THE AUSTRALIAN INDUSTRY GROUP SUBMISSION IN RESPONSE TO THE NATIONAL FOOD PLAN: GREEN PAPER

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Australian Industry Group
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1. Introducing the Australian Industry Group

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than 1 million employees.

Ai Group is committed to helping Australian industry with a focus on building competitive and sustainable industries through global integration, skills development, productive and flexible workplace relations, more efficient taxation and regulatory arrangements, infrastructure development; innovation; and uptake of resource efficiency. We provide practical information, advice and assistance to help members run their businesses more effectively.

Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with more than 50 other employer groups in Australia alone and directly manages a number of those organisations.

Ai Group welcomes the opportunity to provide the following comment on issues raised in the *Towards a National Food Plan for Australia: Green Paper* (Green Paper).

2. Importance of manufacturing

A strong and sustainable Australian manufacturing industry is vital to achieving a well-balanced, resilient economy. The impact of the current competitive pressures on the manufacturing sector is all the more significant given its critical importance to the future of the Australian economy. Not only does manufacturing employ almost four times as many people as the mining sector but it remains key to the retention and development of skills underpinning the competitiveness of the Australian economy. The sector accounts for 25 per cent of Australian R&D and contributes 29 per cent of national exports. In addition, manufacturing is a key demander of services and underpins the strength of that sector. Similarly, manufacturing has strong linkages with natural resource strengths across mining, energy, agriculture and forestry, which are areas of comparative advantage.

Manufacturing output and employment have been contracting as a share of the Australian economy over several decades. This long-term contraction has occurred in fits and bursts, with occasional periods of welcome growth. In the most recent decade, total manufacturing output (in real value added terms) grew through the early 2000s and hit a production peak in early 2008, just before the effects of the GFC had started to filter through. Since that peak however, total manufacturing output has fallen by 8.3 per cent (or an average of 1.0 per cent p.a.) in the four years since February 2008, despite a growth spurt in mid-2011 that saw manufacturing output increase by 0.6 per cent over the year to March 2012.

Food processing, which is the largest sector within manufacturing, has had a fairly flat period of output growth over the past decade, due to some special factors. Most notably, growth in many parts of food processing was weighed down by supply constraints due to the long drought, which has now lifted (but was replaced by floods in 2011).

The decline in manufacturing employment has been even greater than the decline in output, with employment falling by 10.2 per cent (128,000) and actual hours worked falling by 12.3 per cent over the four years since their recent peak in early 2008.

As with output growth, manufacturing's job losses have not occurred evenly across sectors or geographies. The decline in employment in food manufacturing since 2008 has been far less than many other sectors, and compared with jobs numbers in 2000 for example, employment has grown around 10 per cent (as of May 2012) in food and 33 per cent in beverages.

Given the importance of the food manufacturing sector, Ai Group supports the development of a National Food Plan to provide an integrated approach to food-related policies and programs which underpins the ongoing sustainability and competitiveness of this important industry.

3. Australia is now a high cost country

The strong rise in the value of the Australian dollar associated with the mining boom has turned Australia into a high cost country at a time when the range of other circumstances facing the domestic industrial sector would generally be associated with a devaluation of the currency. This has adversely impacted the viability of exporting and intensified vulnerabilities to import competition. It has also made inbound investment a much more expensive proposition and the local arms of multinational enterprises find it much more difficult to be successful in the internal capital allocation decisions of foreign and Australian-based multinational enterprises.

Within multinational corporations, even in areas of traditional specialisation, Australia is being overlooked as business units in other countries are more readily able to satisfy hurdle rates of return.

The Australian dollar is expected to remain well above its post-float average level of $US0.74 for a prolonged period as Australia attracts mining investment and sells rising quantities of mineral commodities at relatively strong prices.

On the plus side, the stronger dollar has lowered the cost of imported inputs, including imported capital equipment. It has made investment abroad from an Australian base more attractive. While this has better enabled Australian business expansion into overseas markets, a downside is the flight of manufacturing capacity.

Over the same period, Australia has experienced faster growth in unit labour costs than most of its competitors as the rate of productivity growth has declined and nominal wage growth has continued unabated. Substantial rises in energy costs and further anticipated rises in the years ahead due in part to the pricing of emissions of greenhouse gas from July 2012 are eroding a competitive advantage enjoyed by many Australian manufacturers, particularly in more energy-intensive manufacturing sections of the industry.

Manufacturers are finding it harder to retain and recruit personnel in the face of the demands from the mining sector and mining-related construction. This is particularly the case in regional areas where competition from mining-related activities is a feature of local labour markets.

Financial institutions, responding to the perception of higher risks facing the industrial sector, are downgrading manufacturing industries and making access to finance more difficult and expensive for the sector.

4. Support for the objectives of Australia's food policy framework

Ai Group supports the objective articulated in the Green Paper of ensuring Australia has:

> *"a sustainable, globally competitive, resilient food supply, supporting access to nutritious and affordable food."*

Ai Group further supports the seven objectives outlined to achieve this objective:

1. Support the global competitiveness and productivity growth of the food supply chain, including through research, science and innovation.
2. Reduce barriers food businesses face in accessing international and domestic markets.
3. Contribute to economic prosperity, employment and community wellbeing in regional Australia.
4. Identify and mitigate potential risks to Australia's food security.
5. Maintain and improve the natural resource base underpinning food production in Australia.
6. Reduce barriers to a safe and nutritious food supply that responds to the evolving preferences and needs of all Australians and supports population health.
7. Contribute to global food security.

5. Need for holistic manufacturing policy

Australian manufacturers continue to face intense competition given the significant rise in comparative cost structure over the last decade, and especially in recent years with the strength of the Australian dollar, while productivity improvements have been weak. This needs to be addressed urgently if Australian food manufacturers and manufacturers more broadly, are to compete successfully against their global counterparts. Ai Group considers that these challenges can be met provided that business initiatives are supported by the appropriate policy framework to bring about sustainable productivity improvements in the industry over the longer term; and which provide manufacturers some near term relief from the current challenging economic environment.

The Green Paper outlines (p 114) that:

> "The Australian Government's overall approach to food industry policy is part of a general economic policy approach that aims to foster a flexible economy and a sound and stable business environment. The government's economic policy approach includes macroeconomic policy settings, such as fiscal and monetary policy, and microeconomic policies such as the competition and consumer framework, infrastructure investment, financial prudential regulation, innovation and education policy. Australia's trade policy complements this by aiming to increase prosperity through trade and promoting competition in domestic industries."

The Green Paper further outlines (pp 116-117) the Government's policy approach to the food manufacturing sector which comprises general industry policy measures along with specific manufacturing or food manufacturing initiatives' including:

- Encouraging investment in R&D, including through tax incentives and other programs designed to increase the level of collaboration between business and public research institutions;
- Facilitating adjustment to climate change and the policy response to it;
- Facilitating trade in food products; and
- Facilitating industry development and strategic planning, including the Food Processing Industry Strategy Group and Enterprise Connect's Food Processing Industry Support Network.

Not only does Australia's food manufacturing capabilities provide important avenues for earning income from abroad both from exports and from the returns to offshore investment, our food manufacturers make a fundamental contribution to Australia's food security.

Ai Group does not share the complacency expressed in the Green Paper about the prospect of a decline in food manufacturing capacity being easily addressed or subsequently reversed.

The Green Paper states, (p70) that:

> "Even if there was a major structural decline in domestic food manufacturing capacity, it is unlikely this would affect Australia's high level of food security. As a wealthy nation, Australia would still be able to import food to meet domestic needs, or if imported product was unavailable, food prices would rise creating incentives for investment in some food manufacturing sectors. "

Ai Group supports development of a long-term, holistic national manufacturing policy that puts this critical sector on a path to:

- Provide high-quality jobs and rewarding careers in excellent and cooperative workplaces for a large proportion of the workforce;
- Capitalise on Australia's strengths in scientific research and industrial design, translating ideas into commercial opportunities and linking science and research capabilities with markets both here and abroad;
- Grow critical export industries that add value to Australia's natural resources; and
- Underwrite our food security over the course of a century that will see substantial geopolitical shifts.

Key elements of such a policy are discussed in following sections.

5.1 Tax reforms

Ai Group continues to advocate a reduction in the company tax rate to 25 per cent, within the constraints of sustainable medium term fiscal position. This would make investment in Australian industry more attractive and would help to address the erosion of competitiveness imposed on non-mining trade-exposed industries as a result of the exchange rate and labour market impacts of the mining boom.

State based tax reform is also important to remove barriers to business transformation and development. Removal and reform of State based taxes that particularly impact businesses, such as insurance taxes, property transfer taxes, payroll tax and remaining stamp duties as outlined in the Henry Tax Review should be a key priority.

Ai Group is very concerned at the options put forward in the Business Tax Working Group's recent Discussion Paper to finance a small reduction in the company tax rate by scaling back the R&D tax incentive. This would detract from the innovative capacity of the economy and would be a clear move in the wrong direction at a time when innovation and industrial restructuring are such priorities.

5.2 Achieving competitive and productive industry

The powerful competitive pressures confronting Australian manufacturing, makes it imperative that the productivity performance of the sector is addressed. Critical drivers of productivity performance include product and process innovation, technological change, management skills, workplace training and active supply chain management.

Increasingly, businesses are unable to hold the capabilities required to recognise, acquire, assimilate, transform and exploit knowledge from external sources (known as absorptive capacity)[1]. Building this capacity is highly reliant on education policy, management skills, employee engagement and ease of access to information, including the nature and extent of engagement by businesses with the research sector.

Absorptive capacity and innovation capacity are interlinked. The absorptive capacity of the Australian manufacturing sector is constrained by business size and compounded by Australia's small and dispersed domestic markets and distance from key offshore markets. Australia has around 50,000 SMEs employing less than 200 employees. Some Australian research would indicate that only a small proportion of SMEs are dynamic in terms of innovation and growth[2].

Despite the strengths of Australia's public research system and growing private investment in innovation and R&D outside of the resources sector, collaboration and networking have been cited as consistent weaknesses in the Australian innovation system compared with other OECD countries. Just 2.4 per cent of innovation-active businesses collaborate with universities and 4.4 per cent with publicly funded research agencies [3.]

The low level of collaboration between public sector research organisations and businesses that do not have their own in-house R&D capabilities stands out as an area where particular efforts can be made to provide accessible information to a broader cross-section of businesses.

Australia's innovation system is characterised by a supply-side, science push model that does not integrate well with the innovation needs and behaviour of Australian businesses. Existing reward and recognition systems for researchers favour pure research over working with businesses. This is exacerbated by perceptions in sections of business that research institutions are difficult to deal with and protective of intellectual property.

Research undertaken by Ai Group into business investment in new technologies indicates that for the overwhelming majority of businesses there is no connection between their investments in new technologies and public sector research institutions. Less than 5 per cent of businesses reported that they obtained information about new technologies from research institutions and only 8 per

[1] Department of Industry, Tourism and Resources, *Absorbing Innovation by Australian Enterprises: The Role of Absorptive Capacity,* 2007
[2] ibid
[3] Department of Innovation, Industry, Science and Research, *Australian Innovation System Report 2011*, 2011p 82, 84

cent of all businesses, and 6 per cent of manufacturers, collaborated with public sector research institutions as part of their investment in new technologies over the past three years.

Australia needs to increase substantially the extent of collaboration between its public research organisations and the business community. Businesses are most commonly finding out about new technologies from their employees and other businesses within their supply chain[4]. Close to 70 per cent of businesses that invested in new technologies over the past three years reported that the information source came from within their business or their supply chain. External consultants are also a common source of information for business.

Ai Group is a partner in the delivery of the Researchers in Business (RiB) initiative, which is a key element within the Australian Government's Enterprise Connect program. As its name suggests, this initiative facilitates the placement of researchers from universities or public research agencies within participating SMEs where it is identified that such a placement would help the business to develop and implement a new idea with commercial potential.

The innovative delivery of the Enterprise Connect program in partnership with industry associations provides a model for a new pattern of research/business collaboration. Ai Group recommends the expansion of the RiB program as a first step to overcome the cultural barriers between research and industry.

In concert with the expansion of the RiB program, Ai Group proposes further investigation be undertaken of barriers to more successful collaboration between the business community and the public sector research community.

5.3 Addressing barriers to innovation

Innovation is central to the recovery of Australia's productivity growth and ensuring the ongoing diversity and balance of the economy. The most recent productivity estimates for Australia by the ABS indicate that both labour and multi-factor productivity growth have slowed or even gone backwards since around 2006, and across almost all sectors of the Australian economy, after a period of relatively rapid productivity growth through the 1990s and early 2000s. A similar deceleration is evident across most OECD countries over the same period. Food and beverages production also looks to have suffered a decline in output per worker relative to 2000. Disruptions due to natural disasters (e.g. drought) may have affected the measurement of output and therefore of productivity.

A stronger focus on improving the ability of businesses to absorb ideas and technology will assist manufacturers to respond to challenges in the global marketplace. Other types of innovation are also important, such as organisational, market and financial innovation which create opportunities for business growth and improvement.

The recent ABS Business Innovation Report identified that access to additional funds (33.8 per cent) was the most commonly cited barrier to innovation that was reported by businesses that had, or attempted to, introduce an innovative product or process during 2010-11. This was followed closely by skill shortages (29.8 per cent) and costs of development (23.3 per cent). Just under 19 per cent of businesses reported that uncertain demand was a barrier while 16.5 per cent also cited government regulations and compliance as a barrier. Businesses in the manufacturing sector were generally more likely to report facing barriers to innovation than businesses from other industries. Skill shortages were the most commonly reported barrier to innovation among manufacturers.

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[4] Australian Industry Group *National CEO Survey: Business Investment in New Technologies,* January 2012

The report suggests that there is quite a bit of collaboration within supply chains and between businesses in the same industry, however, the level of collaboration between business, the government, and research institutions is relatively low. Just under 40 per cent of businesses that had, or attempted to, introduce an innovative product or process during 2010-11 reported that they had collaborated with a supplier. A similar proportion of businesses also reported collaborating with a client. In contrast, only around 5 per cent of businesses reported that they had either collaborated with a government department or a research institution.

Ai Group also supports selective government support for early-stage capital markets in Australia both to assist innovation and to build greater depth and capacity in this part of Australia's financial infrastructure.

5.4 Business regulation

As identified in the Green Paper, a regulatory environment conducive to investment and productivity is a fundamental prerequisite to broader economic growth and international competitiveness.

Ai Group research has identified that despite recent initiatives by governments on regulatory reform, the compliance burden associated with business regulation continues to rise. The average Australian business deals with 8 regulators in a given year and spends close to 4 per cent of their annual expenses complying with regulatory requirements. Around 20 per cent of these regulatory requirements are deemed by business to be unnecessary.

A nationally consistent approach to regulation and a reduction in the time taken to introduce and amend regulation will assist in reducing the compliance burden on businesses in the food sector.

It is critical that introduction of regulatory measures be undertaken only following a process of close consultation with industry and key stakeholders and provision of clear evidence that the proposed regulation is both necessary and cost effective. The flow on costs to food manufacturers of regulatory change can be significant. The recently averted *Foods Standards Amendment (Truth in labelling – Palm Oil) Bill 2011* (Palm Oil Bill) and proposed amendments stemming from the *Labelling Logic: Review of Food Labelling Law and Policy (2011)* are examples of regulation or defacto regulation that would significantly impact food businesses.

Ai Group members also seek greater clarity of the calculation of country of origin and advise that lack of clarity is in some instances resulting in over declaration to avoid the risk of non-compliance.

Another issue of concern is the consistent application of regulation to domestic and imported product. The confectionery industry has expressed concerns in relation to the level of non-compliant product in the market for many years, much of which is imported and parallel imported. Owing to the high Australian dollar the level of non-compliant parallel imports is on the rise. Local manufacturers report that that their products compete against imports that do not comply with local food regulations, for example unapproved ingredients are used or exceed permitted local thresholds and labels are not compliant for various reasons.

Inspection priority is afforded to high risk foods and health and safety issues. In the case of confectionery, just 5 per cent of imported goods are inspected. Ai Group considers that there is scope for improved, nationally consistent compliance monitoring. Ai Group further supports the ability for import inspection procedures to be informed by market intelligence. Policy development work is underway to develop a nationally coordinated approach for food compliance issues and

Ai Group applauds these intergovernmental efforts. The Imported Foods Consultation Committee is another positive step to increase dialogue between the relevant stakeholders.

Ai Group member companies have also expressed concern at the impact of the proposed increase in the fee structure applied by Food Standards Australia and New Zealand (FSANZ). This represents a 56 per cent increase in the hourly rate. Ai Group is concerned at the impost that this will have on businesses, including the impact on innovation and urges FSANZ to place increased emphasis on improving the efficiency of its activities to reduce the impact on industry.

Ai Group recommends the following actions to reduce the regulatory burden of businesses:

- COAG accelerate the reforms under the National Seamless Economy initiative;
- All governments commit to additional cross-jurisdictional reforms; and
- A concerted effort by all Australian governments to reduce regulatory burdens.

6. Building resilient businesses

Australian businesses increasingly face pressure for them to become more knowledge intensive and globalised, to explore new business models and to foster high performance workplaces. Higher efficiency in the production of goods and services is driven by more sophisticated business practices. Options of introducing newer business models, such as mixing production processes with service activities, is requiring reviews of strategy and operations and placing even more importance on supply chain relationships.

6.1 Business capability

Support for building business capabilities can assist in meeting these challenges, with the most effective assistance ensuring that the introduction of new models and practices are embedded for the long term.

There have been major successes in the area of developing Australia's business capabilities over recent years through programs run by both the federal and state governments. Ai Group's own involvement in the Enterprise Connect initiative has resulted in direct knowledge of the challenges facing participating companies, the range of recommendations for improvement and the specialist areas of assistance sought.

Ai Group recommends that through Enterprise Connect or other specialised initiatives, the following capability building activities are implemented, or continued and further built on:

- *Intensive programs addressing and implementing process improvement models into small and medium enterprises:* these programs need to focus on new manufacturing technologies, design and efficiency improvements which in turn result in new business models.
- *Assistance in designing and managing global supply chains:* the efficiency of, and access to, domestic and global input markets for goods and services is important to manufacturers who need to ensure that they can achieve productivity gains and remain competitive.
- *Longer term business support in the form of coaching and mentoring:* business owners and managers would benefit from ongoing support to implement the changes outlined above and to diffuse strategic change throughout their organisations. Within Enterprise Connect, this support could be provided through longer, deeper relationships between participating companies and Business Advisers.

- *Structured programs to build management capabilities:* increase the availability of management programs which address significant weaknesses regularly identified in SMEs around fundamental business capabilities such as strategic planning, understanding business risk, financial management and an understanding of marketing.
- *Greater support to companies in e-business and customer interactive applications:* SMEs, particularly if exporting, need to have world class online business applications in place, as well as being familiar with social media as an element of their marketing strategy.

6.2 Workplace language, literacy and numeracy in the manufacturing industry

A major issue confronting the future of manufacturing in Australia is the low level of literacy and numeracy of the existing workforce. Approximately 46 per cent of Australia's working age population (7 million adults) has literacy scores below the minimum required to function fully in life and work. In terms of numeracy it was 53 per cent or 7.9 million below the required level.[5] In excess of four million of these people are currently employed in the Australian workforce. The latest survey revealed that Australian levels have shown little improvement since the previous survey – 10 years ago.

Key priorities to address this include:

- Addressing the low level of literacy and numeracy of the existing workforce.
- Reverse the decline in manufacturing apprenticeships.
- Build on industry association initiatives utilising e-learning as a delivery mode for lean manufacturing processes to Small to Medium Enterprises in the manufacturing industry.
- Reform the vocational education and training system to ensure provision of training is underpinned by standards and regulation that can assure high-quality training and assessment services and address the need for national consistency in the regulation of the standards and therefore qualification outcomes.
- There is also a need for improved capacity of VET professionals, particularly in the conduct of assessment.

6.3 Promoting energy efficiency

Ai Group surveys of Australian business confirm that the introduction of the carbon price has had an immediate impact through higher prices for electricity and natural gas, as well as other important business costs like waste disposal and packaging. At $23 a tonne of carbon dioxide equivalent, well above current levels in Europe, this impact is significant to many businesses, particularly given intense pressure from the high dollar. Free permit allocation under the Jobs and Competitiveness Program (JCP) greatly reduces these impacts for the most emissions-intensive businesses. However, most manufacturers do not qualify for JCP, and many of these less intensive businesses will face effective carbon price impacts higher than those borne by industries that do qualify.

Ai Group has long argued the need for strong measures to safeguard the competitiveness of trade exposed industry if a carbon price is to be imposed. While we have sought the expansion of JCP to a wider range of industries, the pledge of Clean Technology Program (CTP) grant funding to improve industry energy efficiency was a welcome alternative.

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[5] Australian Bureau of Statistics (2006), Adult Literacy and Life Skills Survey, Cat No. 4228.0.

Therefore the news that AusIndustry, which administers the CTP, is advising businesses that the program has been 'paused' pending an announcement in the next few weeks, is of enormous concern.

Industry understands the importance of effective control over public spending, including through a reduction in grants programs that are old, low-priority or underspent. However the CTP is none of these things: it is a crucial and integral part of the Government's carbon pricing package and its continuation and successful rollout is of central concern to Australian manufacturers.

CTP is not primarily an emissions reduction program, particularly since it cannot produce additional abatement once an emissions cap is in effect. CTP is about building industry competitiveness by helping hard-pressed manufacturers to cut their exposure to carbon prices and rising energy costs.

The Government has recently made positive changes to the carbon pricing scheme, removing the floor price and moving to establish a link with the European Union Emissions Trading Scheme. These steps are likely to reduce carbon price pressures from 2015. However, they do nothing to lower the burden faced by industry for the next three years. Thus the need for CTP remains as strong as ever.

Ai Group has worked closely with the Department of Innovation, Industry, Science, Research and Tertiary Education and with AusIndustry to ensure these grants were designed to be as useful as possible and rolled out as quickly and effectively as possible. The interest from industry has been considerable. At the start of August we surveyed our members on the implementation of the carbon price and CTP. Respondents were largely manufacturers. Only 15 per cent had already applied for CTP grants, but a further 55 per cent intended to apply or were preparing their applications. 6 per cent were undecided, and 15 per cent were ineligible. Based on this and the high volume of enquiries our energy team receives, we are confident that there is broad and deep demand for the grants from businesses looking to cut costs and build competitiveness – as long as the Government maintains its commitment to this program. Meeting that demand will require at least the full $1.2 billion committed to this purpose only last year.

In the absence of CTP, industry will face great difficulties in adapting to a hostile competitive environment. Ai Group's recent report, *Energy shock: pressure mounts for efficiency action,* highlights that in the absence of assistance, capital constraints lead most businesses towards very modest efficiency projects that have limited potential to boost competitiveness.

Given the importance of this program to industry competitiveness and the Government's climate policy agenda, A Group urges the Government to confirm the continuation in full of the Clean Technology Program as soon as possible.

Ai Group surveys have consistently identified the need for provision of practical assistance to industry to identify and implement cost effective initiatives to improve energy efficiency and that facilitate the development by businesses of the in-house expertise essential to achievement of ongoing improvements in business sustainability and competitiveness. Ai Group was a successful applicant for the Commonwealth Government's Energy Efficiency Information Grants Program. As a result Ai Group has commenced the roll out of practical, tailored energy efficiency information to small and medium enterprises. The services will include on-line videos on energy saving opportunities, outreach sessions, cluster activities, on-site assessments and online and telephone support.

6.4 Encouraging climate change resilience

Achievement of national targets for carbon emissions reduction will necessitate changes to the processes businesses employ in delivering products and services. Ultimately, this will require businesses to give consideration to carbon emissions across the supply chain.

Ai Group partnered with Sustainability Victoria in an innovative project which looked at the carbon footprint for 2 iconic food products. As part of the ResourceSmart Business Industry Pilot, two companies, SPC Ardmona and Bulla, were asked to nominate a major food product to undergo a full life cycle assessment (LCA) in order to identify the key contributions to its carbon footprint.

Analysis started with the extraction of raw materials, extended right through agriculture, processing, packaging and distribution, and ended with energy consumption at a Melbourne retail outlet and materials recycling. Neither manufacturer had any previous experience of LCA techniques, and both were surprised by the complexity of the process. Some of the results of were unexpected and it is clear that without conducting the LCA, the participants would have targeted projects in areas with less potential for return.

The study results underline the importance of working with partners across the supply chain. As a result of participating in the program, both Bulla and SPC Ardmona have developed closer relationships with their supply chain partners that they believe will have long-term benefits as they implement broader corporate sustainability strategies. Further information on this project is available at http://www.aigroup.com.au/environment/supplychains/.

There is increasing evidence that Australia is at risk of experiencing climate change as a result of global emissions of greenhouse gases from human activities. While the precise change in climate is anticipated to be different for each region, the general trend anticipated is for Australia to become hotter and drier and for the frequency and intensity of storms and bushfires to increase. Climate change poses three types of risks that can impact on a business' operations and profitability including:

- Resource scarcity and higher costs (energy, water, food etc.);
- Accelerated deterioration of materials and equipment (due to the more severe climate); and
- More extreme weather events (heatwaves, floods, droughts, storms etc.).

These changes in climate have significant implications for Australia's food industry. It makes good business sense for industry to be proactive in considering and planning for the impacts and opportunities presented by climate change. Benefits include:

- Key climate change vulnerabilities are better understood;
- Key climate change risks and adaptation responses are prioritised so that attention and resources can be given to the most pressing risks;
- A framework can be established and used to periodically re-assess climate change vulnerabilities as new information becomes available and as your business operations change;
- It can give business a 'first mover advantage' in regard to accessing government funding and research expertise to progress high priority adaptation actions and strategies;
- It provides the means to factor climate change into strategic planning and major investment decisions;
- It enables participation in public debates and policy advocacy, and demonstrates industry leadership, from a sound understanding of your business position with enhanced credibility; and

- It enables partnerships and contacts to be developed with climate change specialists and industry bodies that can be drawn upon when progressing adaptation planning.

Ai Group, with funding from the Department of Sustainability and Environment (Victoria) undertook a climate change adaptation case study of the Cobram site of the Murray Goulburn Co-operative Limited (MG) and developed a checklist to assist companies to identify and assess climate change risks and adapt to the resultant challenges. A copy of the case study and the checklist are contained in Annexures A and B.

6.5 Improving leadership and stakeholder engagement on food policy issues

Ai Group agrees that it would be beneficial to improve leadership and stakeholder engagement on food-related policy issues. Ai Group recommends that the Prime Minister's Manufacturers leaders group include a remit on food manufacturing. As part of this, identification of opportunities to streamline and eliminate regulatory burdens should be an ongoing focus.

7. Capturing emerging opportunities

Australia has significant opportunities for upstream processing capitalising on our strengths in agricultural industries, and as suppliers of machinery, equipment and consumables to the agricultural and food processing industries both domestically and abroad.

In the medium term rapid industrialisation, urbanisation and middle class growth in key Asian markets present large export opportunities - as well as ongoing competition challenges - to Australian food manufacturers and service providers. Asian consumption preferences are undergoing significant change creating huge new potential markets for Australian exports including food (and especially protein and sugar based products) and wine.

The Green Paper seeks feedback on whether it would be appropriate to set a goal of doubling Australia's food exports to Asia by 2050. Ai Group advocates implementation of an appropriately resourced national manufacturing export strategy comprising the following key elements:

- Promotion of trade and investment agenda in APEC and ASEAN countries, including a concerted effort to remove and reduce regulatory restrictions and barriers;
- Increased funding and support to manufacturing businesses, including expansion of programs such as the Export Market Development Grants (EMDG) scheme and improved resourcing of Austrade offices in emerging markets and while maintaining a presence in mature markets of the Europe and the US;
- Increased conduct of trade missions that are targeted at specific geographical areas and economic sectors and encourage and facilitate closer coordination and collaboration between the Federal and State Governments in trade and investment promotional tours in Asia;
- Support for the establishment of Australian global businesses by developing a greater understanding of the challenges and opportunities businesses face in establishing transnational operations.

8. Conclusion

Within the context of the development of a holistic, national manufacturing policy, Ai Group supports the development of a National Food Plan to provide an integrated approach to food-related policies and programs which underpins the ongoing sustainability and competitiveness of this important industry.

Key elements of this approach include:

- Reform of the taxation system to make investment in Australian industry more attractive and remove barriers to business transformation and development;
- Reversing the decline in productivity performance by addressing critical drivers: including product and process innovation, technological change, management skills, workplace training; active supply chain management and collaboration between public research organisation and the business community;
- Improving business resilience through removal of unnecessary regulation and proactive business capability development; and
- Pursuit of opportunities for upstream processing capitalising on our strengths in agricultural industries, and as suppliers of machinery, equipment and consumables to the agricultural and food processing industries both domestically and abroad.

Annexure A: Climate Change Adaptation Case Study

Annexure B: Climate Change Adaptation Checklist