



Building Australia's
Comparative Advantages:
A 21st Century
Agrifood Sector



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INTRODUCTION

This is the Business Council of Australia's study of the Australian agrifood sector. This study seeks to outline a contemporary vision for the sector and to identify the actions necessary to improve the sector's competitiveness to facilitate future growth.

The study follows on from the release of the Business Council's earlier report, *Building Australia's Comparative Advantages*, which identified the industries and value chain components where Australia is currently globally competitive, or has the potential to become so.

The Business Council has chosen to examine the agrifood sector because it is a sector with a substantial opportunity for growth (global food demand will increase by 77 per cent by 2050) and because it is a sector that is well placed to compete internationally. McKinsey & Company analysis underpinning *Building Australia's Comparative Advantages* found that agriculture was an 'advantaged performer' and that food manufacturing had 'latent potential'.

The mindset, and approach, of government needs to shift from a focus on agriculture to a focus on the broader agrifood sector. There is a significant opportunity to grow the sector through a focus on adding value and meeting the specific needs of consumers in different markets and market segments. Doing this offers the ability to increase the returns to businesses and farmers, to open up new markets, to broaden the reach of the sector into the Australian economy, and to create new jobs.

Today, the agrifood industry represents around A\$68 billion dollars per year, or circa four per cent of Australia's GDP. However, the sector is responsible for about 13 per cent of Australia's merchandise exports. The sector employs around 500,000 Australians or close to five per cent of the total workforce.

To realise the full potential of the agrifood sector governments, businesses and the farming community will need to work together to unblock the barriers to accessing markets and to increase productivity and competitiveness.

Government needs to put in place the frameworks and incentives to improve the competitiveness of the Australian agrifood sector. Businesses need to build their capabilities and adopt a global approach to their operations.

DEFINING AGRIFOOD

Defining the agrifood sector



The **agriculture sector** represents the primary production sector and includes the production of commodities such as milk, grains, fruit and vegetables, meat and seafood. There is typically only minimal transformation or modification of these products. However, significant value can still be added without this.

The **food manufacturing sector** incorporates the processing and transformation of food and beverage products. It includes products such as meat products (e.g. salami), bakery products, sugar and confectionery, dairy products (e.g. cheese), processed fruit and vegetables, beer, wine and soft drinks.

The **agrifood sector** incorporates both the agriculture sector and the food manufacturing sector.

The two sectors (agriculture and food manufacturing) need to be considered together as a single agrifood sector. They are critical components in the supply chain that produces the food that Australian and international markets consume. Close to half of the agriculture sector's total output is provided as a direct input for value adding by the food manufacturing sector and the success of the two sectors is inherently linked.

This report is directed at the entire agrifood sector. However, at times this report will refer specifically to either agriculture or food manufacturing individually. This is generally because the issue is specific to that part of the agrifood sector, or because the data relates solely to that part of the agrifood sector.

Input to the study

Development of this report has been informed by the Business Council's Agriculture and Food Manufacturing Steering Committee. The steering committee was chaired by Ms Alison Watkins, Group Managing Director of Coca-Cola Amatil. The group also included representatives from Allens, ANZ, Bain & Company, BCG, Coles, Incitec Pivot, JBS, JP Morgan, King & Wood Mallesons, Lion, SMBC, Murray Goulburn, Telstra and Woolworths. The Business Council would like to thank these members, in particular, for their valuable input to the study.

In preparing this report, the Business Council also consulted widely with other industry participants, as well as drawing upon the considerable body of research and papers already undertaken on the sector.

OVERVIEW

Demand is increasing rapidly

Demand for food is set to increase dramatically. This growth will be underpinned by global trends of a growing population, rising incomes and increasing urbanisation.

Growth in global demand will be driven by Asia. The region will be responsible for around 70 per cent of the growth in demand to 2050 and 60 per cent of total demand. China alone will be responsible for 43 per cent of total global growth (almost A\$1 trillion). In particular, it is the growing middle and upper class consumers that will be of most interest to Australian producers.

In general, consumers are increasingly demanding higher quality, healthier products, improved food safety and greater convenience and functionality. However, what this represents on a practical level can vary considerably. Every individual country and market segment has unique characteristics. Seizing the opportunity depends on developing a deep understanding of consumers in each of these markets and aligning our supply chain to deliver value to them.

The agrifood sector has significant capabilities as well as issues that need to be addressed

The Australian agrifood sector has significant capabilities on which to build. Australia has abundant land and resources, a strong reputation for quality and safety, close geographic proximity to growth markets and a well-established R&D system. Our agriculture sector is highly productive. However, our value adding, food manufacturing sector, must become more competitive.

Recent trade agreements will improve the competitiveness of agrifood products over time but further work is needed to drive the realisation of these benefits and to address non-tariff barriers which inhibit trade. The recent decline in the exchange rate (the Trade Weighted Index has fallen 24 per cent in the last two and a half years) has also significantly improved the entire agrifood sector's competitiveness.

However, the agrifood sector also faces significant challenges. The agrifood sector is fragmented. Further consolidation in the sector is needed and there has often been an adversarial, rather than collaborative, relationship within the supply chain. Australia's cost structures, in food manufacturing in particular, are high by international standards. High costs can be offset by productivity, but unfortunately productivity in food manufacturing has fallen over the past decade. The

The value of global food demand will increase by 77 per cent by 2050

Asia will be responsible for 70 per cent of this increase

Australia has a comparative advantage in agriculture and a reputation for quality and safety

The sector needs to address high costs and improve productivity

sector also needs investment to drive innovation and to invest in new productivity-enhancing plant and technology.

The agrifood sector needs to focus on value adding across the entire supply chain

The Australian agrifood sector is currently dominated by both the production and export of bulk commodities. These commodities will continue to play an important role. However, Australia's approach needs to shift from an emphasis on commodity markets to one based on innovation, meeting the demands of the consumer, sustainable differentiation and niche and premium products. The sector's capacity to achieve this will depend significantly on its capacity to add value across the entire supply chain.

The government's policy settings must support the sector's capacity to add value, including through incentivising innovation, capability building, branding and facilitating market structures that allow the creation of efficient scale. This will require the creation of a business environment and regulatory settings which encourage capital investment to drive productivity and scale, allowing efficient vertical integration, and supporting a domestic market structure which enables the sector to be internationally competitive. Government can also support the cost competitiveness of the sector by reducing logistics costs through investment in, and better utilisation of, infrastructure, and by ensuring a best practice regulatory regime.

In recent years there has been a strong trend internationally towards integration and coordination of supply chains. This has been driven by the need to align the supply chain with the needs of consumers and a need to guarantee the quality, safety and reliability of final products. Government policy has not always kept up with this changing environment. The Australian bureaucracy still embeds agriculture and food manufacturing in different departments and the government recently released a white paper that is focused solely on agriculture, rather than the broader supply chain.

The Business Council's vision for the sector

A clear, and united, vision for growth in the Australian agrifood sector is needed. This vision needs to be supported and acted upon by both business and government.

The vision should focus on the Australian agrifood sector becoming the preferred source of high-quality, safe and premium food for the growing markets in our immediate region and continuing to serve domestic markets.

Realisation of this vision will depend upon a number of critical elements.

Businesses need to emphasise meeting the demands of customers through innovation and differentiation

Government needs to support the sectors capacity to add value through its policy settings

Australia should strive to be the preferred source of high quality, safe and premium food in the region

Most importantly, it will depend on the ability to develop and produce higher value products that meet the wants and needs of customers in different countries and different market segments. This will require a deep understanding of what it takes to succeed on a market-by-market basis and aligning our supply chain to meet and exceed the demands of consumers through innovation and value adding.

It will require improving access to international markets, building competitiveness through improved productivity growth and addressing cost structures, year-round supply capacity, strong brands, and aligning and prioritising our research and development efforts.

Tapping into this growing demand represents an opportunity to significantly grow the Australian agrifood sector. Doing so will assist in diversifying the Australian economy, will create more jobs and offers the ability to increase the returns to businesses and farmers.

A reform agenda to drive growth in the sector

This paper sets out a detailed reform agenda, which if acted upon, will remove many of the barriers to growth in the sector. Action is required on three fronts.

Developing international markets

The systematic adoption of a global focus by both governments and business is needed. Government needs to continue to build upon the substantial progress made through the signing of recent trade agreements. It needs to work with business to realise the benefits that these agreements can provide, including through addressing non-tariff barriers which continue to inhibit Australian businesses from accessing overseas markets. Businesses need to continue to focus on building relationships with overseas partners and accessing global supply chains.

To differentiate the Australian agrifood sector from its international competitors, and to capitalise on our reputation for high-quality, safe and green produce, Australia needs to develop a unified, national marketing strategy that complements firm level brand strategies. This should be industry led and supported by government. The strategy should consistently highlight the differentiating attributes of Australian products and be targeted towards premium customers in growing markets.

Encouraging business investment

Significant investment is required in the Australian agrifood sector in order to ensure that the sector has the technology, capacity, and human

A sector focused on value will drive jobs and increased returns to businesses and farmers

Addressing non-tariff barriers and driving uptake of recent trade agreements is critical

A\$1 trillion in investment is needed

and financial capital necessary to innovate, compete and to grow. ANZ has estimated that A\$1 trillion of investment is needed by 2050 in the sector.

Australia needs to attract a greater diversity of investment to the sector and to source this investment both domestically and internationally. Foreign investment has always played an important role in the entire Australian economy, including in the agrifood sector, and will need to continue to do so. Government needs to re-examine lower review thresholds for foreign investment in the agrifood sector as these barriers are actively discouraging investment and sending the wrong signal to investors.

The output of the agriculture sector is volatile. Encouraging greater take-up of financial instruments can mitigate against this and attract greater investment to the sector.

Building the competitiveness of the sector

International competition is intense, and competitiveness and price are a critical factor. Building the competitiveness of the agrifood sector should focus on government and businesses removing unnecessary costs and driving productivity and value add.

To support this, the government needs to facilitate market structures that allow the creation of efficient scale, develop infrastructure priorities, promote employment flexibility, maximise innovation outcomes by encouraging collaboration and updating research and development priorities, and work with jurisdictions to streamline and harmonise regulations in the sector, such as volumetric loadings for transportation.

Economy-wide reforms are also critical to the future competitiveness of the agrifood sector. These reforms include cultivation of a business environment which encourages investment and incentivises innovation, improvements to our investment in, and utilisation of, infrastructure, a well-functioning workplace relations system, a competitive tax system and a best practice regulatory system.

Now is the time to address these challenges

Without action now, the Australian agrifood sector risks missing out on the current and future business opportunities in this sector. Major competitors such as the USA, Argentina, Brazil, Canada, South Africa and New Zealand are taking decisive action to set themselves up to realise the opportunity. For example, New Zealand is aiming to double its primary exports by 2025, and increase exports as a share of GDP from 30 per cent to 40 per cent. Canada reports annually to its House of Commons on its plans and priorities for its agrifood sector. Australia also needs to take immediate action to improve the competitiveness of the Australian agrifood sector.

Attracting investment, both domestic and foreign, will be needed to meet this target and build capability

Government needs to focus on removing impediments to the sector's ability to compete

Competitors are taking decisive action to improve their ability to compete

Australia needs to respond now to seize the opportunity.

RECOMMENDATIONS

Developing international markets

- Address non-tariff barriers in high-value, high-growth markets
- Pursue further trade agreements
- Establish FTA implementation units
- Develop a national marketing strategy
- Build Asia capabilities

Encouraging business investment

- Restore FIRB thresholds for rural land and agribusiness to that of other sectors
- Utilise financial products to mitigate risk
- Strategic approach to planning and zoning
- Develop northern Australia

Building competitiveness

- Economy-wide reforms such as tax and industrial relations reform
- Facilitate market structures that support efficient scale
- Prioritise infrastructure investment to support growth
- Focus Productivity Commission inquiry into regulation on entire supply chain
- Expand Entrepreneurs' Programme to agriculture
- Provide access to skilled labour through visas
- Prioritise R&D through Industry Growth Centre knowledge priorities
- Use growth centre to drive collaboration
- Improve consumer understanding of genetically modified foods

PART 1: GROWING DEMAND CREATES A SIGNIFICANT OPPORTUNITY

Key points

- Global demand for food is set to increase rapidly, growing by 77 per cent by 2050. Demand is being driven by population growth, income growth and urbanisation.
- Asia will be the key driver of this growth. By 2050, it will account for more than 60 per cent of global food demand.
- Increasing demand represents an opportunity to grow the Australian agrifood sector, to increase employment and to increase returns to businesses and farmers.
- The Australian agrifood sector should align its production to meet the needs of consumers in key markets, particularly in high value segments of Asia.

Growth in demand for food products is substantial and will be sustained

ABARES has estimated that the real value of world food demand will be 77 per cent higher by 2050 than it was in 2007.¹

This growth in demand is driven by long-term economic, societal and demographic changes, primarily in developing economies. Between now and 2050:

- the world's population is set to increase from 7.2 billion to 9.6 billion²
- global per capita incomes are estimated to increase by 80 per cent³
- the number of people living in urban areas will increase from 3.9 to 6.4 billion⁴
 - urbanisation drives investment in infrastructure, including cold chains, which allow for greater distribution and consumption of perishable goods.

Consumer preferences

As incomes rise, urban consumers spend more on food, consume more protein, have a more diverse diet and spend more on convenience foods, fast food and in restaurants. For example, in Asia the highest income decile consumes around 50 per cent more protein than the lowest income decile.⁵

¹ V Linehan et al., *Food demand to 2050: Opportunities for Australian agriculture*.

² UN, *Concise report on the world population situation in 2014*, 2014.

³ Food and Agriculture Organization of the United Nations, *World agriculture towards 2030/2050: the 2012 revision*, June 2012.

⁴ UN, *op. cit.*

⁵ B Meade & S Rosen, *International food security assessment, 2013-2023*, International Agriculture and Trade Outlook, June 2013.

The growth in global food demand will be driven by customers from different backgrounds, locations and incomes. They are not homogenous. Preferences vary considerably from country to country (and sometimes substantially within countries) and over time.

Research by Catalyst Consultancy and Research (2014) found that across all markets consumer preferences are most heavily dictated by:

- price of product
- quality of the product
- branding.

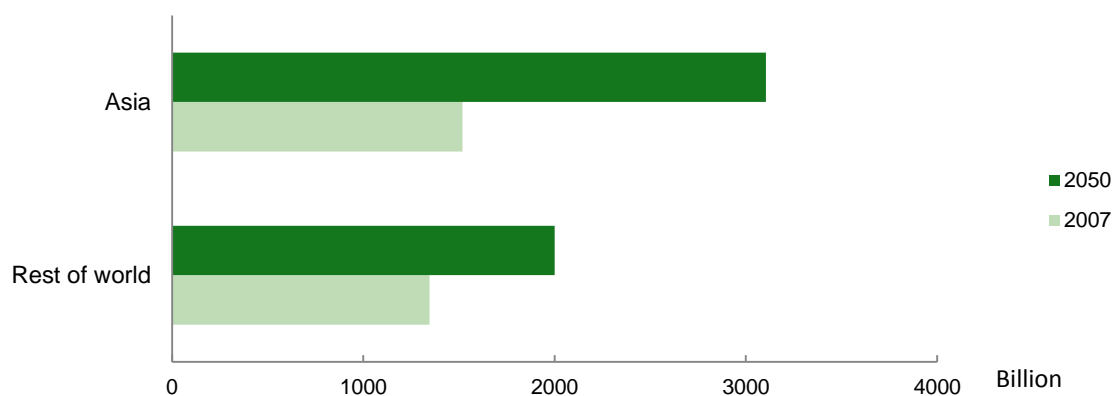
In addition to these factors, consumers are also expressing increasing demand for:

- health and nutritional value
- food safety
- convenience and functionality.

Demand growth will be driven by Asia

Growth in demand for raw and value-added food products will be driven primarily by developing nations, and the Asian region in particular. Growth in demand from China will be the largest single driver of this increase. ABARES estimated that China would be responsible for 43 per cent of the projected growth in global food demand to 2050. India will be responsible for over 60 per cent of the increase in global import demand for dairy products.⁶

Figure 1: Value of world agrifood demand by region






Source: Linehan, et al., *Food demand to 2050: Opportunities for Australian agriculture*

In recent years, the value of Australia's food exports has become more heavily concentrated towards emerging markets in Asia. Developed markets such as Japan, the United States and the United Kingdom have seen a substantial decline in their share of Australian food exports over the last decade. Today, Japan (14%), China (10%), Indonesia (8%) and South Korea (7%) represent four of the top five export destinations for Australian food products.⁷

⁶ V Linehan et al., op. cit.

⁷ Australian Government, Department of Agriculture 2014, *Australian food statistics 2012–13*.

Figure 2: Overview of key emerging markets

	China ⁸	India ⁹	Indonesia ¹⁰
			
Demographics	<ul style="list-style-type: none"> Population 1.356 billion Ageing population, with population to peak at around 2030 and decline from there Increasing urbanisation – from 50% in 2011 to 75% in 2050 	<ul style="list-style-type: none"> Population 1.236 billion Slowing, but continued growth expected, reaching 1.6 billion by 2050 Increasing urbanisation – from 31% in 2010 to 52% by 2050 	<ul style="list-style-type: none"> Population 254 million Population to grow to around 370 million by 2050 Increasing urbanisation Young population
Capacity to purchase	<ul style="list-style-type: none"> GDP growth high but at a lower rate than previously Ongoing, and increasing income inequality 	<ul style="list-style-type: none"> Ongoing 4–5% GDP growth Large portion (22%) of the population still living in poverty 	<ul style="list-style-type: none"> 'Consuming' class is expected to increase from around 45 million people in 2010 to around 170 million by 2030.¹¹
Preferences and demand	<ul style="list-style-type: none"> Change in real value of consumption between 2009 and 2050: <ul style="list-style-type: none"> Sugar ↑ 330% Beef ↑ 236% Dairy ↑ 74% Sheep and goat meat ↑ 72% 	<ul style="list-style-type: none"> Change in real value of consumption between 2009 and 2050: <ul style="list-style-type: none"> Vegetables ↑ 183% Fruit ↑ 246% Dairy ↑ 137% Largely vegetarian diet limits meat export opportunities 	<ul style="list-style-type: none"> Strong demand for Western food – associated with quality Around half of Indonesia's foot outlets failed to meet standards in 2013

Middle class consumers are expanding rapidly

Growth in demand from Asia will be driven by a rising middle class. It is estimated that Asia could account for around two-thirds of the world's middle class by 2030.¹²

Figure 3: Global middle class consumers (millions) and share of total

	2009	2020	2030
Asia Pacific	525 (28%)	1,740 (54%)	3,228 (66%)
Rest of the world	1,320 (72%)	1,509 (46%)	1,656 (34%)

Source: Kharas (OECD), *The emerging middle class in developing countries*, 2010

Despite the rapid growth in population and incomes, many global consumers will possess incomes well below those of Australian consumers. The estimates in the table use a

⁸ ABARES, *What China wants: Analysis of China's food demand to 2050*, 2014.

⁹ ABARES, *What India wants: Analysis of India's food demand to 2050*, 2014.

¹⁰ Austrade, *Indonesia food and beverage activities update*, 2014.

¹¹ R Oberman, R Dobbs, A Budiman, F Thompson & M Rossé, *The archipelago economy: Unleashing Indonesia's potential*, McKinsey Global Institute, September 2012.

¹² H Kharas, *The emerging middle class in developing countries*, OECD, 2010.

definition of middle class households as earning between US\$3650 and US\$36 500 per year in purchasing power parity terms.

The consumers in emerging markets that are likely to be of most interest to Australian agrifood businesses, given their capacity to purchase and the relatively high cost of Australian products, are the growing middle classes and aspirational, high-income, consumers. These consumer classes are also growing rapidly. For example, China's high-income urban population is expected to reach almost 20 million by 2050.

Growth in international demand will be reliant on imports

Many countries will be unable to meet their increased demand for food from within domestic production, creating an increased need for imports. This is particularly true for developing countries, in some circumstances despite their stated objective of self-sufficiency. ABARES estimates that the real value of global agrifood imports will increase by 174 per cent (from US\$278 to US\$764) between 2007 and 2050.

Markets are already responding to these changes. Global trade of food products is increasing rapidly. It grew by around 20 per cent between 2008 and 2012.¹³

Implications for Australia

As a net exporter of food, the substantial growth in global food demand represents a considerable opportunity for the Australian agrifood sector. It represents an increase in both the size of the potential market and an increase in the purchasing power of individual consumers.

Taking advantage of this opportunity will require Australian producers to produce goods that meet the wants and needs of consumers in different markets. However, in researching this report, anecdotal evidence suggested that many Australian producers have a history of trying to export products produced for the Australian domestic market, rather than tailoring their products to the needs of specific markets.

Realisation of the opportunity will require having a detailed understanding of what consumers want, and how much they are willing to pay for it. The Australian agrifood sector needs to build its capacity and willingness to add value, to adapt, to innovate, to meet the needs of consumers and to specialise in areas where it has strengths. A customer-driven supply chain is required. Creating greater value in the Australian supply chain offers the ability to expand the reach of the sector, to create more jobs, and to improve the returns of both businesses and farmers.

Australia's agrifood sector ultimately has limited capacity. It cannot feed everyone. The opportunity exists in matching our supply capacity with demand from higher-value market segments.

¹³ Australian Government, Department of Agriculture 2014, op. cit.

PART 2: THE CHALLENGE FOR THE AGRIFOOD SECTOR

Key points

- There are both common capabilities and problems across the agrifood sector, and capabilities and problems which are unique to either agriculture or food manufacturing.
- A key challenge for the sector is to strive to improve its competitiveness.
- This will require adding value through developing products that meet the needs of consumers and through growing productivity via innovation and capability building.
- It will also require removing impediments to competitiveness, through removing duplicative regulations, facilitating further farm consolidation and working to address the high cost of production in Australia.

High-level analysis by McKinsey found that both agriculture and food manufacturing in Australia had a very strong ability to produce goods and services more efficiently than other countries, but that Australia is losing out to competitors in growing our share of export markets. McKinsey found that the Australian agricultural sector was an 'advantaged performer', because it is already a strong trade-exposed sector and has the endowments to win in global markets. Food manufacturing was described as a 'latent potential' – a sector where Australia is a contender, but not yet a winner.¹⁴

Competitiveness is dynamic and varies within the agrifood sector

In its broadest sense, competitiveness refers to the ability of a business to compete with others and maintain or expand its profitability and position within a market. In the context of the Australian agrifood sector, it is important to recognise that levels of competitiveness vary substantially by industry, by individual businesses, and across different parts of the supply chain and value chain within the sector.

Competitiveness is dynamic, not static. There is no guarantee that businesses or industries which are competitive today will be competitive in the future. This underpins the continuing need to address issues which inhibit the competitiveness of the sector, such as the need for greater alignment and coordination in the supply chain, the need for more investment and the high level of regulatory burden in the sector.

The sector has capabilities to build on and challenges to address

The detailed analysis undertaken as part of this study, suggests that the capabilities and gaps differ somewhat between the agriculture and food manufacturing sectors that together represent the broader agrifood sector. For example, productivity growth has been much higher in agriculture than it has been in food manufacturing. There are also many common capabilities and gaps across the broader agrifood sector. For example, a reputation for quality and safety extends to both agriculture and food manufacturing.

¹⁴ McKinsey & Company, *Compete to prosper*, Australia, 2014.

The challenge for the agrifood sector

The challenge for the Australian agrifood sector is to extract greater value from the sector through removing impediments to competitiveness and to growth.

Value adding can come in many different formats. It can include improved packaging to ensure that fresh produce arrives at the end consumer intact or development of new strains of barley to improve the shelf life of beer. It can involve transformation of base level products into ready-to-eat meals that are more convenient for consumers. Value can also be added through developing a reputation for quality and safety and through marketing and branding by businesses.

Extracting greater value from the sector will translate into higher profitability and returns. However, achieving this will also require developing a clear understanding of consumers' wants, needs and capacity to pay, and then aligning Australia's production to meet them.

Cost structures are a critical determinant of international competitiveness. Action needs to be taken to address the sector's high cost structures. This will involve ensuring that management have the capabilities necessary to make improvements, that duplicative and unnecessary regulations are removed, that infrastructure is accessible, and that businesses in the sector utilise innovative business models and are able to work with the supply chain to address inefficiencies.

Government controls many of the levers which determine the incentives and frameworks that businesses face. While the agriculture sector and food manufacturing sectors have different capabilities and face different problems, their success is inherently related. Government must take an integrated approach to driving competitiveness in the agrifood sector.

Entire Agrifood Sector

Capabilities

Reputation for quality and safety

- Austrade research found that consumers associated many positive attributes with Australia, including good value (32%), high quality (37%), safe (39%), sustainable (31%) and healthy (30%)
- other countries were also associated with these attributes, but Australia compares favourably to key competitors

Signing of recent trade agreements

- will directly improve cost competitiveness of Australian products through phased tariff reductions

Geographic proximity to growth markets

- can confer a cost advantage in transportation of products to market

Stable domestic market

- assists with building a production base

Exchange rate

- recent declines have significantly improved competitiveness
- ABARES analysis suggests that for every one cent decline against the US exchange rate, total farm income was likely to rise by about A\$320 million.

Arguably the most important strength of the agrifood sector is its reputation. Research undertaken for Austrade revealed that Australia has a strong reputation when it comes to a number of attributes, including safety, quality, value, sustainability and health. However, other competing countries also have strengths in these areas and the research found that Australia needed to better differentiate itself from its competitors.

Table 1: Positive attributes are associated with Australia, but also other countries

	Australia (%)	Malaysia (%)	USA (%)	China (%)	France (%)	Brazil (%)	Canada (%)
Good value	32	21	30	31	20	24	24
High quality	37	14	41	12	42	18	34
Safe	39	17	34	13	31	19	36
Sustainable	31	15	19	13	20	21	25
Healthy	30	13	21	12	22	18	26

Source: Australian Trade Commission, Brand Australia Global Food Strategy Research, Desk review and primary insights, 2013

Entire Agrifood Sector

Challenges

Greater supply chain alignment and coordination is needed

- to meet consumer demands and supply and quality guarantees sought by distributors

Over-reliance on bulk commodities rather than value add

- 88 per cent of our food and beverage exports are bulk commodities. The sector needs a greater focus on identifying and meeting the needs of consumers through innovation and value add

Need for greater investment

- investment needed in both agriculture and food manufacturing to drive innovation, productivity and development of efficient scale. ANZ's *Greener Pastures* estimated that by 2050 Australia's food sector could need A\$1 trillion dollars of additional capital

High level of regulatory burden

- inconsistent and duplicative regulation across jurisdictions, such as differences in loading limits between New South Wales and Queensland

Government does not take an integrated approach to agrifood sector

- different departments responsible for agriculture and food manufacturing. The government recently released a white paper only examining agriculture and not the broader agrifood sector

Fragmented branding and marketing

- in contrast to global best practice – for example the unified approach demonstrated by New Zealand's 100% pure campaign
- Austrade research found that Australia needed to better differentiate itself

Need for efficient scale

- size of domestic market is limited and dispersed, making scale difficult to achieve. However, scale matters more for commodity based competition than for niche and premium products

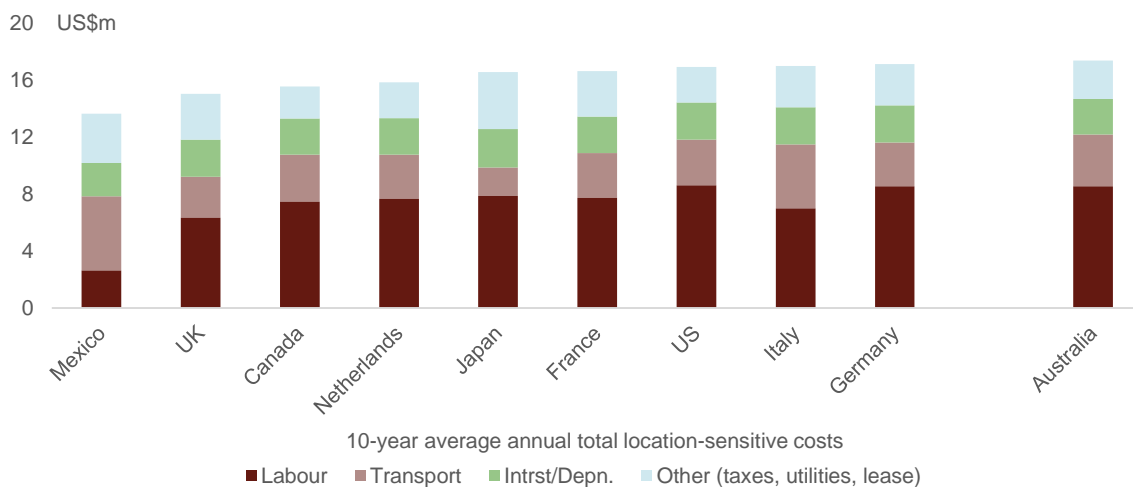
Lack of strategic approach to land use planning and zoning

- urban encroachment on land used for agriculture and food manufacturing.

Agriculture	Food Manufacturing
Capabilities	
<p>Abundant land and natural resources</p> <ul style="list-style-type: none"> • contributes to cost structures and ability to achieve scale <p>Productivity close to frontier</p> <ul style="list-style-type: none"> • agricultural productivity grew 58 per cent between 1995–96 and 2013-14 compared to 5 per cent growth across the entire economy <p>Track record of adopting innovations</p> <ul style="list-style-type: none"> • minimum tillage, GM crops, digital technologies, breeding and irrigation systems, electronic tracking, sensors etc. <p>Well-established R&D system</p> <ul style="list-style-type: none"> • contributes to driving innovation 	<p>Ability to leverage agricultural competitiveness</p> <ul style="list-style-type: none"> • 40% of agricultural output is provided as a direct input to food manufacturing <p>Access to quality agricultural inputs</p> <ul style="list-style-type: none"> • for example, high-quality dairy underpins our infant formula and access to quality fruit can be used in processing <p>Sophisticated domestic market</p> <ul style="list-style-type: none"> • provides a base to scale up from in premium markets

Agriculture	Food Manufacturing
Challenges	
<p>Volatility of output</p> <ul style="list-style-type: none"> Australian agricultural output is the most volatile in the world <p>Rising burden of agricultural policy costs</p> <ul style="list-style-type: none"> Australia's ranking declined from 3rd in the world in 2009–10 to 16th in the world in 2014–15 <p>Many farms not viable</p> <ul style="list-style-type: none"> the smallest 30 per cent of farms derive 90 per cent of their income from off-farm activities <p>Need for further farm consolidation</p> <ul style="list-style-type: none"> farms need sufficient scale (>A\$500k revenue) to be viable <p>Need to build financial capabilities</p> <ul style="list-style-type: none"> critical to success of modern farms 	<p>High cost of production</p> <ul style="list-style-type: none"> Australia was the highest cost producer of 10 countries examined by KPMG (2014) driven by labour and transport costs, undue regulatory costs and restrictions, and a lack of scale labour costs at JBS processing plant in Australia are twice as high as in the USA <p>Low productivity growth</p> <ul style="list-style-type: none"> flat or declining productivity growth over past decade <p>Majority of firms are small</p> <ul style="list-style-type: none"> 99% of firms are SMEs, but large firms (mainly multinationals) are responsible for almost three-quarters of domestic industry revenue

Figure 4: Australia is a high cost processor compared to competitors



Source: KPMG, Competitive alternatives 2014

PART 3: A VISION FOR THE SECTOR

The Business Council's vision for the sector

A clear, and united, vision for the Australian agrifood sector is needed. This vision needs to reflect the entire agrifood sector, not just the agriculture sector, or the food manufacturing sector on their own. To ensure consistency of intent, the vision needs to be supported and acted upon by both business and government.

The Business Council believes that the vision for growth in the sector should be that:

The Australian agrifood sector will be a preferred source of high-quality, safe and premium food in the growing markets in our immediate region and continue to serve domestic markets.

If this vision is realised, it represents an opportunity to significantly grow the Australian agrifood sector. Doing so will assist in diversifying the Australian economy, will create more jobs and offers the ability to increase the returns to businesses and farmers.

Realisation of this vision will depend upon a number of critical elements, including:

- shifting from producing the same products that industry has historically produced towards an emphasis on value add through innovation and sustainable differentiation
- having a professional and globally competitive agrifood sector, including:
 - a skilled and capable workforce, world class infrastructure and best practice regulatory processes
- developing a deep understanding of what consumers want in each market
 - recognising that this will vary significantly between, and within, markets
- aligning the supply chain and value chain of the Australian agrifood sector to meet and exceed these demands
 - key stakeholders, including industry, government and research will actively collaborate together to achieve this
- improving access to markets and establishing long-term relationships with distributors and suppliers to service them
- ensuring that our research and development efforts reflect the challenges faced by industry and are targeted at areas of Australia's comparative advantage.

Roles of key players in the agrifood sector

Business

- Customise and align products to meet different consumer preferences
- Build organisational capabilities and competitiveness
- Develop sophisticated understanding of key market and segment opportunities, and determine priorities
- Develop relationships and partnerships in key markets

Government

- Implement integrated and coordinated public policy that supports the competitiveness of industry
- Remove barriers to competitiveness and make it easier to do business
- Invest in critical infrastructure
- Increase market access for business through trade agreements and removing non-tariff barriers

Food and Agribusiness Growth Centre

- Facilitate collaboration and growth in the sector
- Identify barriers to competitiveness in the sector and work with government to address them
- Develop regulatory reform priorities and knowledge priorities

Research sector

- Address the knowledge priorities and practical challenges identified by the Industry Growth Centre
- Collaborate with industry to develop new products which will contribute to productivity growth and add value
- Develop insights into consumer preferences in key growth markets

PART 4: A POLICY AGENDA TO POSITION AUSTRALIA'S AGRIFOOD SECTOR FOR GROWTH

Action is required by individual businesses and governments across a range of different, and frequently interrelated, policy areas to drive growth in the Australian agrifood sector. Any action should be informed by the overarching opportunity and focused on meeting the needs of end consumers.

Action is required on three fronts:

1. Developing international markets

- adopting a global approach in business and government, improving market access and developing a national marketing strategy.

2. Encouraging business investment

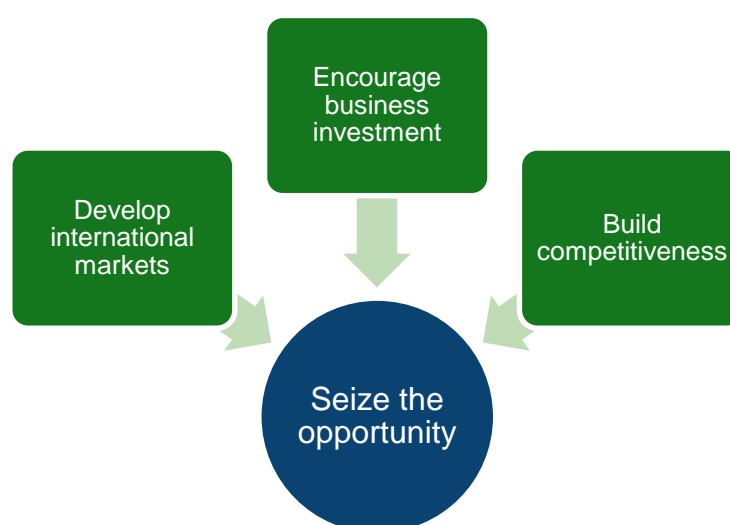
- attracting investment to the sector to modernise it, scale up and to finance access to the newest and most productive technologies.

3. Building competitiveness

- improving our productivity through developing skills and capabilities, encouraging innovation and collaboration, improving our infrastructure usage, encouraging competition and facilitating market structures which support efficient scale. Reducing costs through the removal of inconsistent and duplicative regulation
- undertaking economy-wide reforms, such as moving to an effective workplace relations system, a more competitive tax system, following best practice regulatory processes, and ensuring better utilisation of existing infrastructure.

The following sections provide a detailed discussion of each of these three areas.

Figure 5: Seizing the opportunity will be built on coordinated action



Source: Business Council of Australia

4.1: DEVELOPING INTERNATIONAL MARKETS

Key points

- Businesses need to develop the knowledge and capabilities necessary to engage in key markets.
- Government should continue to improve market access for the sector through trade agreements covering key markets and driving the realisation of benefits from existing agreements. Dedicated free trade implementation units should be established to support this.
- Australia should adopt a unified marketing and branding strategy to deliver a consistent message to overseas consumers and to differentiate Australia from competitors.

4.1.1 Improving market access

Taking advantage of the growth opportunity on our doorstep will rely on the free movement of goods, services, people and capital. If Australia produces the products that consumers want, but cannot access the markets that consumers are in, Australian industry cannot benefit from the opportunity. Improving access to key markets will provide considerable benefits for Australian agrifood businesses.

The Commonwealth Government has the primary role in ensuring export markets are open to Australian products, as market entry requirements are set by national governments and agreements to open them are reached between governments.

Recent trade agreements

The conclusion of recent bilateral free trade agreements (FTAs) with Japan, Korea and China were major milestones for Australia's bilateral relationships. The entry into force of these agreements has delivered, and in the case of China, will deliver, businesses tariff cuts, instantly improving the agrifood sector's competitiveness overseas.

Japan

Japan is Australia's largest agricultural market, worth around A\$4 billion in 2013–14. It is Australia's largest market for beef and cheese and an important destination for sugar, seafood and horticulture. Australia is the first major agricultural exporter to secure a bilateral trade agreement with Japan, delivering a first-mover advantage.

Korea

On entry into force of the Korea–Australia FTA, it was estimated that half of Australia's exports to Korea gained duty-free access to the Korean market. On full implementation of the agreement, 98 per cent of Australia's agricultural exports to Korea will face no tariffs.

China

The China FTA will boost trade with our biggest trading partner and one of the world's fastest growing economies. It is a significant opportunity to grow and diversify our economy over the next decade. In particular, the FTA will result in the progressive elimination of tariffs on dairy products, beef, lamb, wine, and seafood.

Trans-Pacific Partnership

Agreement on the Trans-Pacific Partnership (TPP) was reached on 5 October 2015. It includes 12 nations and will assist in standardising many rules in the region, as well as reducing tariffs for a range of agricultural products. It is yet to enter into force.

Pursuing further trade agreements

Issue

The Commonwealth Government needs to continue to pursue trade agreements in the region and with key markets that will improve access for the Australian agrifood sector and its competitive position.

Evidence

The government's role should be to open as many markets as possible for Australian producers.

Where possible, the pursuit of multilateral trade agreements is preferred. However, in recent years it has become increasingly difficult to make progress on these, resulting in a greater focus on regional and bilateral agreements.

Despite the conclusion of recent high-profile trade agreements, there remain many barriers to Australian products across a range of different markets. There are still considerable gains to be had from pursuing further trade agreements.

India and Indonesia

India (1.2 billion people) and Indonesia (254 million people) represent two of the largest markets in the world. However, Australia does not currently have a bilateral trade agreement with either of them. Indian tariffs are generally 30–50 per cent on imported food products and up to 150 per cent on wines.¹⁵ Preferential tariff rates in Indonesia are applied to Australia as a member of ASEAN, but further gains could be made by going above and beyond these.

Regional Comprehensive Economic Partnership

The Regional Comprehensive Economic Partnership (RCEP) is an ASEAN-centred proposal for a free trade area involving 16 countries. RCEP countries include almost half of the world's population and 30 per cent of its GDP.

¹⁵ <http://www.austrade.gov.au/Australian/Export/Export-markets/Countries/India/Industries/food-and-beverage>

Europe

The government is already engaged in the process of pursuing an agreement with Europe. While Europe will not experience the growth in demand that Asia will in the coming years, it will nonetheless remain a significant market for our food exports. Europe also employs a quota system on lamb and beef imports from Australia, restricting the quantity that can be competitively exported to the market each year.

Recommendation 1

The government should continue to pursue trade agreements with key markets to open up opportunities for business.

Government should pursue multilateral trade agreements where possible, and bilateral or regional agreements as an alternative to this.

In the short term, priority should be given towards finalising agreement of the Regional Comprehensive Economic Partnership and pursuing bilateral agreements with India, Indonesia and Europe, including efforts to raise quota levels on Australian lamb and beef to levels comparable with New Zealand.

Taking advantage of existing trade agreements

Issue

Government needs to better facilitate the realisation of benefits from free trade agreements.

Evidence

Taking advantage of existing trade agreements could be improved

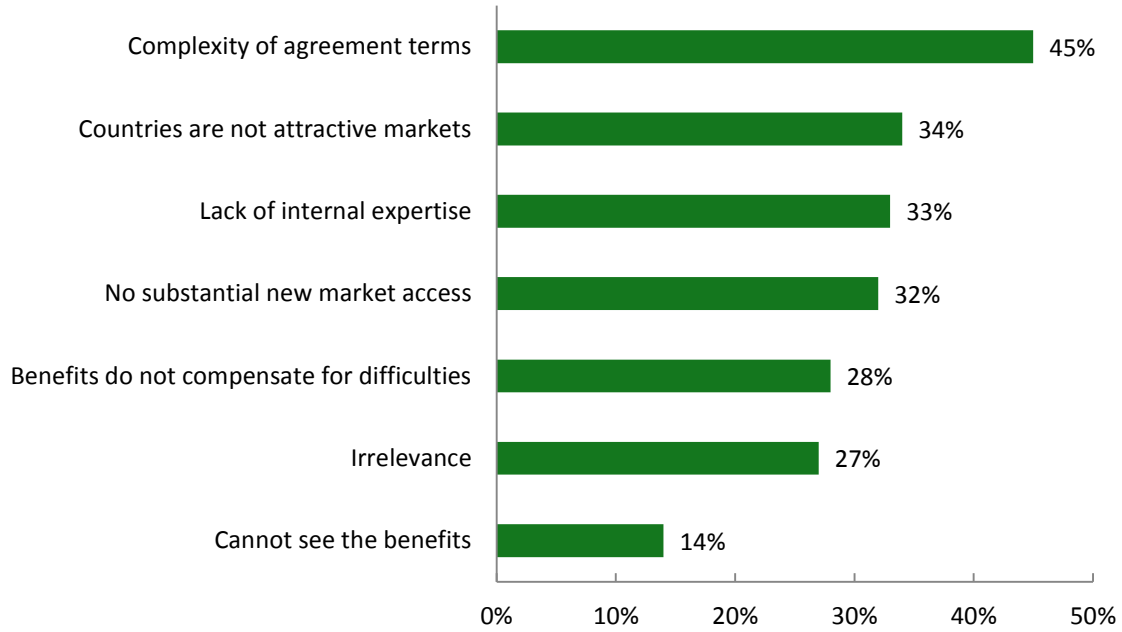
Research undertaken by the Economist Intelligence Unit found that FTAs help to increase exports for firms that use them. More than 85 per cent of respondents across the Asia–Pacific region reported that their exports to the markets concerned have increased either significantly (23 per cent) or moderately (63 per cent) as a result of the FTAs.¹⁶ However, evidence suggests trade agreements are not being fully utilised. Figure 6 outlines the range of issues cited for businesses not using free trade agreements. The most common reason was due to the complexity of trade agreements.

Research by the Economist Intelligence Unit also indicates that there is a lack of awareness of free trade agreements, with some 44 per cent of respondents across the region admitting either to having a limited understanding of one or more FTAs their country has signed, or having never heard of one or more of the agreements.

¹⁶ The Economist Intelligence Unit, *FTAs: fantastic, fine or futile?*, Business views on trade agreements in Asia, 2014.

This data suggests that the opportunities arising from FTAs need to be better promoted, particularly to firms that are motivated and export ready.

Figure 6: Major reasons for not utilising free trade agreements



Source: The Economist Intelligence Unit, FTAs: fantastic, fine or futile?, Business views on trade agreements in Asia, 2014

Recommendation 2

The government should establish free trade agreement implementation units within government similar to those employed in New Zealand. These units should be tasked with working closely with industry and the government's industry growth centres to ensure that the benefits of trade agreements are fully realised.

Implementation Units

Implementation Units should include representation, at least, from officers within Austrade and the Departments of Foreign Affairs and Trade; Agriculture; and Industry, Innovation and Science. These units should:

- be supported by an industry reference group (including representation from the Industry Growth Centre) to seek and test implementation ideas
- include members from the relevant negotiating team to ensure continuity
- report to the Minister for Trade and Investment on a six-monthly basis.

Implementation Units should establish a mechanism to receive feedback from industry (businesses, representative bodies and the Food and Agribusiness Growth Centre) on non-tariff barriers which are inhibiting market access. The identified non-tariff measures should be included in the report to the Minister for Trade.

Implementation Plans

Implementation Units should be tasked with developing implementation plans for each major trade agreement upon completion of the agreement. Implementation plans should identify the actions required from both business and government, in order to take advantage of the trade agreement.

These plans will include:

- ensuring committees agreed to in an agreement are set up within three months
- developing meeting schedules for these committees.

Implementation Plans will need to be endorsed by the industry reference group.

Addressing non-tariff barriers

Issue

Removal of tariffs is only the first step in growing Australian food exports to overseas markets. Governments need to work actively with industry to facilitate businesses taking advantage of existing trade agreements and also to address and remove any non-tariff barriers which can be used to prevent or impede market access.

Evidence

Removing non-tariff barriers is critical to improving market access

Goods are often prevented from entering markets due to non-tariff measures such as quotas and quarantine, packaging and labelling regulations. Non-tariff measures in markets can introduce a complex array of requirements and potential barriers to businesses gaining access to a market. This complexity can be time-consuming for businesses to understand and in some circumstances may discourage businesses from exporting to the market.

Exporting to China is a complicated and lengthy process. It includes gaining permission to export, permission to import, passing inspection, quarantine and quality control, and clearing customs. Figure 7 highlights the processes required for exporting beef to China.

The emphasis of government action and engagement needs to extend beyond signing trade agreements. Taking action to address non-tariff barriers needs to be made a priority for governments.

Utilising committees and forums to address barriers

Recent trade agreements have included agreements to establish a number of committees to assist in addressing non-tariff barriers, particularly relating to food safety issues. For example:

- The establishment of sub-committees on Sanitary and Phytosanitary Cooperation and Technical Barriers to Trade was agreed within the Japan–Australia Economic Partnership Agreement and the Committee on Agricultural Cooperation in the Korea–Australia Free Trade Agreement.
- Under the Thai–Australia Free Trade Agreement there was a commitment to establish a Consultative Forum on Sanitary and Phytosanitary Measures and Food Standards.

However, each of these committees is yet to be established.

The four stages of exporting beef to China

Exporting beef to China

Businesses need to navigate through complex regulatory regimes to ensure compliance with the relevant Australian and Chinese requirements. Currently, AUS-MEAT inspects abattoirs and cold storage facilities to ensure they meet Chinese standards. However, the Chinese Certification and Accreditation Administration (CNCA) retains discretion when determining whether to grant approval in relation to chilled and/or frozen beef products. This often means that there are exclusive storage areas within cold store houses for products being exported to China.

The China–Australia FTA sets up a framework for greater consultation between relevant government and industry bodies aimed at simplifying and harmonising these requirements. In particular, it is anticipated that AQSIQ (Chinese General Administration of Quality Supervision, Inspection and Quarantine) will establish certification requirements which correspond with the requirements imposed by AUS-MEAT, an industry-owned company operating as a joint venture between Meat & Livestock Australia (MLA) and the Australian Meat Processor Corporation (AMPC). This will allow AUS-MEAT to inspect Australian meat exporters and issue health certificates declaring compliance with Chinese regulations.

Challenges for Australian exporters

Most of the criticism directed at Chinese food safety regulation focuses on the lack of transparency in inspection criteria and verification procedures. This opens the door to arbitrary discrimination, potential for confusion and uncertainty among Australian beef exporters. Due to the registration, filing and approval procedures required, the entire process can be quite expensive and time-consuming. In particular, Australian exporters need to carefully evaluate the investment required to obtain CNCA approval. The main costs relate to adapting their facilities to the specifications and standards required by Chinese authorities.

Figure 7 provides an overview of key Australian and Chinese regulatory requirements. It is not a comprehensive list of all requirements.

Source: King & Wood Mallesons

Figure 7: The four stages of exporting beef to China



Recommendation 3

Government should address non-tariff barriers with key trading partners as a priority, including during trade negotiations.

Government should prioritise addressing non-tariff barriers in China (see Figure 7), such as improving the time frames associated with gaining certification to export and import.

To facilitate the removal of non-tariff barriers the Australian Government should:

- Pursue the establishment of previously agreed committees as a vehicle for addressing non-tariff barriers.
 - Sub-committees on sanitary and phytosanitary cooperation, and technical barriers to trade, should be established as a priority with both Korea and Japan. These committees should meet within 6 months of establishment.
 - The consultative forum on sanitary and phytosanitary measures and food standards between Australia and Thailand should be established within 6 months, and a meeting convened within 6 months following this.
- Engage with industry directly, and through the Food and Agribusiness Growth Centre, to determine which non-tariff barriers are critical issues.
- Through Austrade continue to promote existing free trade agreements and the benefits they offer to potential exporters. Austrade should focus its efforts on engaging with businesses that are motivated and export ready.
- Seek to ensure consistent rules of origin are applied across agreements to avoid unnecessary complexity for businesses operating across multiple markets.
- Seek to improve the mutual understanding of food standards, biosecurity and quarantine arrangements in the region.
 - To support this, government should consider establishing exchange programs between Food Standards Australia New Zealand (FSANZ), Biosecurity Australia and their equivalent bodies in the region.

4.1.2 Development of a national marketing strategy

There have been calls to establish a national brand for the agrifood sector. Considerable research and work have been undertaken into the issue of a national brand, including by Food Innovation Australia Ltd (FIAL), Austrade, the ASA 100, the National Farmers Federation, and the Australian Farm Institute.

Branding offers an opportunity for products and countries to differentiate themselves from competitors. Consumers can exhibit strong preferences for certain brands based on the properties they associate with that company or country.

A national marketing strategy is more than a logo. It should clearly articulate the attributes and characteristics of the region that it comes from and the values associated with it. It should tell the story about what the Australian food sector stands for.

These credentials can be used to the sector's advantage to target existing, growing and emerging premium markets.

100% Pure New Zealand

The '100% Pure' global branding and advertising campaign began in New Zealand in 1999 and continues today. It is designed to promote New Zealand to the world and to provide a cohesive and effective brand for New Zealand as a tourist destination.

The campaign is linked strongly to New Zealand's cultural history and the natural characteristics of the land. The campaign employs a single slogan and utilises different images to represent New Zealand, allowing these images to speak for themselves.

The campaign is managed by the New Zealand Tourism Board.

A significant part of the value from the campaign may not be the actual campaign itself, but may in fact come from the consistency of emotional stimulus that consumers are exposed to through a variety of different pieces of messaging and branding.

The campaign is widely considered to be a success and has contributed to strong growth in the number of tourist visitors to New Zealand.

Development of a national marketing strategy

Issue

The Australian agrifood sector needs to develop a single, unified national marketing strategy that will consistently outline the value of Australian food products and allow them to differentiate themselves from competitors.

Evidence

The sector has a fragmented branding position

The Australian agrifood sector needs to tell a consistent and compelling story about the values and properties that we would like associated with Australian products. However, at present there are a range of different brands, logos and approaches to marketing Australian products overseas. These brands and logos lack a consistent approach and there does not appear to be a clearly agreed, or articulated, position on what the Australian agrifood brand is, or should be.

Australia does not 'own' the attributes that are associated with our agrifood sector

Australia is known globally for the quality and safety of its food products. However, we are not the only country that has a reputation for such products. Analysis by Austrade suggests that 'clean, green and safe' is not likely to be compelling enough as a brand proposition in the face of competition from emerging 'good enough' exporters.

Policy actions also matter for our national brand

Policy decisions can have a material impact on our international reputation and national brand. For example, the temporary suspension of the live cattle trade to Indonesia in 2011 did significant damage to our reputation as a reliable supplier in Indonesia specifically, and in the region more generally.

Recommendation 4

Government should facilitate the co-design and development of a national brand for Australian produce in conjunction with industry.

Government should support and promote the use of this brand, including through the development of a unified and comprehensive national marketing strategy for the sector.

The brand and marketing strategy should complement individual businesses' brands, allow room for state and regional provenance attributes to be promoted and have clearly established criteria for its use.

Development of the brand and strategy should build upon the range of work already undertaken.

4.1.3 Driving successful business engagement

Understand the environment and the market

The global marketplace means that it is essential for business to understand the environment and market that its competitors and customers operate in.

This includes having a clear understanding of distribution channels and developing long-term relationships with distributors to secure supply channels. A particular challenge for business will be an ability to adapt to differences and changes in regional supply chains.

Businesses also need a clear understanding of the retail environment and consumer preferences. This will involve promoting products in-market, and tailoring products to consumer tastes rather than seeking to export excess stock from the Australian market.

Successful business approaches to global engagement

Analysis by Bain & Company for the Business Council, as well as the experience of BCA members, suggests that the following factors are critical to successful global engagement for businesses.

Findings

Businesses should consider the range of different options and strategies available for engaging in key markets and adopt a strategy that best fits their own individual circumstances.

In general, businesses should adopt the following strategic principles in driving direct engagement in the region:

- prioritise markets
- target consumers carefully and develop a localised proposition
- focus distribution online and offline
- select the right partners
- ensure organisational focus.

Prioritise markets – bigger and faster growing is not always better

No two markets in Asia are the same. Food exporters need to carefully assess each market's size and potential, independent of top-down-data and extrapolations from other markets.

The most critical market-specific issues for Australian food companies to understand from the outside include consumer behaviour, routes-to-market and distributor dynamics, and the competitive environment.

For example, despite China's attractiveness due to its size and growth, it should be considered as multiple markets across the different regions and city tiers. In these

markets, different route-to-market strategies may need to be adapted to the local populous.

Target consumers carefully, and develop a localised proposition

Australian food companies typically compete in Asia in 'premium niche' positions. They tend to be sub-scale and higher cost, with success dependent on targeting consumer segments that are willing and able to pay a premium for what they perceive to be a superior proposition.

Many Australian companies fail to adequately define consumer targets with sufficient detail. Successful food companies target specific consumer segments by first understanding the size and growth of a given food subcategory in a specific geographic area at the level of consumer demographic segment, consumption occasion and price tier.

When companies are able to define their target customer segments, a number of 'pull' strategies can be effectively employed to build brand awareness. 'Pull' strategies that have been successfully executed in Asia include using Australian celebrities to promote a brand and running digital advertising and marketing campaigns on social media platforms such as Sina Weibo in China. In addition, word-of-mouth networks within the large Asian diaspora in Australia can also be effective, especially during key holiday periods such as Chinese New Year and Singles Day. These communities often maintain strong ties to communities in Asia, and activating these family and friend networks can be an effective way to stimulate cross-border demand.

Focus distribution to reach target consumers

The channel environment differs widely across markets, particularly with respect to the relative importance and opportunity in retail versus foodservice, and within the retail market, in modern trade versus online versus traditional trade. In the past few years, the online share of retail has grown dramatically, and Bain & Company forecasts this trend will continue in many categories across Asia.

Successful food exporters typically develop both an online and an offline strategy (modern or speciality trade), and increasingly focus on the online to offline customer journey. Australian companies with a strong online presence in Asia usually have an established flagship store on one of the large 'business-to-consumer' multi-category platforms (for example, T-Mall or JD.com in China). There has also been a strong increase in the sales of Australian consumer goods on 'consumer-to-consumer' platforms such as Taobao in China. These sales are often largely underpinned by 'passive sales' within Australia to Asian tourists, students, and family who then on-sell to Asian markets. This has occurred most notably in categories such as infant milk formula and health supplements, where Australian provenance is highly regarded and the price differential between Australia and Asia retail channels is material.

Companies that have been successful offline tend to work with a mix of distributors in different countries, and regions within countries, as well as directly with retailers. Retailers increasingly ask for joint business plans to be developed with food companies, and successful partnerships focus on mutual gains, rather than pure sales transactions.

Select the right partners

Multinational companies have been increasingly using inorganic and partnership growth strategies in Asia (joint ventures, and mergers and acquisitions represent over 70 per cent of the Fortune 200's growth strategy in China, up from 30 per cent a decade ago). These inorganic moves can shorten typical steps of moving through exporting, controlling distribution, manufacturing in country and performing R&D in country.

Gemtree wines: A case for joint ventures when entering foreign markets

In 2013, Chinese businessman Song Yuangang became a minority shareholder in Gemtree Wines, located in McLaren Vale. Yuangang invested A\$30 million for five years, committing to the development of the company. He was also responsible for providing access to Chinese markets through his existing extensive distribution network.

Before entering into the joint venture, Gemtree Wines emphasised the importance of developing relationships with a Chinese investor or company to help overcome the cultural barriers that would be encountered without any local contacts, and allow them to focus on what they do best. Gemtree Wines also considered it crucial to find the right partner to ensure that its business would be ready to enter the Chinese market in the long term.

Overall, this had a positive impact on Gemtree Wines' turnover, which has at least quadrupled and is expected to grow as the company continues to expand its operations in China. Within 12 months, over 23 branches had been established across China, supported by a sales team of 300 staff which was expected to double by the end of 2014. Their story demonstrates how the benefits of a joint venture with the right partner can outweigh the difficulties and costs of establishing the legal and accounting frameworks required for international joint ventures and partnerships.

Ensure organisational focus

For Australian food companies success in Asia typically requires a genuine commitment of resources and the right talent plans and supporting organisation infrastructure. Growing businesses need to address challenges around talent, skills and culture to succeed.

The most successful Australian exporters create a separate division or group whose mandate is to grow the international business, rather than 'incubating' this business within larger domestically focused business units. Separating the international business is essential to ensure it receives the right amount of resources and focus.

Bain & Company has observed that the magnitude of passive sales from Australian retailers into Asia via C2C platforms such as Taobao is often underestimated by Australian food companies. However, these passive sales can be critical to building brand awareness in Asian countries, and dedicated organisational resources to focus on this channel can help accelerate market penetration.

4.1.4 Developing the capabilities necessary to engage in key markets

Issue

Businesses need to build the skills, capabilities and knowledge necessary to engage in key overseas markets, particularly in Asia. Government policy and programs need to support this.

Lack of Asia-specific knowledge and capabilities

To succeed in Asia, Australian businesses need 'Asia capabilities'. Asia capabilities are personal and organisational qualities, skills, knowledge and attitudes that help business to work effectively with and in Asia. They range from basic cultural understanding to advanced skills in negotiating across cultures, and detailed understanding of regulations or market trends in Asian countries.¹⁷ Being Asia capable means understanding national and regional differences, as what works in Indonesia won't necessarily work in India or China.

Evidence

The Business Council, as part of the Asialink Taskforce for an Asia Capable Workforce in 2012,¹⁸ endorsed recommendations calling on the government to establish a national centre for Asia capability. This recommendation was adopted by the government and it established Asialink Business, the National Centre for Asia Capability. Since its establishment, Asialink Business has developed a range of publicly available practical resources, information products and training programs to assist Australian business to develop its Asia capabilities.

A survey of Australian business leaders demonstrated that the higher the proportion of senior leaders who have cultural training, speak an Asian language or have lived and worked in Asia for more than three months, the more likely business performance will exceed expectation.¹⁹

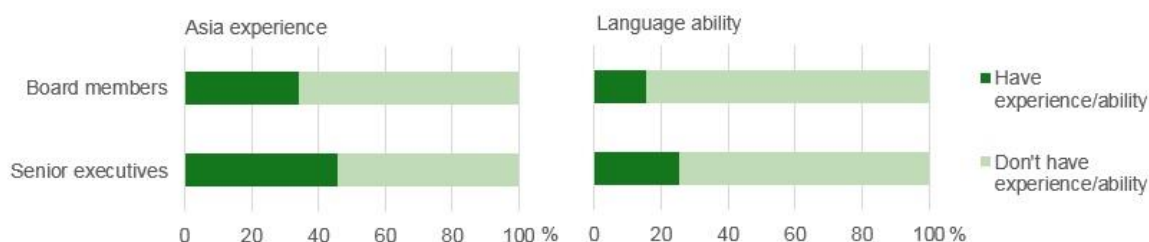
A survey of 380 businesses found that fewer than half had any board members or senior executives with Asian experience or language ability.²⁰

¹⁷ See: http://asialink.unimelb.edu.au/asialink_business/asia_capabilities

¹⁸ Asialink Taskforce for an Asia Capable Workforce, *Developing an Asia capable workforce: A national strategy*, September 2012, p. 21.

¹⁹ The Australian Industry Group and Asialink Survey, *Engaging Asia: Getting it right for Australian business*, 2011.

²⁰ Asialink Taskforce for an Asia Capable Workforce, op. cit. p. 12.

Figure 8: Business leaders and Asian experience

Source: PwC, *Passing us by* (2014)

The PwC report *Passing us by* found:

- Just 9 per cent of businesses are currently operating in Asia and only 12 per cent of Australian companies have any experience of doing business in Asia at all.
- 65 per cent have no intention of changing their stance towards Asia in the next two to three years.
- Of Australia's large companies, half are doing business in Asia but only 23 per cent have staff on the ground in-market.

The report concluded 'these results clearly show that Australian business is a long way from the level of engagement, investment and commitment needed to secure a long-term share of the region's growth'.²¹

The Food Processing Industry Strategy Group report found that 'many Australian processed food businesses, especially SMEs, lack the capacity and capability to explore export markets. Consumer insight into Asian markets is critical to developing products that will be successful in these new markets. Access to information on Asian processed food buyers and distributors is also essential for Australian firms looking to export to those markets'.²²

Government services are under-utilised

Both government agencies and private sector organisations offer businesses a range of services to assist firms to become both export and market ready. Despite the wide range of programs designed to increase firm level capabilities, their level of uptake remains relatively low and there is significant room to drive greater take-up.²³ In some instances, feedback suggests that the proliferation of services and service providers can make it hard for SMEs to know where to start in seeking assistance.

Despite the apparent benefits of engagement, feedback also suggests that in some instances firms simply do not think of engaging with government when considering expanding overseas. According to the PwC report *Passing us by*, over 48 per cent of

²¹ PwC, *Passing us by: Why Australian businesses are missing the Asian opportunity. And what they can do about it*, 2014.

²² Food Processing Industry Strategy Group, *Final report of the non-government members*, September 2012, p. 167.

²³ *ibid.*

companies surveyed couldn't even nominate an agency responsible for assisting companies export overseas.²⁴

Businesses need to maximise resources already available

Asialink Business recently launched a series of Country Starter Packs, which offers Australian business practical case studies and up-to-date market insights to highlight the specific opportunities for Australian businesses in different Asian markets.²⁵

The Country Starter Packs provide a comprehensive resource on marketing and legislative information to support Australian companies with their in-country planning, strategy and operations. They will also assist Australian businesses to negotiate the practicalities of overseas business environments. Asialink Business has released Country Starter Packs for China, South Korea, Indonesia and Thailand, and more countries will be added in the coming months. The Business Council encourages business seeking to engage in the region to make full use of this publicly available resource, which can be accessed online or via a shareable app.

Accessing information on importing country requirements

Having an understanding of the individual requirements of specific countries is important for businesses seeking to engage in the region. The Manual of Importing Country Requirements (MiCOR) database provides information about requirements that exporters must meet for products and commodities to be accepted for import into specific overseas countries. Currently, businesses cannot access the database until they are export certified. However, some businesses may not wish to become export certified unless they know the importing requirements of a country.

The Department of Foreign Affairs and Trade is currently developing a 'dashboard' that will provide information about tariffs in key markets.

²⁴ PwC, op. cit.

²⁵http://asialink.unimelb.edu.au/asialink_business/business_resources/asialink_business_country_starter_packs

Recommendation 5

Businesses should work to build their Asia capabilities, including through:

- developing consumer insights for key markets through consumer data, research and engagement with bodies like the Industry Growth Centre and Asialink
- reorienting business strategies towards Asia
- Using Asialink Business' Country Starter Packs – a free resource that offers business, marketing and legislative information to support Australian businesses in their strategy, planning and operations, as well as accessing the range of Asialink Business training programs
- supporting education, training and professional development to build skills and capabilities
- providing Asian experiences such as work exchanges with business units in Asia or with Asian business partners
- building Asian networks by participating in activities hosted by joint business chambers and other organisations
- working with education providers to provide internships and work experience opportunities for domestic and international students in Asia-focused businesses.

Government services and programs should assist businesses to expand or grow their operations into international markets:

- access to the MiCOR database should be amended so that all businesses can access the database
- generic export services and programs offered by the Commonwealth Government should be added to the suite of programs covered by the Department of Industry, Innovation and Science's 'Single Business Service'
- the Food and Agribusiness Growth Centre should undertake targeted engagement with industry to build their capabilities
- the government should continue its support of Asialink Business – the National Centre for Asia capability.

4.2: ENCOURAGING BUSINESS INVESTMENT

Key points

- Significant investment will be needed in the agrifood sector to improve innovation and productivity and to drive scale.
- Foreign investment will need to play an important role in delivering this investment.
- Government should remove the lower foreign investment review board thresholds for agricultural land and agribusiness.
- Greater use of financial products can assist in mitigating risk in the sector and delivering more efficient investment outcomes.

4.2.1 Attracting investment

Significant investment is required in the sector

The agrifood sector needs to attract investment to the sector in order to improve productivity, increase yields and to expand its aggregate level of food production. This will require investment in new technology, plant and equipment, as well as infrastructure and human capital.

Increased investment will need to come from both greater domestic investment in the sector and continuing to utilise foreign investment.

ANZ's *Greener Pastures* report estimated that by 2050 Australia's food industry could require up to A\$1 trillion in additional capital.²⁶ This incorporates an estimated A\$600 billion to increase production capacity and A\$400 billion to manage the change from smaller, family-run farms, to larger more corporatised farms.

Sourcing capital is a barrier to growth

A 2013 survey of food and beverage businesses by Grant Thornton found that 16 per cent of the Australian executives reported that sourcing capital is a constraint on business growth.²⁷

Feedback from *The Australian's* Global Food Forum 2014 suggested that investment deals were falling over because Australian farm businesses were not 'investment ready'.²⁸ Businesses with strong overall business performance, good management capability and solid financing models are much more attractive to potential investors than those without these characteristics.

²⁶ ANZ, *Greener pastures: The global soft commodity opportunity for Australia*, 2012.

²⁷ Grant Thornton, *Hunger for growth: food and beverage looks to the future*, Australian insights, Global food and beverage study, November 2013.

²⁸ D Kitney, 'Farmers must be "investment ready"', *The Australian*, 27 March, 2014.

The share of domestic mergers and acquisitions in the agrifood sector has been below that of many other major food-producing countries. This suggests that Australian companies have either not had the funds to finance their own mergers and acquisitions in the sector, or they have not felt that the potential returns justified the investment.

Foreign investment will need to play a key role in delivering investment

Benefits of foreign investment

Australia has always relied on foreign investment to underpin our economic growth, jobs and way of life. Given the level of investment required, and the limited ability and interest to finance it domestically, foreign investment will need to continue to play an important role in driving investment.

One of the benefits of foreign capital is that it frequently brings with it new technologies and innovation that can be applied domestically, often leading to productivity growth.

The importance of foreign investment – JBS

The Brazilian-based Batista family are the owners of JBS Australia. Since 2007, they have invested more than A\$700 million in their Australian production assets. This investment is in such areas as asset maintenance, growth capital, technology and market access requirements.

JBS Australia's recent A\$1.45 billion purchase of Primo Smallgoods is about moving from a commodity-based animal protein to a food business in Australia focused on strong brands servicing key domestic customers and the growth markets of Asia.

Community concerns about foreign investment

Some parts of the community have expressed strong concerns about both the level of existing foreign ownership in the agrifood sector and in relation to further foreign investment. These concerns have been strongest in regional communities.

The main issues for the community have related primarily to concerns about food security, losing control of the supply chain, and jobs in regional areas.

This has led to the government introducing new thresholds for foreign investors for Australian agribusiness and for Australian rural land, and implementing a foreign ownership register for agricultural land. At the same time, the government has made a clear statement that Australia is 'open for business'.

Any response to community concerns about foreign investment needs to be measured and evidence based. This is particularly the case when regulatory measures are being considered in response to community concerns. Action should focus on ensuring confidence in the sector, increasing the competitiveness of the sector and ultimately, making the Australian agrifood sector an attractive place to invest.

Attracting foreign investment

Attracting foreign investment will also require aligning Australian offerings to what overseas investors are seeking to purchase. Investors consider Australia as only one of a range of alternative investment destinations. For investors, consideration of whether or not to invest in Australia is based on a range of different factors including scale, location, cost structures and business environment (taxation, regulatory and competition settings).

In seeking to attract foreign investment to the sector, a sector-based approach needs to consider how to improve the relative attractiveness of Australia compared with alternative destinations.

Foreign investment into Australia is strongly associated with who Australia's major trading partners are. The countries that have been the major source of the investment activity in Australia over the past decade (Canada, the UK, Japan and the USA) have also been our major trading partners. China and other emerging markets have played a more marginal role in terms of investment. However, as Australia's trade in emerging markets increases, we can expect that emerging markets will seek to play a greater role in terms of investing in the Australian agrifood sector.

Current merger and acquisition activity in the global agrifood sector is being driven by a range of factors, including:

- consolidation to enhance sourcing, manufacturing and distribution scale
- diversification or rationalisation of commodities
- securing a high-quality food supply
- geographic diversification
- acquisition of downstream products.

A recent survey undertaken by Allens found that the main attractions for investing in Australian agriculture were proximity to markets (76 per cent), quality of infrastructure (67 per cent) and the surplus of production for export (61 per cent). It found that the greatest disincentives for investing in Australia were related to climate variability (72 per cent).²⁹

²⁹ Allens, *A greater yield: Attracting investment into Australian agribusiness*, 2014.

4.2.2 Foreign Investment Review Board thresholds

Issue

Recent changes to Foreign Investment Review Board (FIRB) thresholds are actively discouraging foreign investment.

Evidence

Among the 34 OECD member countries, in 2012, Australia was assessed as being the sixth most restrictive for foreign direct investment and tenth most restrictive in agriculture.

The government has declared that it is 'open for business', however its recent decisions have sent the opposite message to potential international investors considering investing in the Australian agrifood sector.

The government recently introduced new thresholds for foreign investors (other than from New Zealand and the US) for Australian rural land of A\$15 million and intends to implement thresholds for Australian agribusiness of A\$55 million. The A\$15 million rural land threshold is applied on a cumulative basis making it particularly burdensome. In practice, this can mean that a foreign person, once over the threshold, must seek approval for investments that are insignificant in that they cost only several thousand dollars. Approval for such minor investments can therefore require considerable time and dollars, particularly given the new FIRB application fees and penalties that will apply commencing 1 December 2015.

These thresholds were amended without the government undertaking the proper regulatory review process. No regulatory impact statement was prepared, or released, prior to the decision being made. The regulatory impact statement that has now been undertaken does not provide sufficient evidence to support lowering the thresholds for agribusiness.

Despite these new, lower thresholds, over 99 per cent of applications to the FIRB have historically been approved. The introduction of new thresholds for foreign investors in Australian agribusiness, and for Australian rural land, introduces an additional hurdle for potential investors to clear, potentially resulting in diminished investment offers in the sector. These decisions also risk sending the opposite message of the government's 'open for business' statement to potential investors from overseas.

The Australian Food and Grocery Council has estimated that half the food processing and manufacturing sector and almost all dairy companies in Australia would be captured by the government's proposed changes to foreign investor rules.

The government has also announced new, and increased, fees associated with application fees. These application fees serve as a deterrent to investment and may reduce the sector's global competitiveness.

As currently proposed, the fees exceed what would be charged under a cost recovery basis. For example, the fees as currently proposed for an acquisition of a company greater than A\$1 billion would be A\$100,000. In comparison, the application fee for

submitting a prospectus for listing on the Australian stock exchange is A\$7,000 irrespective of the size of a company.

Recommendation 6

Foreign investment, subject to the appropriate review and approvals processes, should be encouraged and should continue to play an integral role in driving investment and growth in the agrifood sector.

The government should remove lower Foreign Investment Review Board thresholds for agricultural land and agribusinesses:

- acquisitions in the agrifood sector should be subject to the same A\$252 million threshold as businesses in other sectors of the economy.
- acquisitions of rural land should be subject to the same A\$252 million threshold as businesses in other sectors of the economy.

The government should proceed with its proposed land register as it will increase transparency in the agrifood sector. The register should leverage existing information and should not impose additional costs on businesses.

Government should not proceed with proposals to increase the fees levied on business investment as they act as a deterrent to foreign investment. In the event that government does proceed, fees should only be levied on a cost-recovery basis.

4.2.3 Utilising financial instruments to mitigate against risk

Issue

The output of the agriculture sector is incredibly volatile and this volatility can lead to under-investment due to uncertainty.

Evidence

The Australian Farm Institute found that 'Australian farm business managers operate in a more volatile environment than is the case for virtually all national agriculture sectors worldwide, and ... experience more than twice the level of volatility on average of businesses in other sectors of the Australian economy'.³⁰

Farmers may underestimate the level of risk they are exposed to and, as a result, not take out insurance to offset this. Despite the extreme volatility in the agriculture sector, take-up of financial instruments, such as multi-peril crop insurance, to mitigate against this volatility remains low. In 2012, only 29 farms took out multi-peril crop insurance with insurance firm Latevo.³¹

Increasing utilisation of financial instruments to manage risk can assist in providing greater income certainty for farmers and minimising volatility. In turn, this can also make it easier for businesses to access finance from banks. Both factors can contribute to greater investment in the sector. Additionally, utilisation of these products could lessen the need for government to provide ad hoc industry assistance to the sector.

Investing in crop insurance now to reduce future harm is intrinsically a difficult decision to get right. The costs of insurance are both immediate and certain, whereas any benefits are probabilistic, uncertain, and delayed. As a result, farmers can find it difficult to make the right insurance decisions.

Recommendation 7

To encourage the level of domestic investment, businesses in the agriculture sector should increasingly make use of insurance products, such as multi-peril crop insurance, to manage volatility.

Government should encourage greater industry uptake, including through:

- providing businesses, through government bodies and business advisory services, with information about these products and the benefits that they can provide.
- considering providing financial incentives to industry to accelerate adoption as part of the tax white paper process. This could reduce the need for government to provide ad hoc support for unanticipated and/or seasonal events to the sector.

³⁰ Australian Farm Institute, 'Including Risk in Enterprise Decisions in Australia's Riskiest Business', *Farm Policy Journal*, Autumn 2012.

³¹ <http://latevo.com/wp-content/uploads/2015/03/Latevo-Grower-Workshop-Presentation-Mar151.pdf>

4.2.4 Undertaking a strategic approach to planning and zoning

Issue

A lack of strategic planning, urban sprawl, and current planning and zoning laws are creating difficulties for operational practices, output and consolidation in the agrifood sector.

Evidence

Land that was previously only considered for use by the agrifood sector is now being considered for other uses, in particular urban development. The Food Production in Australia inquiry found that:

Land available for agriculture is declining across the globe as expanding populations inhabit fertile land that could otherwise be devoted to food production. Although this problem is not as severe in Australia as it is in countries with a smaller land mass, urban encroachment is nonetheless affecting the capacity of Australian producers to grow food in the areas in which it is demanded, which in turn affects its quality and affordability.

Recent research by Foodprint Melbourne suggested that while Melbourne's foodbowl currently produces 41 per cent of the city's food, by 2050 urban sprawl could result in the foodbowl only being able to produce 18 per cent of Melbourne's needs.³²

Local councils are responsible for determining land use in consultation with government agencies. State governments are generally responsible for establishing strategic plans and directions for development.

There has been a trend towards subdivision of agricultural land. In particular, local councils have permitted many small-lot rural subdivisions. This has created a large number of small farms, many of which are unviable for agricultural production.³³ Efficient scale is critical in the agrifood sector, and there is a need for many of these small farms to be consolidated.

Recommendation 8

State governments should develop, or update, strategic plans for land development. In particular, these plans should examine zoning arrangements to ensure that they are consistent with best practice and that they reflect the competing needs of the agrifood sector and urban development.

³² http://www.ecoinnovationlab.org/project_content/melbourne-urban-sprawl-infographic/

³³ http://www.farminstitute.org.au/ag-forum/rural_subdivision_a_cancer_for_profitable_agriculture_close_to_cities

4.2.5 Developing Northern Australia

Issue

Development of northern Australia needs to be made on the basis of sound principles and a solid evidence base.

Evidence

The untapped potential of northern Australia provides an opportunity to drive economic development and to improve the competitiveness of the agrifood sector. Northern Australia represents almost 40 per cent of Australia's land mass, but is home to only 6 per cent of Australia's population. Its close proximity to international markets represents an attractive economic opportunity.

Development of the agrifood sector (as well as broader economic development) will be heavily reliant on access to water resources. In July 2015 the government released its *Our North, Our Future* white paper on developing northern Australia. The government has made significant commitments to infrastructure through the white paper and other announcements, including a A\$5 billion Northern Australia Infrastructure Facility, A\$200 million for water infrastructure, A\$100 million for roads used by northern Australia cattle supply chains and A\$600 million for other priority roads.

Recommendation 9

The government should continue to focus on facilitating more productive land use, reducing business regulation, and prioritising private sector investment as part of its northern Australia strategy.

The government's northern Australia strategy should prioritise sound, evidence-based policymaking principles that connect regional growth to underlying economic and strategic strengths that ensure taxpayers' money is well spent in the region, and that preserve national consistency in broader economic and regulatory policies.

Development of an effective long-term strategy should include collaboration between the federal government, the governments of Western Australia, Queensland and the Northern Territory, along with engagement with business and local communities to target and achieve growth outcomes that are above a 'business-as-usual' baseline.

Investment in infrastructure through the Northern Australia Infrastructure Facility should be informed by the gaps and priorities developed by Infrastructure Australia and the Industry Growth Centre (as outlined in Recommendation 11).

4.3: BUILDING COMPETITIVENESS

Key points

- Improving the competitiveness of the agrifood sector will require a combination of economy-wide and sector-specific reforms.
- Sector-specific reforms are designed to improve innovation, productivity and competitiveness in the sector.
- These include creation of a less fragmented market structure, better prioritised infrastructure investment, removal of unnecessary regulation, building of business capabilities and better driving innovation through R&D and collaboration.

4.3.1 Undertaking economy-wide reforms

Broad-based economic reform will continue to be a vital driver of the competitiveness of the Australian agrifood sector. It should continue to underpin the government's reform agenda, and will complement the sector-specific changes recommended in this paper. Economy-wide reforms should contribute to an environment which provides businesses with an incentive to innovate.

Important, complementary, economy-wide reforms include:

- the tax white paper process
 - in particular, examining a reduction in the company tax rate as a means of stimulating new investment and innovation
- competition policy
 - implementing the recommendations contained in the National Competition Review as a priority, with the exception of proposed revisions to section 46 of the Competition and Consumer Act
- an effective workplace relations system
 - redesigning the workplace relations system around three tiers: safety net provisions, including industrial protections; agreements; and business and management decisions
- adhering to good regulatory practice
 - following the processes outlined in the government's own *Australian Guide to Regulation*³⁴
- better utilisation of infrastructure

³⁴. Australian Government, Department of the Prime Minister and Cabinet, *The Australian guide to regulation*, 2014.

- introducing cost reflective road pricing
- moving to an open, competitive market for coastal shipping services.

4.3.2 Facilitating a market structure that will drive competitiveness

Issue

Our market structure needs to support the agrifood sector to be the most productive and competitive that it can be. The current market structure is fragmented, uncoordinated and requires further consolidation.

Evidence

The current market structure is dominated by small businesses with limited reach

Australia's agrifood sector is composed primarily of small and medium-sized businesses. In the agriculture sector 99 per cent of businesses employ 19 or fewer workers, and 70 per cent of businesses have no employees. In the food manufacturing sector, 89 per cent of businesses employed 19 or fewer workers.³⁵

Research by ABARES found that larger farms were more productive than smaller farms, on average, in large part due to better utilisation of technology.³⁶ Work undertaken by the Australian Farm Institute found that farms need revenue in excess of A\$500,000 per year to be profitable.³⁷

Work by the OECD has found that many small and medium enterprises (SMEs) may struggle to internationalise as a result of limited firm resources, lack of international contacts and gaps in the necessary levels of managerial expertise.³⁸ Indeed, large firms are responsible for almost the entirety (90 per cent) of Australia's agricultural exports.³⁹

Further efficient market structures in agriculture

There has been a shift towards larger farms, in terms of both size and value, over the past two decades. However, continued consolidation in the sector is needed. The top 30 per cent of farms (by revenue) are responsible for around 70 per cent of the national farm output. The smallest 30 per cent of farms (by revenue) are responsible for less than 4 per cent of the value of national agricultural output. Around 90 per cent of the income of these small farms is earned off-farm, primarily in the form of wages.⁴⁰

³⁵ Australian Bureau of Statistics, *Counts of Australian businesses, including entries and exits*, June 2009 to June 2013, 2014.

³⁶ Y Sheng et al., *Productivity and farm size in Australian agriculture: reinvestigating the returns to scale*, ABARES, 2011.

³⁷ <http://www.smartcompany.com.au/growth/economy/26535-the-end-of-the-family-farm-72-of-family-farms-don-t-earn-enough-to-support-the-family-on-them.html#>

³⁸ OECD, *Top barriers and drivers to SME internationalisation*, report by the OECD Working Party on SMEs and Entrepreneurship, 2009.

³⁹ Australian Bureau of Statistics, *Characteristics of Australian exporters*, 2013–14, Cat. No., 5368.0.55.006.

⁴⁰ http://www.farminstitute.org.au/_blog/Ag_Forum/post/its-time-to-get-rid-of-the-average-australian-farmer/

Agrifood supply chains are increasingly global and aggregated

In recent years, there has been a strong trend towards aggregation of supply chains to drive efficiency, to ensure supply reliability and quality, and to manage risk.

Feedback from the Business Council's steering committee suggested that a highly integrated, coordinated and efficient supply chain offers Australian businesses the best opportunity to supply both niche and bulk markets. It is particularly critical for ensuring that the needs and wants of consumers are effectively communicated along the entire supply chain and ensuring that it is aligned to meet these needs.

Coordinating supply chains – JBS and Great Southern

JBS has developed its 'Great Southern' brand with the objective of consistently delivering premium quality meat to customers.

Development and delivery of this quality product involves active participation from the entire supply chain. Informed by the preferences of customers, producers and processors have worked together collaboratively to ensure consistent production of a quality product.

A quality assurance system ensures that no growth hormones or unnecessary antibiotics are used as well as ensuring standards for animal welfare are met. A third party assurance system and accreditation provides legitimacy and integrity to the products for consumers.

The resulting strong brand and quality product has generated premium prices, which lead to better returns along the supply chain, particularly for livestock producers.

Barriers to greater integration and coordination

Government policy, including the recently released *Agricultural Competitiveness White Paper*, has too frequently focused on either agriculture or food manufacturing rather than considering them together as part of an integrated supply chain and examining potential barriers across the broader agrifood sector. The current structure of government supports the continuation of this state of affairs, with responsibility for food falling across both the Department of Agriculture and the Department of Industry, Industry and Science.

Barriers to consolidation, integration and the development of scale occurring can include distortionary taxes, inadequate capabilities to manage change, caps on water trading, poor land use planning, and assistance which does not facilitate adjustment and transition taking place.

Australia's competition policy needs to adopt a global perspective and support efficient scale. The agrifood sector operates in a global market. Australian businesses are not just competing with other domestic businesses but also with a large number of international competitors. When assessing the level of effective competition in any market, regulatory decisions should transparently take account of market dynamics, the impact of digitisation and increasing competition from global businesses, all of which can reduce barriers to business entry and constrain businesses based in Australia.

To allow Australian agrifood businesses to become global players, Australia should not adopt an unduly complex or lengthy approach to administering merger regulation. Murray Goulburn's bid for Warrnambool Cheese and Butter, for example, should not have been unnecessarily hampered by regulatory processes that placed it at a disadvantage to rival bidders.

Recommendation 10

Government policies should assist in addressing industry fragmentation and supporting the creation of a market structure that drives productivity, competitiveness and enhances its ability to access overseas markets. This will require:

- facilitating coordination and collaboration across the entire supply chain
 - aligning government policy across agriculture and food manufacturing
- removing barriers which impede integration, aggregation and the development of efficient scale taking place
 - removing or lowering stamp duties which can discourage transactions in place of less distortionary tax bases
 - state governments developing strategic land use plans to ensure that land and resources are put to their most effective use
- ensuring that any assistance provided is effective
 - any assistance should be aimed at facilitating adjustment, be time limited, and be assessed against the duration and effects on the wider economy of the industry, or problem, that it is trying to address
- focusing on building the capabilities of agrifood businesses
 - encouraging greater take-up of existing initiatives such as the Entrepreneurs' Infrastructure Programme and the Rural Financial Counselling Service
- adopting an approach to competition policy which recognises changing market dynamics and the global nature of competition
 - allowing continued consolidation to take place
 - improving the formal merger clearance processes. Allowing the ACCC to give merger clearance on the basis that public benefits of a transaction outweigh the harm – as per the recommendations of the Competition Policy Review.
- promoting new innovative business models

4.3.3 Prioritisation of investment in infrastructure

Issue

Government and the private sector need to continue to invest in new infrastructure that will drive improvements in the competitiveness of the agrifood sector. Prioritisation of any proposed investment is needed to ensure that the benefits are maximised.

Evidence

Transportation costs are one of the largest costs in the agrifood sector. Research by the Australian Farm Institute suggests that the transport costs of Australia's agricultural products average around nine per cent of the farm gate value for domestic delivery and around 24 per cent for international delivery.⁴¹ Efficient infrastructure is necessary to minimise these costs, and to facilitate timely delivery and movement of perishable goods. Access to ICT is a critical determinant of the ability of individuals and businesses located in remote areas to gather information, to collaborate and to access markets. Future growth in the sector will place additional strains on existing infrastructure and create a need for upgrades of existing infrastructure and investment in new infrastructure.

There has been no systematic process for targeting infrastructure investment in the sector

Participants in the sector have different views about what the key infrastructure bottlenecks are in the sector and which investments should be prioritised. There has been no systematic process to date for either creating an aggregated list of desired projects for the sector or for prioritising them in terms of importance. In the absence of an aggregated view of the infrastructure needs of the entire sector, it is extremely difficult to make an informed decision about which projects to prioritise.

Recommendation 11

Government should prioritise its investment in infrastructure to maximise the impact on competitiveness in the agrifood sector.

To facilitate this, governments should ensure that:

- they undertake a robust and transparent decision making process before committing to infrastructure projects, including the undertaking of a cost-benefit analysis
- major projects are evaluated by Infrastructure Australia and assessed against other competing infrastructure investments.

To inform government priorities:

- Infrastructure Australia should undertake an audit of infrastructure capabilities for the agrifood sector to identify critical infrastructure gaps
- the Food and Agribusiness Growth Centre should develop infrastructure priorities.

⁴¹ Australian Farm Institute, *Transport costs for Australian agriculture*, 2011.

4.3.4 Removing duplicative and unnecessary regulation

Issue

Government needs to work to reduce the burden of regulation on businesses in the agrifood sector, including through addressing duplicative or inconsistent regulation. The government also needs to adhere to its own best practice regime for imposing new regulation on the agrifood sector.

Evidence

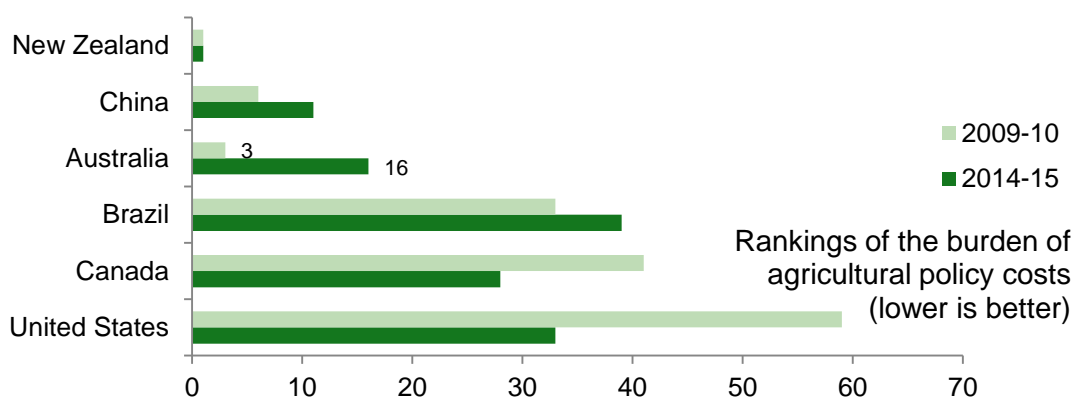
The amount of sector-specific regulation is substantial

The government’s *Agricultural Competitiveness White Paper* committed to establishing a Productivity Commission inquiry into ways to reduce unnecessary regulatory costs on Australian agriculture.

A 2013 Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) review of agricultural regulation found there are around 90 Acts administered by the Australian Department of Agriculture.⁴² In Queensland, a 2013 National Farmers Federation report found that a further 55 Acts and Regulations are being imposed on farm businesses.⁴³ The cumulative impact of multiple regulations and the associated costs of compliance can severely impact on the agrifood sector’s competitiveness.

According to the World Economic Forum, regulatory costs imposed on Australia’s agrifood businesses have grown substantially since 2009–10, putting Australian farmers at a competitive disadvantage to their overseas competitors (see Figure 9).⁴⁴

Figure 9: The burden of regulation has been increasing in Australia



Source: World Economic Forum Global Competitiveness Index

⁴² C Gibbs, K Harris-Adams & A Davidson, *Review of selected regulatory burdens on agriculture and forestry businesses*, ABARES report to client prepared for the Agricultural Productivity Division of the Department of Agriculture, Canberra, November 2013, CC BY 3.0., 2013, p. 1.

⁴³ Retailer & Supplier Roundtable Ltd., *Paddock to plate: Reform of regulations to enhance competitiveness, increase productivity and decrease the cost of doing business*, August 2014, p. 3.

⁴⁴ EM Gray, M Oss-Emer, Y Sheng, *Australian agricultural productivity growth: past reforms and future opportunities*, ABARES research report 14.2, Canberra, February 2014, p. 30.

Inconsistent transport regulation needs addressing

Examples of inconsistent transport regulation include:

- Lack of alignment between Queensland volumetric loading and New South Wales weight-based loading limits means a truck's load cannot be as heavy in New South Wales. This is of particular concern to the beef processing sector when the closest abattoir for a northern New South Wales cattle farmer is in south Queensland.
- Load limits on new bridges reduced by local governments to prolong the bridge's life can result in larger vehicles de-coupling trailers to pass through certain local government areas. Road pricing that better reflects use may more efficiently manage this problem.
 - Inconsistency between fatigue laws, workplace health and safety (WHS) and livestock welfare regulations creates problems in remote areas where drivers are required to comply with both fatigue management laws and also standards for transport of livestock often without facilities to rest livestock.⁴⁵
- The Road Safety Remuneration System which duplicates many workplace health and safety and Fair Work laws, without any evidence of delivering any additional safety benefits.⁴⁶
- Coastal shipping regulations which unduly restrict the use of foreign vessels and raise the cost of shipping between states and territories.

Food safety processes have considerable room for improvement

Australia's food safety regulation system enables differentiation in export markets by underpinning Australia's reputation for high-quality, safe, clean food. However, regulation could be better designed and administered, notably by removing duplication of government audits and addressing the inconsistency of food safety and labelling regulations across jurisdictions.

An Australian Food and Grocery Council (AFGC) survey has indicated that large manufacturers may face up to 50 quality audits per year from retailers, causing direct costs of over A\$100 000 and imposing indirect costs several times higher.⁴⁷ The food safety certification process and quality assurance audits required by food retailers can be highly duplicative. In some instances, up to 80 per cent of information sought is duplicated.⁴⁸ Streamlining of these processes is possible. For example, Dairy Food Safety Victoria has adopted a single system approach to auditing where regulators work together to streamline auditing processes and thereby reduce the cost and time burden on industry.

⁴⁵ NFF Issues Paper, *Red tape in Australian Agriculture*, National Farmers' Federation, September 2013, pp. 13–14.

⁴⁶ Retailer & Supplier Roundtable Ltd., op. cit., p. 5.

⁴⁷ Food Processing Industry Strategy Group, op. cit., p. 106.
Retailer & Supplier Roundtable Ltd., op. cit., pp. 26–27.

⁴⁸ Food Processing Industry Strategy Group, op. cit., p.106.
Retailer & Supplier Roundtable Ltd., op. cit., pp. 26–27.

Under the Food Regulation Agreement (FRA) the states and territories committed to a national system of food regulation, yet differences in food safety regulations and how they are enforced and administered remain.

Productivity Commission inquiry into regulation in agriculture

The government announced in the *Agricultural Competitiveness White Paper* that it would task the Productivity Commission with undertaking a review of regulation in the agriculture sector. The government released the terms of reference for the inquiry on 20 November, 2015. The inquiry is due to report back by August 2016.

Recommendation 12

The Productivity Commission's inquiry into regulation of Australian agriculture should seek to examine issues that impact the entire agrifood supply chain.

The Productivity Commission should examine the level of regulatory burden placed upon the agrifood sector, its impact on the competitiveness of the sector and opportunities for reducing this burden.

Priority areas for the inquiry should include examination of duplication in relation to food safety processes, as well as examining how to facilitate greater consistency in transport regulations between jurisdictions.

The inquiry should examine both regulations which are imposed by governments, as well as self-regulation imposed by industry.

The inquiry should also examine regulatory and financial incentives that would encourage greater environmental stewardship.

The review should identify what represents best practice regulatory processes, and outline the performance of governments in adhering to these practices. It should outline the progress that has been made by governments against previous commitments, such as the Food Regulation Agreement.

The final report should outline opportunities to reduce the regulatory burden on industry, including through the removal of duplicative regulation, opportunities for greater harmonisation of regulations, or removal of unnecessary regulation.

The government should respond within six months to the recommendations of the Productivity Commission inquiry.

4.3.5 Building business capability

Improving management capability through the Entrepreneurs' Programme

Issue

The sector needs to continue to build its management capability in order to improve its productivity and competitiveness.

Evidence

Better managed farm and food processing businesses are more strategic in their focus, better employers, better placed to absorb new technologies and processes, more effective managers of all their resources and inputs, and are more attractive to investment capital. Several studies have found there are clear links between the quality of management and the performance of firms and organisations.⁴⁹

The Australian agrifood sector involves a very large number of small and family-run businesses. Studies have found these sorts of businesses tend to exhibit lower management performance compared with larger firms. While many small businesses and family-run businesses are highly successful and possess excellent management capabilities, there is still a need to improve management capability throughout the sector.

The Entrepreneurs' Programme does not cover agriculture

The Entrepreneurs' Programme connects businesses with private sector advisors with industry experience to provide advice and support in relation to business management. This includes business evaluations, supply chain facilitation, business growth services and business growth grants. However, participants from the agriculture sector are not currently able to participate in the programme.

Access to the programme, and the business management element in particular, will assist primary producers to improve their performance, build capabilities and work towards addressing significant issues before they become a problem.

Recommendation 13

The government's Entrepreneurs' Programme should be expanded to include agriculture (pre-farm gate). Participants in the Food and Agribusiness Growth Centre should be encouraged to participate in the programme.

⁴⁹ R Green, R Agarwal, J Van Reenen, N Bloom, J Mathews, C Boedker, D Sampson, P Gollan, P Toner, H Tan & P.J. Brown, *Management matters in Australia: Just how productive are we?*, Department of Industry, Innovation, Science and Research, Canberra, Australia, 2009, pp. 1–42.

N Bloom, S Dorgan, J Dowdy, C Genakos, R Sadun and J Van Reenen, *Management practice & productivity: Why they matter*, July 2007.

Improving access to skilled labour

Issue

The agrifood sector needs to have sufficient access to labour and workforce flexibility to enable it to deal with fluctuating seasonal output and/or skills shortages.

Evidence

The agrifood sector is characterised by high levels of seasonality, leading to fluctuating output levels.⁵⁰ In turn, this means that the workforce in the sector needs to be flexible enough to meet these changing demand levels. While there are many full-time jobs in the agrifood sector, there is also a need for people willing and capable of working on a part-time or casual basis when required, for instance, at harvesting time or milking time.

Australian businesses prefer to hire local workers, but where demand cannot be met from within the domestic labour force, the option of accessing external labour is important for the ongoing viability of businesses.

Many Australian employment regulations are based on a standard 9 to 5, five-day work week. However, the employment needs of the agrifood sector are different from the broader economy, particularly due to seasonal harvest and production spikes.

Current programs to support the agrifood sector's access to labour include the Working Holiday Maker (417) program, Temporary Work (Skilled) visa (subclass 457), the Seasonal Worker Program and the Temporary Graduate visa (subclass 485).

Recommendation 14

Government should continue to provide alternative avenues, including through 457, 417 and 485 visas, for businesses to employ workers to address issues such as seasonality and an inability to hire sufficient workers from within Australia.

- The seasonal workers program should be extended to the entire agricultural sector.
- Access to labour through the working holiday maker program should be enhanced.

⁵⁰ Retailer & Supplier Roundtable Ltd., *op. cit.*, p. 4.

4.3.6 Delivering more innovation in the sector

Drivers of innovation

The need for innovation in Australia's agrifood sector is driven primarily by three key factors:

- **Developing new or improved products**

- This occurs through the application of new knowledge and brand building.

- **Responding to consumer preferences**

- Preferences can change due to rising incomes, changing tastes, shifting lifestyles, a desire for healthier and safer products or other needs and/or demands.

- **Improving productive efficiency**

- increasing yields and output

- increasing productive capacity by adopting new, and adapting existing, production processes.

Targeting research and development efforts to maximise impact

Issue

Given limited funding, investment in research and development needs to be prioritised to maximise the impact that it has on improving the productivity and competitiveness of the sector.

Evidence

Public funding of R&D is heavily directed towards agriculture with relatively little support for the food manufacturing sector. The Australian Farm Institute estimates that annual public investment in agricultural research, development and extension activities is approximately A\$1.2 billion. Around half of this investment comes from the Australian Government, with the remainder split between state government and farmer levy contributions.⁵¹ However, the overall level of funding by governments has been declining in real terms since the 1970s.

Given the current fiscal situation of governments at all levels, it appears unlikely that the agrifood sector will see any substantial increase in funding support in the short term. Expenditure on research and development in the sector needs to be better prioritised to maximise its impact. The government's recent updating of both the National Research Priorities and the Rural Research and Development priorities is a welcome step in improving prioritisation.

⁵¹ Australian Farm Institute, Newsletter, November 2013.

As part of their work program, the Commonwealth Government's Industry Growth Centres will be required to develop knowledge priorities. This will articulate the research needs and commercialisation opportunities for the industry.

Recommendation 15

The knowledge priorities developed by the Food and Agribusiness Growth Centre should specifically include consideration of research needs associated with identifying, understanding and meeting the preferences of consumers in emerging markets.

The knowledge priorities developed by the Food and Agribusiness Growth Centre should be used to update the challenges underpinning the National Research Priority associated with food. The Chief Scientist should update the priorities to reflect this.

These priorities, along with the recently updated Rural Research and Development Priorities, should continue to be used to inform expenditure on research and development in the agrifood sector.

Improving the level of collaboration in the sector

Issue

The Australian agrifood sector needs to improve its level of collaboration to enhance knowledge sharing, improve risk management and drive better innovation outcomes.

Evidence

ABS data shows that innovation-active businesses are more than three times more likely to collaborate than those that are not innovation-active. However, the level of collaboration between research and business in Australia continues to compare poorly with other OECD countries.

Given the global nature of the agrifood industry, collaboration is particularly important. Feedback from some industry participants suggests that, at times, they have been reluctant to collaborate with other industry participants for fear of being accused of collusion. This is concerning because collaboration is essential to effectively engage in international supply chains.

The Food and Agribusiness Growth Centre should play a critical role in driving collaboration in the sector. Food Innovation Australia Ltd has already led a number of collaborative activities, including establishing Collaborative Circles which sought to generate innovative ideas through collaboration with peer organisations.

Recommendation 16

The work program of the Food and Agribusiness Growth Centre should include activities that directly foster greater collaboration both within the industry and between industry and the research sector.

Activities should include:

- continuing to build on Food Innovation Australia Ltd's successful collaborative programs such as the SME Solution Centre and the Collaborative Circles program
- identifying barriers to collaboration that exist, and providing this information to government
- facilitating direct connections within industry, and between industry and the research sector
- encouraging businesses and researchers to participate in the research connections component of the Entrepreneurs' Infrastructure Programme.

Consumer perceptions of genetically modified foods

Issue

Government needs to provide factual evidence about genetically modified (GM) foods to address community concerns and to address regulatory constraints relevant to genetically modified products. Addressing these issues will assist in facilitating the role that genetically modified foods will play in increasing our food production.

Evidence

GM foods will need to play a role in meeting the 77 per cent increase in global food production by 2050 in order to meet the needs of a growing global population.

Over many thousands of years, farmers have engaged in what plant breeders now call selective breeding, by selecting and saving seed from those plants with the most desirable features. Over time, plant breeding has become more sophisticated, and now involves the deliberate crossing of different varieties or even species, including close wild relatives. Crop biotechnology has allowed the speeding up of traditional breeding approaches, and made it possible to transfer desirable characteristics from almost any kind of organism into plants.

Benefits of genetically modified crops

Modification of crops can improve nutritional quality, increase productivity, increase crops' ability to respond to climate change, improve pest and weed resistance and reduce the need for pesticides and herbicides, reduce tillage, reduce greenhouse gas emissions through lower fuel use and increased soil carbon storage.

Research supports the role that genetically modified crops can play

Every legitimate scientific and regulatory body that has examined the science-based evidence has concluded that approved GM crops are as safe as their conventional

counterparts. This includes the World Health Organization, the Australian Academy of Science, the European Commission, the American National Academy of Sciences, and the Royal Society of Medicine.^{52 53 54}

Canola with long chain omega-3 oils to help save fish stocks

A pioneering Australian research alliance between Nuseed, CSIRO and the Australian Grains Research and Development Corporation (GRDC) is leading the race to address the world's reliance on fish stocks for its supply of the vital dietary nutrient, long chain omega-3.

The primary source of these long chain omega-3s is fish, and as demand continues to grow faster than can be sustainably supplied from wild fish stocks, the race is on to find potential new sources which can satisfy burgeoning consumer demand.

CSIRO scientists have made a significant breakthrough by enabling canola plants to generate long chain omega-3 oils that contain DHA, something that up until now has only been found in beneficial quantities in ocean-based algae and the fish that eat it.

Source: CSIRO

Harmonisation of regulation governing genetically modified crops will help business

Regulation of GM foods in Australia is governed by the Office of the Gene Technology Regulator (which oversees the development and release of genetically modified organisms) and Food Standards Australia New Zealand (which undertakes safety assessments). Labelling of GM foods is mandatory in Australia, as it is in New Zealand and Europe. In contrast, it is voluntary in the United States.⁵⁵

Getting GM products to market is a costly and time-consuming process. In particular, significant costs are associated with gathering data to support products as part of the regulatory approvals process. However, this approvals process is considered to be a necessary part of a broader risk management scheme for the sector.

Many international regulations governing the treatment of GM foods are not aligned. This is particularly true for the import and export of food products. Intermingling of GM crops with non-GM crops, of any level, can result in entire shipments being rejected and returned. This presents a considerable level of risk for businesses, and small companies in particular, for whom a shipment being rejected can have catastrophic implications. In some instances, this can occur despite there being an overall low level of cross contamination risk upfront in the assessment process.

⁵² CropLife Australia, Submission to Agricultural Competitiveness Taskforce, agricultural competitiveness issues paper, April 2014.

⁵³ World Health Organization, *Modern food biotechnology, human health and development: an evidence-based study*, 1 June 2005, p. iii. Retrieved from http://www.who.int/foodsafety/publications/biotech/biotech_en.pdf

⁵⁴ <http://www.csiro.au/Outcomes/Food-and-Agriculture/Gene-technology/Benefits-of-gene-technology.aspx>

⁵⁵ <http://www.foodandenvironment.com/2014/01/safety-of-genetically-modified-food.html>

Furthermore, the high regulatory cost of having GM products deregulated in all global markets imposes an impediment to agile innovation, in that only 'block-buster' traits from the global companies can justify the investments.

Recommendation 17

Government and industry need to continue to build consumer understanding of genetically modified foods and cultivate consensus across the supply chain. This should include providing factual information about genetic modification to the public to assist in building an evidence base and addressing any consumer concerns.

The Office of the Gene Technology Regulator and Grain Trade Australia should continue to work with overseas bodies to harmonise international regulations around the import and export of genetically modified foods and to work towards a more risk based regime.

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