from many markets for 'credentialed' products, without rewarding suppliers for the higher costs of production and compliance.
- Considerable scepticism about the genuine commercial benefit of recent market access initiatives, believing that the real issue is the non-tariff barriers in food trade.
- Strengthening of the Australian dollar.

One Managing Director of a medium size, vertically integrated food company submitted a list of issues that are a good summary of current competitive realities:

'Here are my thoughts ... unfortunately just about every one of these barriers and problems we as an industry face are out of the control of the Australian Government:

- 1. Retail concentration. Coles and Woolworths are ruthlessly destroying the Australian owned and manufactured food industry through their purchasing policies. Farmers and manufacturers have no choice but to accept their*

terms. Only the biggest suppliers can survive the current 'pay to stay' auction.

- 2. Strong Australian dollar. Makes Australian exports too expensive. Worst still, it encourages imports. Its volatility means an export market built up over years can be lost suddenly.*
- 3. International trade protection. Trade distortions are particularly bad in the food industry which makes exporting a lottery.*
- 4. Labour costs. A large cost of the fruit and vegetables is in the labour of planting and harvesting. When fruit can be bought fresh, concentrated or frozen at nearly half the price of the Australian product on the world market, why would you invest in fruit growing in Australia?*
- 5. Labour shortages. It is getting harder and harder to find reliable workers. The issue that ties this together is a lack of critical mass. You can't export without a strong and certain domestic market to fund the ups and downs. With retailers bringing in cheap imports from all over the world and rationalizing their ranges, there is no longer the certainty to invest in efficiencies and to innovate, let alone build export markets. Manufacturers and farmers need to be really big to be competitive in their sourcing.'*

Probable future

The consensus across groups is that if we continue on the same track, the 'Probable Future' for the Australian food industry will likely result in a smaller value-adding sector that is largely domestically oriented with limited incentives to develop innovative, branded products for the Australian market. Further, low margins will lead to little new investment in the technological changes needed to drive down costs; and large scale processing will leave Australia. Finally, continued fragmentation and lack of collaboration in the industry will limit the export competitiveness of smaller companies through lack of scale and reliable supply.

An industry leader from the seafood industry made the point strongly at one of the meetings:

'One issue I would like to get across is that existing businesses do want to undertake research and development, do want to get involved in value-adding their products, but that due to intense competitiveness (particularly in the seafood industry) they are often limited by the resources. It's easy to say that we should all be value adding and doing research on new products, but we must be mindful of over allocating scarce resources and thereby making us uncompetitive in today's market.'

Participants in the Opinion Survey commented on their concerns about increased foreign ownership and control in the Australian food industry citing:

- Transfer of decision making control offshore and the conversion of pro-active Australian food businesses into branch operations.
- Reduced likelihood of value-adding in Australia when decisions are made globally with Australian operations being assigned a role.
- A process of 'dumbing down' locally with regard to innovation.

Preferred future

The future of the Australian food industry will depend on identifying and investing in industry sectors where we can build a sustainable competitive advantage. We must compare our best performers to the best competitors in the world to determine where we have (or have the potential to create) a strong competitive position in retail, food service and value-added ingredients markets.

We must identify priority international markets for collaborative development; and we must be sustainably engaged in these markets; which means we must leverage limited resources to achieve the scale and reliability of supply needed to sustain business with international customers. In many cases, this will require increased consolidation or collaboration of businesses in Australia.

Other characteristics of an internationally focused food industry as described by industry leaders include:

- Recognition of Australia in global markets as a producer of safe, healthy and environmentally sustainable food - with both international and domestic business supported through 'Food Brand Australia'.
- A healthy balance of industry engagement in international markets - with both inward and outward investment, and with 60% of Australian food products being exported.
- A substantial domestic production base with increased use of technology to lower input and processing costs.
- A collaborative approach to pre-competitive innovation and strong linkages between R&D providers and food companies focusing on rapid commercialisation of differentiated products and services.
- Consolidation of food industry expertise to create world class education and training services in international food management capabilities and in technological skills applied to the food industry (eg food safety, robotics, energy efficiency and waste management and demand chain management).
- An integrated, whole of chain approach to food industry regulations that is sensitive to international competitiveness, has sensible compliance costs and is consistent across government jurisdictions.

The international focus of the food industry should be complemented and supported by vibrant regional food cultures with local businesses specialising in value-added 'authentic', regional food with strong ties to local producers.

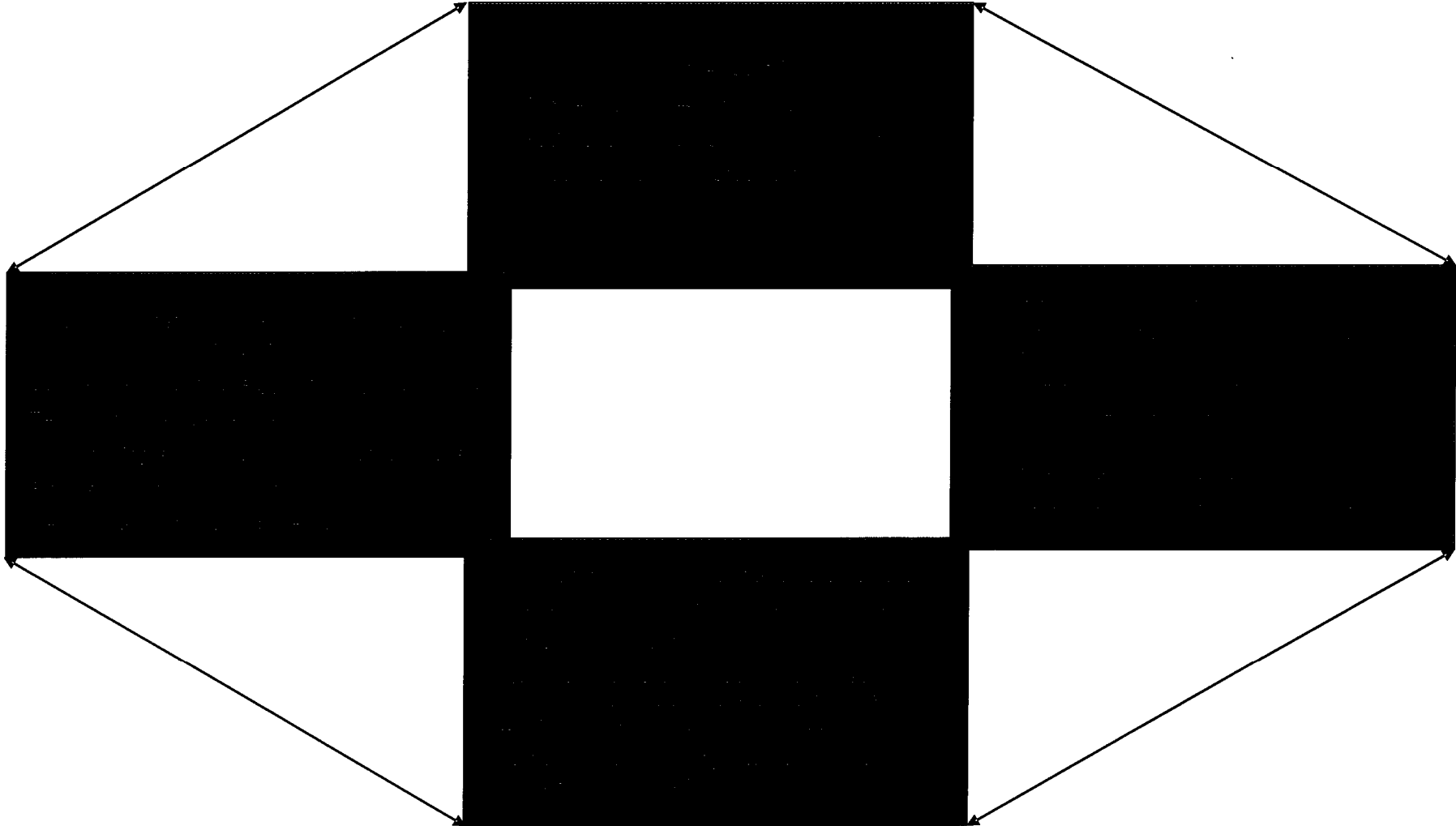
These businesses can add another 'layered' dimension to 'Food Australia' through the quality of their products made from local ingredients; and would be essential to the growth of regional food and wine tourism. Regional food groups could also attract innovative entrepreneurs to the food industry. (For example, a recent survey of over 420 companies who are members of regional food groups in South Australia reported they had added 1600 jobs in the past two years.)

Figure 2 summarises the 'Preferred Future' using an adaptation of the Porter Diamond of conditions of international competitiveness.

Figure 2 Preferred Future

industry strategy

- Industry sectors and segments with sustainable competitive advantage
- Agreement on priority international markets



The current National Food Industry Strategy has a four pronged thrust:

- Leverage Australia's science and technology, education and training to make Australia a recognised centre for innovation in food product, process and systems development;
- Grow Australian exports of food products through an international market entry strategy;
- Create a globally competitive business operating environment that would enhance industry competitiveness and investment; and
- Ensure long-term resource availability through environmentally sustainable practices.

The programs that are underway have made significant progress in implementing the Strategy. The lessons learned from the FIG (Food Innovation Grants), Centres of Excellence, Market-entry platforms and Chains activities are being applied to refocus the existing programs managed by NFIS Ltd.

The Opinion Survey also found that there is a greater awareness today of the benefits of more international engagement by the food industry, including the benefits of international investment to achieve more effective market penetration.

Importantly, food businesses are investing in these development programs and achieving commercial outcomes. Their successes illustrate that the 'Preferred Future' is attainable. Profiles of companies that have embraced change under the National Food Industry Strategy are available from NFIS Ltd.

PRIORITY CHANGES

Industry leaders do not underestimate the scope or pace of change needed for Australia to retain a vibrant food industry. They believe that competitive pressures have intensified at a faster rate than anticipated in 2001 when the current Strategy was developed. The scope of change must be broadened and the pace of change accelerated.

There is consensus among the food industry leaders about which changes are priorities.

Their priorities reflect a dual focus on the critical need for food producers and companies to achieve global cost competitiveness and to extend their engagement in targeted international markets.

One industry leader from the seafood sector stressed the need *to support efficiency improvements in production and processing, and in collaborative marketing that would go a long way to growing export dollars.*

Industry leader meetings

The top two priority changes selected by groups of industry leaders in meetings around the country were:

- Invest in understanding the consumers and competitors in target markets and
- Pursue global cost competitiveness through innovation and continuous improvement. The Priority

Changes are listed in rank order in Table 1. **Table 1. Priority Changes from Industry Leaders**

Meetings

Critical	
1.	Invest in understanding the consumers and competitors in target markets.
2.	Pursue global cost competitiveness through innovation and continuous improvement.
3.	Develop a culture of business to business collaboration on issues and opportunities.
Very Important	
4.	Develop a strategic 'Food Australia' approach across sectors and value chains to develop overseas markets.
5.	Target market development assistance to export capable companies.
6.	Accelerate the priority of addressing specific regulatory barriers to international competitiveness.
7.	Create 'Team Australia' approach across R&D institutions and food businesses.
Important	
8.	Promote awareness of country of origin of food products.
9.	Develop skills in international business management.
10.	Develop a consistent, simpler, business friendly regulatory approach across all jurisdictions.
11.	Promote international food business opportunities (trade and investment).
12.	Increase education on values and lean thinking management processes.
13.	Promote a positive image of the potential of the Australian food industry to encourage entrepreneurship and innovation.
14.	Raise the level of product quality and systems through self-regulation.
<u>INSTATE Opinion Survey conclusions</u>	

The priority changes were affirmed in the conclusions of the Opinion Survey. Specific examples include:

- Many larger and several medium-sized companies are moving to more effective engagement in international markets including investing in joint venture distribution businesses or dedicated in-market representation.
- There was general recognition of the need for a cohesive Australian food 'brand' image.

- A majority expressed a desire for greater industry collaboration with regard to:
 - Gathering and sharing market intelligence
- Collaborative exporting activities - especially in export logistics and promotion under 'Food Australia'
 - Greater collaboration between food companies and R&D providers to achieve innovation in value-adding, logistics and product handling.

IMPLICATIONS

There is a consensus among the industry leaders participating in the Opinion Survey and in the meetings throughout the country on the changes needed to secure the future of Australia's food industry. The big challenge is to determine how to deliver these changes. Table 2 lists some of the potential implications for industry leadership and for Government policy and programs (including the current National Food Industry Strategy). The National Food Industry Council will be discussing these implications at the 11 August meeting. NFIS Ltd would be pleased to provide the Reference Group with their conclusions and recommendations.

Table 2. Potential implications for leadership, policy and programs

Priority changes	Implications for NFIS programs	Implications for other Government policy & programs	Implications for Industry leadership
<p>Collaborative market development</p> <ul style="list-style-type: none"> ■ Invest in market intelligence ■ Develop 'Food Australia' approach-selection of priority markets ■ Target assistance to export capable companies ■ Address regulatory barriers • Promote country of origin • Develop skills in international business management 	<ul style="list-style-type: none"> ■ Coordinating / disseminating / catalyst role for NFIS Ltd? ■ Extend development of market-entry platforms? • Extend collaboration with Austrade & State agencies? 	<ul style="list-style-type: none"> ■ Expand Austrade role in priority markets? Changes to EMDG eligibility? • Expand market access support in priority markets? • Tax incentives for exporters? ■ Review impact of AQIS practices on competitiveness ■ Review labelling requirements for fresh foods? 	<ul style="list-style-type: none"> ■ Opportunity for shared intelligence across sectors? Opportunity for collaborative promotion under 'Food Australia'? ■ 'Accreditation process' for food companies under 'Food Australia' banner? • Mentoring program led b food industry executives?



Priority changes	Implications for NFIS programs	Implications for other Government policy & programs	Implications for Industry leadership
<p>Global cost competitiveness through innovation</p> <ul style="list-style-type: none"> ■ Reduce input costs ■ Make productivity gains through technology ■ Reduce regulatory compliance costs ■ Flexible labour force 	<ul style="list-style-type: none"> ■ Coordinating / catalyst role? ■ Continue to stimulate innovation & investment through FIG? ■ Refocus Chains program to commercial outcomes? 	<ul style="list-style-type: none"> ■ Incentives for investment in new plant & equipment? ■ Review impact of compliance requirements on competitiveness? ■ Consolidation of auditing systems. systems? Consider `guest workers' program? 	<ul style="list-style-type: none"> ■ Collaborative international bench marking studies? ■ Collaborative development of 'tool kits' (eg in chain management customised to sector language & examples)?
<p>`Team Australia'</p> <ul style="list-style-type: none"> ■ Develop a culture of business to business collaboration ■ Create `Team Australia' approach across R&D & food business 	<ul style="list-style-type: none"> ■ Communication / promotion / catalyst role? ■ Explore 'open innovation' system? 	<ul style="list-style-type: none"> ■ Incentives for collaboration through grants programs? 	<ul style="list-style-type: none"> ■ Regional food groups? ■ Collaborative pre competitive R&D programs?

CONCLUSIONS

Food industry leaders strongly support the need for a national strategy for the food industry and have a range of opinion on what a strategy should achieve. Desired goals most frequently cited include:

- Achieve a collaborative private sector / public sector approach to the development of the industry and its potential in international markets
- Avoid duplication (or competitiveness) in food-related activities of Government agencies
- Elevate the level of public understanding of, and support for, the food industry
- Ensure appropriate resources are available to the industry (eg technical and workforce skills, helpful regulatory systems and `soft infrastructure' to support market and industry development)
- Develop and promote internationally a convincing Australian food `image'
- Coordinate (and undertake) trade development and promotion activities with and for industry in major international markets

- Work with skilled intermediaries (consolidators, accumulators) to further develop services that reduce the gap between buyer expectations and Australian supply practicalities
- Reduce the degree of difficulty for Australian food exporters by providing a onestop information service for the industry on day-to-day market access issues
- Gather and disseminate market intelligence
- Encourage product, process and commercial innovation
- Prioritise and pursue market access concessions.
- Fund essential industry initiatives

The consensus among industry leaders is that a national strategy needs:

- Investment in industry sectors and segments with the capacity to create sustainable competitive advantage
- Agreement on priority international markets.

Furthermore, the strategy must include Government policies and programs to accelerate the changes needed to be internationally competitive:

- Global cost competitiveness through innovation (eg input costs, regulatory compliance costs, technological gains, supply chain management practices)
- Collaborative engagement in priority markets (eg market intelligence, market access, 'Food Australia')
- 'Team Australia' (eg business to business collaboration, business and R&D & education collaboration and industry - Government partnership)
- Internationally competitive supporting industries and regulatory environment (eg strategic R&D expertise, specialised education and training expertise, consistency of regulatory requirements across jurisdictions.)

The consultation process with food industry leaders is continuing. NFIS Ltd would be pleased to provide further information to the Reference Group.