

Food Security fact or fiction?

BAKER & MCKENZIE

GLOBAL BUSINESS CHALLENGES

“Food security is a challenge but also an opportunity – Australia is well placed to do more to improve food insecurity in the rest of the world. We can have the best of both worlds – food security at home and less food insecurity abroad.”

David Watson, Partner
Baker & McKenzie, Sydney



Contents

Foreword	i
Market perspectives	iv
Executive summary	vii
Context	1
Key findings	
– Competitiveness and food retailing	6
– Foreign investment and trade	10
– Innovation and R&D	18
– Climate change, carbon pricing and natural disasters	24
Regulation	28
Conclusion	35
References	36
Methodology	38
Contacts	39

“What unites us is our commitment to a sustainable future for the food and agricultural industries in Australia and our role in continuing to provide safe, nutritious and abundant foods for all Australians.”

Silvia Burbery
General Manager, Mars Petcare Australia

Foreword



David Watson

At an individual level, food is important. It is the one thing for which every single person on the planet shares a need and a want. However, at a national level, the state of each nation's food security (as defined by the Food and Agriculture Organisation (FAO) – see page 1 of this report) differs markedly. Food security is the centre of many recent debates in Australia. Why is that? Most Australians would recognise that the level of Australia's food security is high. So is there really an issue and why do we talk about it?

The purpose of this report is to test and probe the food industry's views and perceptions on food security, and various specific aspects of food security, such as foreign investment, the retail market, innovation, climate change and regulation.

If we accept that Australia is not a continent unto itself and globalisation has taken us past the point of no return in terms of our inter-connectivity to the rest of the world, then arguably food security should be as important to Australians as it is to our neighbours in the region. For many nations, food and its production is set to become a major challenge over the coming decades as increasing demand for food places significant pressure on global food systems.

In the latter half of the 20th century the availability of plentiful supplies of affordable food led many to believe that problems of food scarcity and food security had been addressed. However, the way in which food is produced and delivered to the consumer's plate will be affected by a range of mega-trends which are already coming to shape the 21st century.

In the developing world, demand for wheat and other food products has grown rapidly, putting pressure on supply and prices. Also, in the developed world, attitudes toward food have changed – we take food for granted and no longer respect it. This attitude is exemplified by the huge amount of food wastage.

From the volatility of supply, changing consumer demands and inadequate infrastructure and distribution, to balancing foreign investment and international competition and trade, Australia faces a number of challenges that need to be addressed.

Our report looks at how those working across the food industry view those challenges. We surveyed 162 senior executives from 11 sectors in Australia to ascertain the hurdles their businesses face, and what actions governments and regulators need to take to ensure that society will continue to benefit from readily available food at prices that consumers can afford.

I commend this third report in our Global Business Challenges series to you. I hope that the benchmark research which underpins our report stimulates thinking that in turn informs the policy dialogue on this important topic.

A handwritten signature in black ink, appearing to read 'D Watson', written in a cursive style.

David Watson
Partner, Baker & McKenzie

“If people can’t buy good quality food at a reasonable price, that’ll impact future health budgets.”

CEO/MD – Agriculture Supplies Industry

Market perspectives

Australian Food and Grocery Council

Food security is an important issue, especially with rising fears that the world's population is predicted to reach nine billion by 2050 and outstrip the global food supply. But for most Australians, this debate seems academic as we produce an abundance of nutritious, safe and affordable food. Australia's food and grocery manufacturing sector feeds 22 million Australians, and about 60-80 million people overseas from exporting a surplus of red meat, grain and oilseeds.

However Australia cannot be complacent about food security. Most Australians would hope that the wide range of high quality foods we enjoy every day will be available for generations to come and still be made in Australia.

Of course, this means supporting and investing in Australia's largest manufacturing sector – the food and grocery industry, which is under intense pressure from a confluence of forces including rising commodity and input prices. Competition from imports has also increased due to the strength of the Australian dollar. The result is more pressure on companies to manufacture offshore which means longer supply chains.

So it's essential that Australia continues to grow its food production and export base, especially as Australia's population is expected to hit 35 million by 2050.

But do we just want to be exporting bulk foods – or do we really want to be value-adding right here in Australia? Apart from the mining sector, food and grocery is the jewel in the crown of Australian manufacturing. Exporting bulk food is no better than exporting bulk minerals – that's why we need value-adding industries like food and grocery manufacturing to remain and grow in Australia into the future.

The \$108 billion food and grocery industry – employing 312,000 people – has huge potential for growth in the future if there was bold reform of the current national policy settings to allow industry to compete globally and continue to invest, innovate and create jobs. This of course, ensures that Australians can continue to enjoy safe, affordable, nutritious and Australian-made food from brands they know and trust into the future.

I applaud this contribution to the food security debate by Baker & McKenzie which will certainly increase understanding about this vital issue for our nation's future.



Kate Carnell, AO
CEO, Australian Food and Grocery Council

“Australia cannot be complacent about food security.”

Kate Carnell, AO
CEO, Australian Food and Grocery Council

“...we welcome a deeper understanding of the challenges and opportunities in Australia...”

Sylvia Burbery
General Manager, Mars Petcare
Australia

Mars Petcare Australia

Food security is an important and complex challenge, affecting many different stakeholders. What unites us is our commitment to a sustainable future for the food and agricultural industries in Australia and our role in continuing to provide safe, nutritious and abundant foods for all Australians.

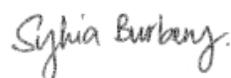
Mars is proud to continue our long history of investment in the Australian food industry and we look forward to the informed discussions that this research will stimulate. Like many manufacturers, we welcome a deeper understanding of the challenges and opportunities in Australia, and in the world, where food manufacturers can responsibly meet the needs of a growing population.

We believe industry can play an important part in these efforts because at its heart, this complex challenge is about mutuality – where benefits are shared among all stakeholders.

Perhaps one of the best examples of mutuality is the completion in 2010 of a two-year effort to sequence and annotate the cocoa genome. It demonstrated the role that business can play in addressing global issues through a partnership that blended Mars cocoa expertise with the US Department of Agriculture’s Research Services experience with other crops, and IBM’s technology. This research will lead to quicker, more accurate breeding and allow farmers to plant better-quality cocoa that is healthier, stronger, highly productive and more resistant to pests and other threats. To allow scientists to apply this knowledge for the benefit of cocoa growers, the genome findings have been shared through the Public Intellectual Property Resource for Agriculture (PIPRA) and the Cacao Genome Database. The gene sequences will not be patented.

We welcome this independent report and believe this research can help inform the current debate in Australia and foster dialogue and forge ideas that will support policy-makers here in Australia, and around the world.

I commend this report to you,



Sylvia Burbery
General Manager, Mars Petcare Australia

“Australia and New Zealand have the greatest concentration of [retail] market share in the world. As a result, suppliers can’t afford to not deal with them, which gives them enormous power.”

Kate Carnell, AO
CEO, Australian Food and Grocery Council

Executive summary

Increasing world demand for food is placing significant pressure on global food systems. Governments, and participants in the food supply chain, face a number of challenges, including the volatility of supply, changing consumer demands and inadequate infrastructure and distribution. At the same time, balancing foreign investment in rural land and decreasing our country's environmental footprint is imperative.

Baker & McKenzie's thought leadership report: *Food Security – fact or fiction?* looks at the key issues affecting Australia's food security. We asked survey respondents a number of questions about the current state of the food retail sector, private label, foreign investment, climate change and innovation in the food industry.

The first message highlighted in our report was the strong desire by respondents for government intervention in, and regulation of, the activities of supermarkets in food retailing (62% of respondents). This intervention could include the creation of a Supermarket Ombudsman and Code of Practice, as proposed by the Australian Food and Grocery Council.

This intervention would be greatly supported by food manufacturers for whom the number one challenge is the prevalence of private label products (as highlighted by 59% of respondents).

Our report shows that views on foreign investment in the food sector and agribusiness are polarised, with 26% of respondents "sitting on the fence" or undecided when asked if foreign investment poses a significant risk to food security, whilst 49% agreed that foreign investment is a serious threat, and 26% disagreed. Surprisingly, a similar "protectionist" sentiment exists on the issue of international trade barriers, with 45% of respondents agreeing that trade barriers should be heightened in response to issues like parallel importing.

Overall, availability of water was identified as the greatest challenge to Australia's food supply by the majority of respondents. Some groups saw the challenges differently, with respondents in food retailing and hospitality seeing natural disasters as the greatest challenge. On climate change, the majority of respondents were concerned with the potential for climate change to negatively impact global food security, although only about a third of respondents saw it as a serious issue.

Furthermore, only half of respondents felt their organisation was not vulnerable to the adverse effects of climate change and only about 27% of respondents saw regulation around the environment and climate change as a concern – which is somewhat surprising given the debate over carbon cost pass through in the supply chain. However, those in the financial and insurance sector had a high degree of concern over the impacts of climate change, largely we expect because of their exposure to the losses suffered in the Queensland cyclones and floods.

As indicated by a majority of our survey respondents, there is a strong and unequivocal desire for both government and the private sector to invest more behind innovation and R&D. Biofuels and GM foods were areas identified as important for innovation and R&D spend to improve food security. Contrary to consumer concerns, there is a remarkably strong demand by our industry respondents for GM food to form an essential part of delivering food security (58%).

Based on our survey findings, there is lack of confidence that the current regulatory framework, especially in the areas of parallel importing, marketing claims and food labelling, are adequate. For example, 68% of respondents thought more (or better) regulation was needed for parallel importing (only 8% disagreed). Many respondents said country of origin labelling is critical and should appear on pack (71%). Likewise, respondents said better marketing claims regulation is required (75%).

Our survey findings have shown that Australia's need for food security is actually a fact, not fiction. This report highlights the gaps in the food and agribusiness industry which need to be fixed by both government and corporates so Australia can capitalise on the resources already given to us.

49% agreed that
foreign investment is
a serious threat

“It's fine to benefit consumers in Australia by having lower prices, but someone somewhere is paying the price.”

Respondent – Agriculture, Supplies, Agriculture Forestry & Fishing and Food Manufacturing Industries



“...the growth of private labels are having the effect of squeezing branded products off the shelves. They’re taking advantage of their control of the shelf space. This is a huge challenge for food manufacturers.”

Respondent – Food
Manufacturing and Consumer
Products Industries



Context

What do we mean by *food security*? Using the United Nations' (UN) Food and Agriculture Organisation (FAO) definition, food security is achieved when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet dietary needs and food preferences for an active and healthy life.

One of the foundations of modern consumer capitalism is the near-universal availability of affordable food in the developed world. This has been made possible by great leaps in agricultural productivity in the 19th and 20th centuries. The most recent and drastic of these is the "Green Revolution", during which improved crop breeding and intensive farming technology accelerated agricultural productivity from the 1940s.¹ As a result, the real price of food fell from the 1950s until the early 2000s.²

This development not only allowed considerable population growth, but also ensured consistently affordable and accessible food as a reality for people in the developed world. Events of the past few years and global socio-economic trends suggest that this situation is likely to come under increasing pressure. This new reality first came to light during the 2008 food crisis where the price of a tonne of wheat rocketed from USD167 in January 2006 to USD481 in March 2008.³ This acute price spike has receded for now, and the US Department of Agriculture's near-term forecast is optimistic, but its structural causes have not disappeared.⁴ Agricultural productivity growth has slowed, whilst the world will have to feed another two billion (or more) people by 2050, according to UN population estimates.⁵

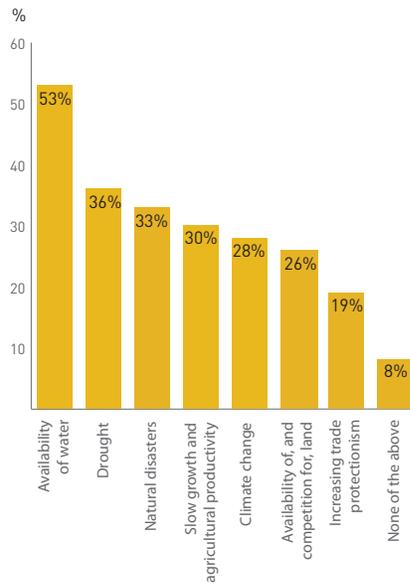
Moreover, this population will be richer – thanks to economic growth in places like India and China – and as this trend continues they will demand more food per person and also demand different foods to the traditional grains. According to the FAO, meat consumption per capita in developing countries doubled between 1980 and 2002, and this growth is expected to continue, with meat production estimated to require an 85% increase to meet demand.⁶ The rise in global demand for food is one of the biggest issues affecting policymakers. The UN estimates that food supply will need to increase by 70% on 2005-07 mean average supply levels to cater to the (projected) world population in 2050.

However, at the same time, the FAO estimates that in 2010 there were nearly one billion people going hungry every day, with 62% of those people living in the Asia Pacific region.⁷

“The foreign ownership debate has a long way to go.”

Respondent – Agriculture, Forestry & Fishing Industry

Fig. 1
Which of the following factors present the greatest challenge to Australia's food supply?



Preventing increases in food prices is a key priority for governments and, given the increasingly globalised nature of the food supply chain, it is an area in which global cooperation will be essential.

Most Australians would recognise that Australia's level of food security is high. Nonetheless, food security is a key issue for Australia because:

- Population increases could constrain food production
- Our food supply and commodity prices are increasingly volatile due to climate changes and economic conditions
- We are importing more foods which puts the viability of local producers and manufacturers under increasing competitive pressures
- Serious food insecurity in our region could become a national security threat to Australia
- There is increasing competition in how we use rural land, between energy resources (such as biofuels and gas) and food production.

One of the reasons for commissioning this survey was to test the proposition that food security is a key issue, and to determine what respondents saw as the key challenges to Australia's food supply.

A majority of respondents (53%) felt that the availability of water was the largest challenge (Fig. 1). Availability of water can be impacted by climatic issues and domestic infrastructure, such as dams, irrigation and drainage systems, and water supply technology. A significant minority (36%) felt that drought was the greatest concern. Natural disasters, slow growth of agricultural production and climate change were the third, fourth and fifth.

Taking the availability of water and drought as essentially one and the same challenge, the message from this result is that governments and business should invest in water infrastructure and technology. In this context, favourable outcomes from the Murray Darling Plan will be essential.

Also, a positive policy initiative is the development of a National Food Plan. The issues paper released by the Department of Agriculture, Fisheries and Forestry (DAFF) for this plan identifies a number of factors that the National Food Plan will seek to address, including:

- Global population growth
- Changes in global growth patterns
- Climate change
- Finite nature and availability of natural resources
- Health issues, such as obesity.



“We can’t be asking for a loosening up of trade barriers around the world, and then impose a tariff ourselves. Given we export 60% of our produce, we can’t afford trade wars.”

Respondent – Agriculture,
Forestry & Fishing Industry





“A competitive grocery sector is a key factor in ensuring long term food affordability as well as consumer choice and product innovation.”

Andrew Christopher, Partner
Baker & McKenzie, Sydney

Competitiveness and food retailing

KEY ISSUES

Is generic competition law sufficient to deal with the supermarket sector and retail dominance or is industry specific regulation required?

Has there been a market failure to warrant radical regulatory intervention e.g. forced disaggregation or divestment?

Is an oversight body such as a Supermarket Ombudsman required?

Should suppliers be permitted to undertake collective bargaining or other forms of co-operation in order to square the balance of bargaining power?

Changes to the international food market in recent decades have revolutionised how shoppers purchase their food. Just as modern farming methods brought radical change to food supply, so modern refrigeration and preservation methods have radically changed demand patterns. In particular, this has led to the development and consolidation of large food retailing corporations across most of the developed world, and to an increasing degree, the developing world.⁸

Australia is an example of a market, similar to the United Kingdom and United States of America, where "full service supermarkets" have established leading positions in grocery retail. In Australia, the retail market is highly concentrated, after New Zealand the most highly concentrated, with Coles and Woolworths estimated to have a combined market share of 80% in many categories.⁹

Supermarkets have delivered affordability. Due to their size, they can buy in bulk, which in turn allows them to offer lower prices to consumers.

Whilst the popularity of supermarkets attests to consumer enthusiasm for them, their rise is not without risks. Their position in the market creates concern on both the supply and demand side for future food choice and affordability.

On the supply side, supermarkets around the world have been able to reduce the margins of their suppliers. There are questions over the long-term implications, with a possible reduction in viable producers and manufacturers.

2011 saw plant closures of food processing facilities across Australia. For example, SPC Ardmona and HJ Heinz closed facilities in Australia, and there are fears that foreign imports could take their place, undermining Australia's food processing sector.

The Australian Government is attuned to these developments. The former industry minister, Kim Carr, made a speech at the Australian Food and Grocery Council's (AFGC) annual meeting in November 2011 where he urged wholesalers and food processors to take complaints about supermarket behaviours to the Australian Competition and Consumer Commission (ACCC). The ACCC has pledged to oversee

carefully the behaviour of the major supermarkets such as Coles, Woolworths and Metcash in relation to their suppliers. Although it is too soon to know whether anything will come of these strong words, it is clear that the Australian retail market is a concern to the Australian Government and the competition regulator. Regulation, in the form of a Supermarket Ombudsman as proposed by the AFGC, or tighter competition rules, cannot be ruled out.

Our research sought the opinion of Australian food industry participants on the food retail sector. Overwhelmingly, respondents were in favour of more government intervention. 62% believed new legislation is needed in the food sector (Fig. 2). In written responses, some were even more vocal, with one commenting that food retailer dominance “challenges the negotiating power of the biggest suppliers”. The respondent continued that he felt competition laws were little help, due to “fear of commercial retaliation”. Another respondent simply stated that the imperative is to “beat the duopoly”. There were a few dissenting voices, with one respondent indignantly noting “Are we running out of food? Protecting suppliers will lead to less competition and higher costs for consumers”.

The enduring theme was of an “imbalance of power” between retailers and suppliers, with Coles and Woolworths blamed for putting at risk the future of Australian food manufacturing and processing.

Private label

Private label, or home brand, products are those products owned by retailers which compete with their suppliers' traditional branded goods.

Private label brings significant advantages to the retailer. It provides control over pricing and marketing wholly to the retailer, higher margins and increases loyalty to a particular supermarket. Since private label products tend to be slightly cheaper to produce than other “name” brands, the supermarkets are often able to undercut these brands and offer savings to the consumer, a fact that has fuelled private label growth during the recent economic downturn.¹⁰ Therefore, private label contributes to affordable food for consumers, and its growth is to be welcomed.

However, private label has generated concerns that retailers could obtain information about a supplier's/competitor's product which could be misused to the advantage of the retailer's private label product. Also, some private label products can be said to “look alike” or “copy” established brands.¹¹ This, together with concerns over retail dominance, has led to calls for the introduction of a

Fig. 2
Do you agree that Australia needs legislation to proscribe behaviours of retailers and suppliers?

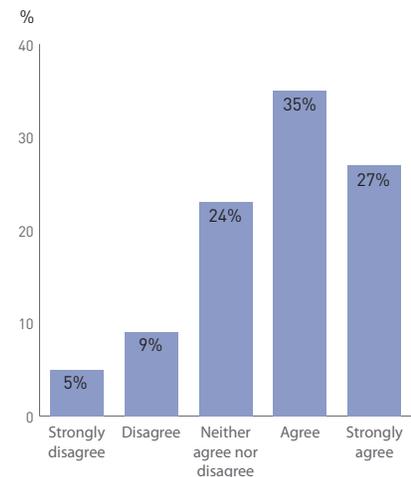
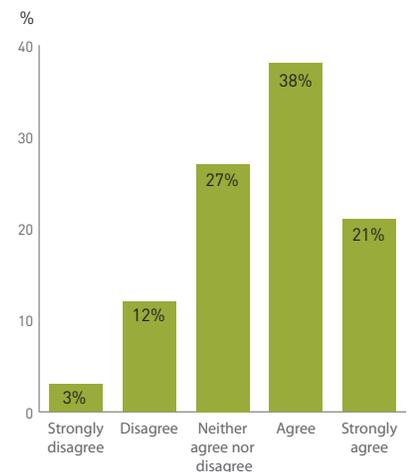


Fig. 3
Do you agree that private labels are the number one challenge for food manufacturers?



IN FOCUS: WOOLWORTHS

According to the Land Farm Online News, Woolworths had 721 brand names pending and registered at January 2012, including Woolworths Select, Woolworths Home Brand and even Nelson County Bourbon.

The current CEO, Grant O'Brien, has made the growth of private label a cornerstone of his strategy and aims to allocate 35% of shop-floor space to private label goods outside of fresh food.¹²

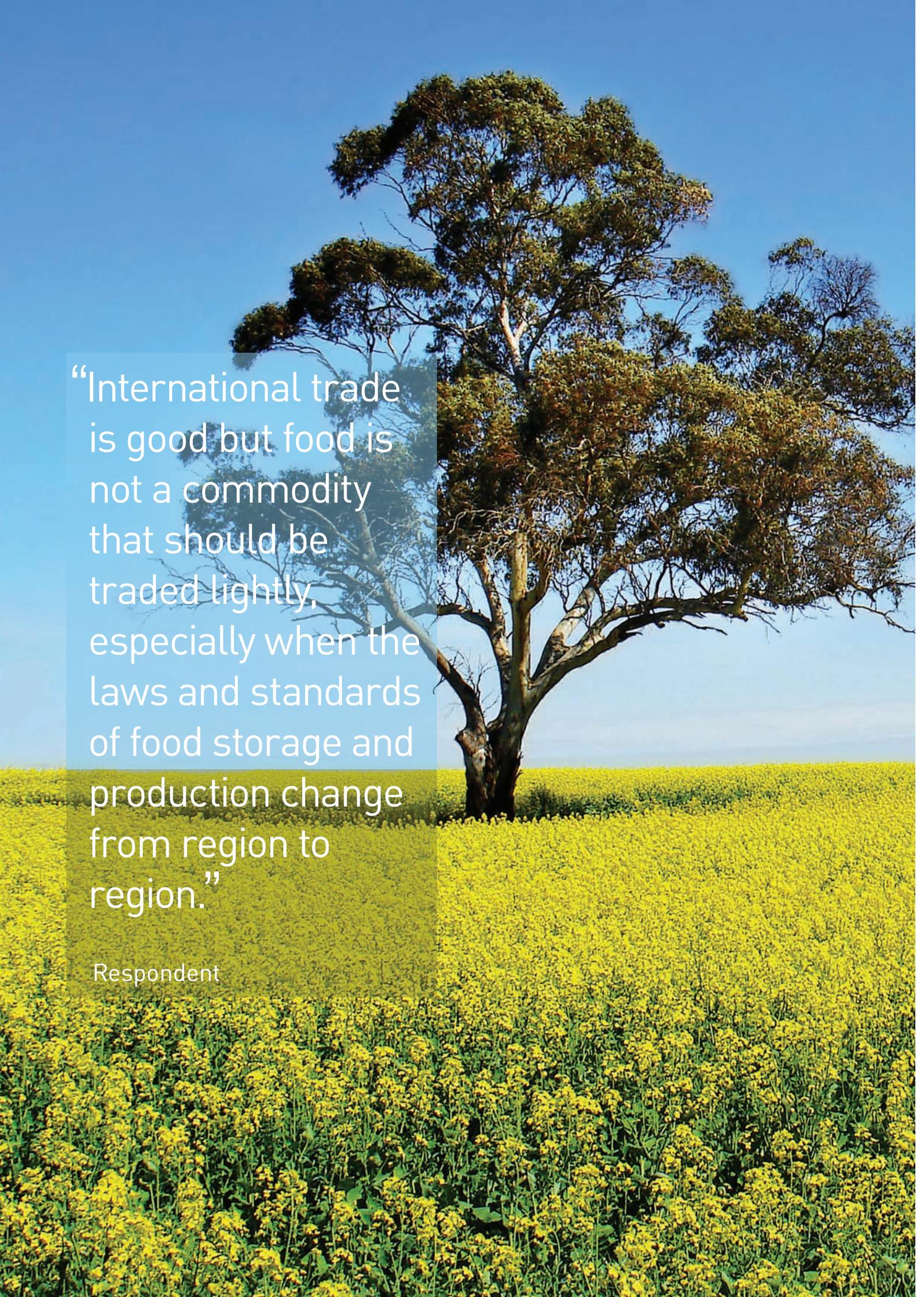
Supermarket Ombudsman in Australia, to oversee a Code of Conduct on fair trading, which would include rules against "copying" food packaging.

Another concern is the threat that private label plays to consumer choice in the long run. If "name" brands are out-competed by low price supermarket brands, this will give the supermarkets even greater control over pricing and product selection in future, which could be to the long term detriment of suppliers and consumer choice.

Private label is here to stay. It is forecast to grow strongly and could potentially account for 40-50% of total supermarket sales by 2020, consistent with developments in other mature markets, such as the United Kingdom.

Our survey questioned respondents on the threat of private label, and 59% agreed that it is the number one challenge for food manufacturers in Australia today (Fig. 3). Only 15% disagreed. This is an affirmation of the major impact of private label on Australian food manufacturers. One respondent summarised the mood of the survey succinctly, saying that private label could force suppliers to "produce a Woolies or Coles home brand if they want their own product... to get on the shelves".

Our survey demonstrates a strong desire to see appropriate regulation applied to supermarkets. A reduced and weak food processing segment of the food supply chain in Australia is not good for consumers in the long term, where they face decreased choice, and potential price increases through lack of competition.



“International trade is good but food is not a commodity that should be traded lightly, especially when the laws and standards of food storage and production change from region to region.”

Respondent

Foreign investment and trade

KEY ISSUES

Should there be a register of foreign interests, as in the United States, to provide full transparency?

Should the threshold for FIRB notification and approval be lowered?

Should ownership by SOEs be prohibited?

What does "national interest" mean for foreign investment approval purposes?

Foreign investment in Australian agricultural land and assets plays an important role in maximising food production and supporting Australia's position as a major net exporter of agricultural produce, by financing investment, and delivering productivity gains and technological innovations.

Foreign investment in Australia is regulated by the *Foreign Acquisitions and Takeovers Act 1975* (Cth) (FATA). FATA is administered by the Federal Treasurer and the Foreign Investment Review Board (FIRB). Foreign investment regulation is supplemented by the Treasurer's Foreign Investment Policy (FI Policy) which sets out the Government's views and stated policy on foreign investment. Under the FATA and the FI Policy, certain investments in Australia by a "foreign person" require notification to and approval by the Treasurer (acting through the FIRB).

Generally, foreign persons should make a submission to and obtain a confirmation of no objection to the proposed investment from the FIRB if they seek to:

- Acquire an interest of 15% or more in an Australian business valuing the aggregate target assets or shares above \$244 million (or \$1,062 million for US investors)
- Make an investment in a "sensitive" sector
- Acquire an interest in "urban land" or an Australian "urban land corporation" or "urban land trust estate".

Different policies apply to investments by foreign governments and their related entities. Under the FI Policy all foreign governments and their related entities are required to notify the FIRB before making a "direct investment" in Australia, start a new business or acquire an interest in Australian land regardless of the value of the investment.

The Government and FATA are generally supportive of foreign investment into Australian agricultural land and assets. The FI Policy specifically acknowledges that "foreign investment in agriculture supports agricultural production, job creation and contributes to the prosperity of rural communities and the broader Australian economy."

Acquisitions of "urban land" and "rural land" are distinguished under FIRB and the FATA.

"Urban land" is defined as all interest in land other than "rural land". "Rural land" is defined as land used wholly and exclusively for carrying on a business of primary production. Agricultural assets will typically fall within the definition of "rural land".

For foreign private investors, FIRB requires notification of:

- Direct investments in rural land valued above \$244 million (or \$1,062 million for US investors)
- Acquisitions of 15% or more of an Australian business (whether or not it owns rural land) and whose assets are valued at more than \$244 million (or \$1,062 million for US investors).

For foreign government investors (and their related entities), FIRB requires notification of:

- Direct investments in rural land
- Any direct investment in an Australian agriculture business (whether or not it owns rural land).

FI Policy further specifies that FIRB will wish to ensure that investments do not adversely affect the sustainability of Australia's national agricultural resources. Factors that FIRB will typically consider on a case-by-case basis include the affect of the investment on:

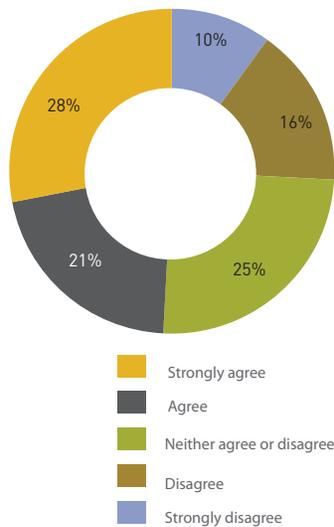
- The quality and availability of Australia's agricultural resources, including water
- Land access and use
- Agricultural production and productivity
- Australia's capacity to remain a reliable supplier of agricultural production, both to the Australian community and our trading partners
- Biodiversity
- Employment and prosperity in Australia's local and regional communities.

While the Government and FIRB appear satisfied that the current regulations and FI Policy are adequate to regulate foreign investment into the agricultural industry, there is no doubt that foreign investment into agriculture remains a sensitive issue. Certain community and political interests have called for reform of the regulation of foreign investment in Australian agricultural assets.

"I am a proponent for foreign investment in Australia's food and agribusiness sectors, to deliver the capital necessary to grow those sectors, jobs for Australians and to access world's best know-how and practice. The hard policy question is around the conditions that should attach to that investment."

David Watson, Partner
Baker & McKenzie, Sydney

Fig. 4
Do you agree that foreign ownership of agribusiness assets is a serious threat to Australia's food security?



In January 2012, the Australian Parliament released the results of an official inquiry in relation to acquisitions of rural and agricultural land by foreign investors. The inquiry concluded that "Australia's foreign investment policy strikes the right balance between attracting foreign investment into Australia to support [the Australian] economy, and ensuring that investments are not contrary to the national interest. This applies to investments in all sectors of the economy, including agriculture".

Various community proposals have called for possible amendments to the current regulatory regime, such as:

- Changing the regulation of foreign investment in "rural land" to be more consistent with the regulation of foreign investment in "urban land", or
- Placing additional conditions on proposed acquisitions of rural land (i.e. for rural land acquired to facilitate mining operations, requiring companies to sell the land back to Australian farmers once mining operations are completed).

Our research sought to probe views and sentiments in this area.

We asked respondents whether foreign ownership is a serious threat (Fig. 4). Almost half of the respondents – 49% agreed that foreign ownership is a serious threat. 26% disagreed, and 25% neither agreed nor disagreed.

When commenting on foreign threats to food production, some of the remarks included expressions of concern that foreign ownership:

- Might lead to a lack of control of a valuable resource
- Puts pressure on Australian jobs
- Could compromise quality
- Leads to a repatriation of food to the investor's home market.

On the positive side, those disagreeing that foreign ownership is a problem cited a range of factors, including Australia's agricultural surplus, the benefits of capital investment and that foreign investment has been a key feature of the Australian economy for some time.

It is critical that Australia resolves this policy dilemma soon because Australia is increasingly seen as an attractive market for foreign investment in agriculture and food. Transport and communications, and markets for farm inputs and produce, are well developed. Skilled labour and managers are readily available, and sovereign risk is low under Australia's stable and transparent government. Australia also has a number of existing trade links with markets in Asian countries.¹³

In January 2012, the Australian Bureau of Agricultural Resource Economies and Sciences (ABARES) and the Rural Industries Research and Development Corporation (RIRDC) published a report *Foreign Investment and Australian Agriculture*. This report found that:

- Foreign investment in the agricultural sector enhances Australia's food security by increasing efficiency and productive capacity. Such investment contributes to incomes, infrastructure and employment, often in regional areas. It can also help Australia gain access to new export markets
- Around 99% of agricultural businesses by number in Australia are entirely Australian owned, according to the Australian Bureau of Statistics. Around 89% of agricultural land is entirely Australian-owned and around 91% of water entitlements for agriculture are entirely Australian-owned
- Current foreign ownership of agricultural land, businesses and water entitlements in Australia is comparable with the levels of 1983-84 and Australian companies have significant investments in farmland and agribusiness enterprises in other countries
- The current strong regulatory framework surrounding foreign investment in agriculture protects the national interest and current policy settings are providing a "considerable level of scrutiny of foreign investment proposals and operations of foreign-owned agribusinesses in Australia"
- Any measures that put further barriers in the way of foreign investors and reduce the flow of foreign capital into Australian agriculture would adversely affect the performance of the agricultural sector
- The regular collection of information on foreign ownership in the agricultural sector would provide greater transparency to the public.

Despite this report's findings, the Federal Coalition Party takes a different policy approach. The Coalition's proposal is to tighten foreign ownership rules for agribusiness and rural land by requiring any acquisition of more than \$20 million to require notification to, and approval by, the FIRB. Also, the Coalition proposes to encourage Australian superannuation funds to invest in the sector by offering incentives in the form of tax concessions.

“Protectionism doesn't promote world class industries.”

Respondent

45% agreed that the Australian Government should impose higher barriers to favour Australian-made commodities

Trade

One of the most intractable areas for food security is the international trade rules relating to agriculture. Some countries use trade-distorting policies, such as domestic support or subsidies, or market access restrictions. Others worsened the 2008 food price spikes by imposing export restrictions or imposing export tariffs on key commodities, such as wheat and rice.

Another serious issue is the high level of tariff protection on agricultural products, which are overall four times higher than industrial tariffs, and also non-tariff barriers in agriculture and food are generally high. Australia is an exception to this rule and has always maintained a free trade policy perspective.

In its recent report entitled *FOODmap, An analysis of the Australian food supply chain*, DAFF collected the most recent data on the value of Australia's food trade. According to that report, the key features of Australia's current trade in food are as follows:¹⁴

- A high proportion (an average of 31% over the three years to the end of the 2010 calendar year) of exports are shipped unprocessed – either in live form (e.g. livestock), fresh/chilled form (e.g. seafood and horticulture) or as bulk raw exports (e.g. grain)
- Much of the growth in food imports has been in processed foods, with unprocessed foods accounting for less than \$300 million, or 8% of the total growth in the value of food imports
- Australia's trade surplus in processed food products has declined from \$10.6 billion in 2005 to \$7.4 billion in 2010. Over this period, total food exports have fluctuated but not grown significantly, while processed food imports have steadily increased by about \$3.4 billion.

According to DAFF, a number of major factors have affected Australia's net trade in food in recent years.¹⁵ These include:

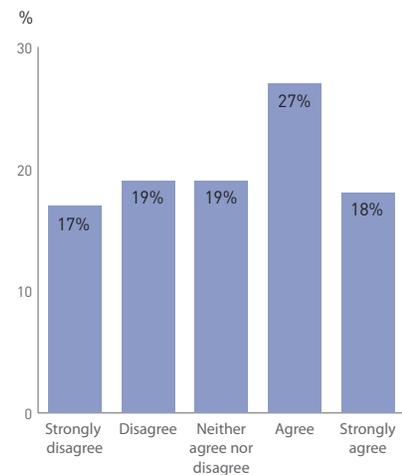
- The growing strength in the value of the A\$ against the currencies of major trading partners, making it more attractive for food manufacturers and marketers to import food ingredients, while also curbing the A\$ value of exports
- Limitations on production of some key commodity products due to drought conditions. This has contributed to the reduction in dairy, wine grape and grain production and created volatility in the available numbers of beef cattle for processing and sale of the export trade

- The increasing attraction of low-cost labour in developing countries, which is resulting in less food being processed onshore before export, and Australian fresh and processed products being less competitive in some export markets. Fresh exports of fruit, vegetables, and seafood have been steady over the past five years, while imports of fresh and processed products in these categories have grown, resulting in increasing net trade deficits
- A preference for the use of global supplies of certain food ingredients by Australian food and drink manufacturers, many of whom are subsidiaries of multinational corporations. As a result, the food industry now imports a larger volume of food ingredients across a wide range of food processing requirements, including ingredients used to manufacture drinks.

Our study asked whether the Australian Government should impose higher barriers to favour Australian made commodities (Fig. 5). Surprisingly, given Australia's historical position as a strong "free trader", 45% were in agreement. However, there was also a strong negative sentiment with 36% disagreeing, and 19% neither agreed nor disagreed. Comments in support ranged from concerns about dumping and unfair trade practices, supporting local producers, other countries subsidising their agriculture industries, through to supporting local jobs and the local economy. Those disagreeing with calls to increase trade barriers expressed a range of views, including:

- A free market is essential to Australia's economic growth
- Imports force Australian industry to be more competitive
- Food imports give the consumer greater choice
- A liberal trade regime opens up global markets for Australian industry.

Fig. 5
Do you agree that the Australian Government should impose higher tariff and non-tariff barriers to favour Australian-made commodities, ingredients and foods and slow the rate of food imports?



“The Government needs to keep an eye on the balance of food trade, so that we’re not importing more than we’re exporting.”

Chairman – Not-for-Profit Sector



“Governments need to do more to educate the community in the benefits of GM technology and to understand the level of risk, which is much lower than the anti-GM campaigners have successfully promoted.”

Respondent

Innovation and R&D

KEY FACTS

62% of respondents said research and innovation should be an investment priority for corporate Australia.

Water management was identified as a second priority (38%).

The majority of respondents said biofuel alternatives (51%) and GM crops (50%) should be promoted and incentivised.

Historically, productivity growth in agriculture has been a key driving force in feeding a rapidly growing global population. It is becoming increasingly apparent that new, innovative technologies will be critical to meet the growing demands of demographic and social developments, as well as changing consumption patterns.

BIAC¹⁶ outlines a number of innovation opportunities, such as improved farming techniques, the use of crop protection products and fertilisers, new crop varieties derived through conventional hybrid and biotech breeding techniques.

BIAC aims to encourage the OECD to shed light on the opportunities for efficiency improvements in the agriculture sector through innovation, R&D and the application of new technologies and best practices. Furthermore, they encourage the OECD to promote high quality intellectual property rights to create economic incentives and foster innovation.

In the report *Australia and Food Security in a Changing World*, the Prime Minister's Science, Engineering and Innovation Council (PMSEIC) made a number of important recommendations, including a recommendation that Australia increases investment in agricultural R&D to harness national expertise and take a leading role in national and international programs targeted at improving low impact farming systems.

The PMSEIC report¹⁷ emphasises that increased investment in agricultural R&D is necessary to reverse declining agricultural productivity growth, and proposes the key innovative challenges as:

- Improving water use
- Tackling the problem of soil nutrition
- Ensuring sustainable management of the natural resource base
- Accelerating advances through new plant, livestock and farm breeding strategies.

The PMSEIC's report highlights that global investment in agricultural R&D has decreased over the past 20 years, and that decrease is linked to a decline in agricultural productivity. In Australia, R&D investment has dropped from a peak of 5% of gross value in agricultural production in the 1970s to just above 3% in 2007.¹⁸

To investigate where the investment priorities should lie to improve food security, we asked our respondents what the Government's priorities should be to ensure food security (Fig. 6). Over half of the respondents stated that investment in economic infrastructure such as roads, ports and energy supply, investment in water management and investment in R&D and innovation should be the Government's top priorities.

The importance of economic infrastructure and innovation are recognised in DAFF's issues paper for the National Food Plan. In the period 2008 - 2014 the Australian Government will have invested nearly \$37 billion in infrastructure generally and on innovation the Government is encouraging the development of a "national innovation system that drives knowledge creation, use of the latest science and research, international competitiveness and greater productivity, while improving social and economic benefits for the Australian community". Our results suggest that investing in infrastructure and investing in, and encouraging, greater innovation should remain top of the Government's agenda.

In addition to exploring what the Government should be doing to ensure food security, our research probed sentiment about what corporate Australia could and should be doing. Research and innovation was again identified as key – 62% of those we surveyed thought that research and innovation should be an investment priority for corporate Australia. Water management again was identified as being a second priority (38%) with investment in cold chain, storage and distribution recommended as the third greatest investment priority for corporate Australia.

While Australia's IP laws generally provide protection for innovation that equates to that of our major trade partners, use of the IP system is less impressive. While more than 3% of published scientific research worldwide originates from Australia, less than 0.5% of patent filings are Australian.

This reflects well known Australian strengths in primary research and a long identified weakness in commercialisation of that research. How to educate and encourage those involved in research and its commercialisation to best use IP laws to maximise the value and potential of Australian R&D efforts remains a challenge for governments, public institutions (universities, CSIRO, CRCs) and private enterprise.

Fig. 7 shows which subsets of innovation and R&D on which respondents preferred investment. The majority believed that biofuel alternatives (51%) and GM crops (50%) should be promoted and incentivised.

Fig. 6
Which of the following areas should be investment priorities for government?

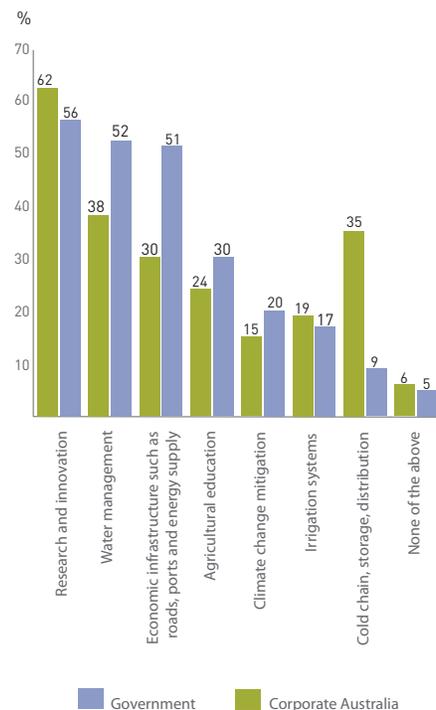
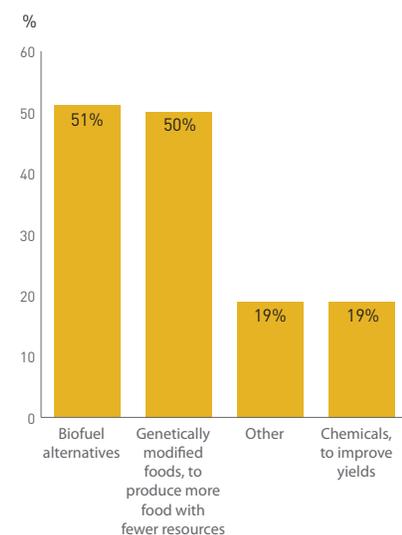


Fig. 7
Which of the following fields of innovation and R&D should be incentivised, to improve food security in Australia?



“Asia will probably see more research and development, more rigorous attempts to promote countries as agribusiness hubs, as well as a push towards urban farming and local production.”

Andy Leck, Partner
Baker & McKenzie, Singapore

It is curious that respondents in the food sector ranked biofuels so highly because, in an international context, biofuels create new pricing dynamics in commodities and, arguably, distort food markets.

At the height of the 2008 food crisis, major developed economies deprived the international market of essential commodities by diverting a considerable portion of their products for biofuels. The prices of food crops are now inextricably linked to the price of oil. The more the price of oil increases, the more profitable it is to convert food crops to biofuels. Even at the current prices, more than one quarter of US grain production is being used for ethanol.

In 2010, the United States produced 400 million tonnes of grains, of which 126 million tonnes was used for the production of ethanol (up from 16 million tonnes in 2000).¹⁹

Among the "other" category, the most common suggestions for fields of innovation that should be incentivised were:

- Nutrient application methods
- Sustainable practices e.g. Subsurface water irrigation
- Expanding arable land in Australia.

GM foods

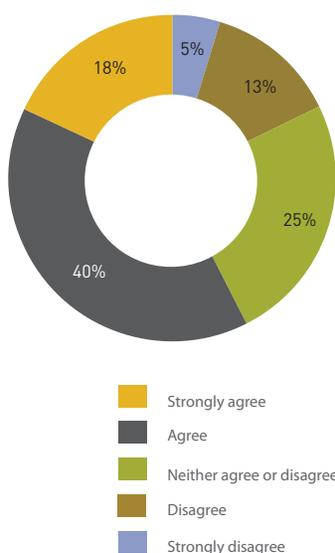
GM foods are foods produced through genetic engineering or containing genetically engineered ingredients. As we can see from Fig. 7, there was a strong demand among respondents for investment in GM food innovation.

Fig. 8 shows the importance of GM crops in ensuring food is accessible and available in sufficient quantities. The majority of respondents (58%) said they believe that new technologies, such as GMOs, are essential for food accessibility.

It could be said the results on GM foods in Fig. 7 and 8 are surprising, given the level of discomfort and uncertainty amongst consumers on the safety of GM foods.

The scientific evidence surrounding the health implications of GM foods is ambiguous. Despite this, the European Commission Directorate-General for Research and Innovation 2010 report on GMOs noted that "The main conclusion to be drawn from the efforts of more than 130 research projects, covering a period of more than 25 years of research, and involving more than 500 independent research groups, is that biotechnology, and in particular GMOs, are not more risky than conventional plant breeding technologies."²⁰

Fig. 8
Do you agree that new technologies such as GM foods will be essential if food is to be accessible in sufficient quantities?



The dispute about the safety of GM foods is most intense in Japan and Europe, where public concern about GM food is higher than in other parts of the world, particularly the United States where GM crops are more widely grown and the introduction of these products has been less controversial.

However, by reviewing Fig. 9 it is clear that Australian industry (as opposed to consumer) respondents are confident that GM foods are safe to eat. Surprisingly, there were significant disparities in perceptions between regions in Australia (see Fig. 10). For example, in New South Wales, 52% were either extremely or very confident whereas in Victoria, 43% were mildly or not at all confident of the safety of GM foods.

Fig. 9
How confident are you that genetically modified (GM) foods are safe?

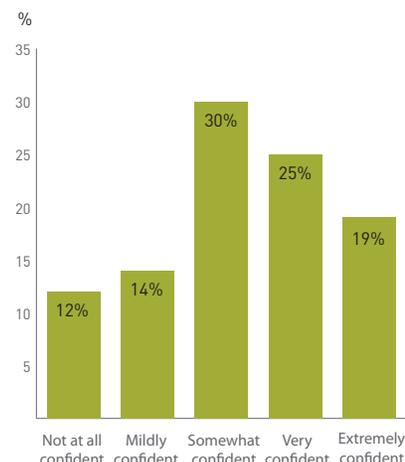


Fig. 10
How confident are you that GM foods are safe?



“We simply need greater consistency and certainty of regulation. If it's a certain and stable regulatory environment, people can make decisions.”

Respondent – Food Manufacturing Industry

A young green corn plant with several leaves is growing out of a patch of dry, cracked brown soil. The soil is heavily fissured, indicating a lack of water. The plant is positioned in the lower right quadrant of the frame, with its roots visible in the soil. The overall scene conveys a sense of drought and agricultural challenge.

“The commencement of the carbon pricing mechanism in July 2012 will see a flow-through effect on food prices, while at the same time presenting some unique opportunities for the sector.”

Martijn Wilder, Partner
Baker & McKenzie, Sydney

Climate change, carbon pricing and natural disasters

KEY FACTS

Availability of water and natural disaster were identified as among the greatest challenges to Australia's food supply by the majority of respondents.

The majority of respondents were concerned with the potential for climate change to negatively impact global food security, although only about a third of respondents saw it as a serious issue.

Half of respondents felt their organisation was vulnerable to the adverse effects of climate change, but only about 27% of respondents saw regulation around the environment and climate change as a concern.

Those in the financial and insurance sector had a high degree of concern over the impacts of climate change.

Over the last few years the issue of climate change has played an increasingly prominent role in the debate on food security. As the United Nations Conference on Trade and Development (UNCTAD) has noted: "climate change has the potential to damage irreversibly the natural resource base on which agriculture depends, with grave consequences for food security".

In October 2010, the UN Committee on World Food Security (CFS) requested its High Level Panel of Experts (HLPE) to conduct a study on climate change, and in particular to "review existing assessments and initiatives on the effects of climate change on food security and nutrition, with a focus on the most affected and vulnerable regions and populations and the interface between climate change and agricultural productivity, including the challenges and opportunities of adaptation and mitigation policies and actions for food security and nutrition".

In addition, FAO is increasingly focussing on what it calls Climate Smart Agriculture – focussing on how in a world of increasing climate volatility it can deliver productivity and income (livelihoods), strengthen resilience of ecosystems (adaptation), reduce or remove greenhouse gases (mitigation), and enhance local and national food, nutrition, and energy security and development.

In Australia over the past few years we have seen an increasing frequency of volatile climate events with floods, drought and cyclones that have impact on both our national food supply and our supply chains, resulting in the need for a greater reliance on imports during such periods.

For many, climate change, regardless of whether there is a link to these events, is viewed through the prism of "natural disasters". In its State of the Climate 2011 report released this month, the CSIRO noted: "Much of Australia may have lurched from drought to floods since the previous State of the Climate, [2010] but this has occurred against a backdrop of steadily increasing air and ocean temperatures and rising sea levels. What's more, the rate of change is increasing".

Going forward, we can expect "an increase in the number of droughts in southern Australia, but it also is likely that there will be an increase in intense rainfall events in many areas."

In addition in late 2011 we saw the Federal Government introduce both its Carbon Farming Initiative, under which certain agricultural activities can obtain credit for reducing emissions, and the Clean Energy Legislative Package, under which a price on greenhouse emissions will result in an overall increase in the cost of production. This led the AFGC, in its 2011 report: *Impact of Carbon Pricing*, to state:

"Given the heavily concentrated and price sensitive retail landscape and, in many categories, the availability of comparably priced imports, the industry will find it difficult to pass-through the cost increases associated with a price on carbon. In fact, of AFGC members interviewed– each of whom represents a leading global or national brand – none believe they will be able to fully recover the incremental costs incurred as a result of the carbon pricing scheme. Thus, costs incurred by the food and grocery manufacturing industry will mainly be borne by the players themselves, reducing their profitability and, in some cases, making them less competitive in domestic or export markets against players who do not face the same embedded carbon costs in their supply chains."

Our research sought to assess the extent to which respondents saw climate change and natural disasters as a challenge to Australia's food supply. It also tested the extent to which respondents saw climate change, and its associated impacts, as having an impact on food security, their business and the food supply chain. The data shows that:

- Overall, availability of water was identified as the greatest challenge to Australia's food supply by the majority of respondents. Some groups saw the challenges differently, with respondents in food retailing and hospitality seeing natural disasters as the greatest challenge
- On climate change, the majority of respondents were concerned with the potential for climate change to negatively impact global food security, although only about a third of respondents saw it as a serious issue

Overall, availability of water was identified as the greatest challenge to Australia's food supply by the majority of respondents.

27% saw regulation around the environment and climate change as a concern

- Furthermore, only half of respondents felt their organisation was not vulnerable to the adverse effects of climate change and only about 27% of respondents saw regulation around the environment and climate change as a concern – which is somewhat surprising given the debate over carbon cost pass through in the supply chain
- However, those in the financial and insurance sector had a high degree of concern over the impacts of climate change, largely we expect because of their exposure to the losses suffered in the Queensland cyclones and floods.

The results suggest that there is clearly a recognition of the role that climatic systems play in food security, although the degree of concern varies greatly depending on where respondents sit in the supply chain. While many respondents do not necessarily make any direct link between climate change and increasingly volatile weather events or natural disasters, there is little doubt that floods and drought and other natural disasters present a real challenge to food supply. Finally, while no respondent explicitly referred to concerns around the passing through of carbon costs in the supply chain, we expect that once the legislation commences this will be an increasingly important regulatory issue with a direct impact on food pricing.



“It is not the burden of existing regulations and enforcement that concerns industry in food labelling areas like country of origin declaration, but rather the clarity and efficacy of that regulation and the way that different regulators interpret and enforce it.”

Ross McLean, Partner
Baker & McKenzie, Sydney

Regulation

KEY FACTS

37% of respondents considered packaging and labelling regulation as a high cost.

49% of respondents believed there is too little regulation.

The large majority of respondents (71%) believe that country of origin information is critical.

42% of respondents said they believe that any labelling scheme should have both interpretive and non-interpretive elements to it.

Countries have long sought food control systems to ensure the health and safety of their domestic consumers. Regulation is seen as critical in ensuring the safety and quality of foods entering domestic food markets and that imported foods meet national standards.

Stakeholders at all levels of the food supply chain are taking an increasing interest in the way that food is produced, processed and marketed, and as suggested by data presented in this chapter, are increasingly calling for governments to accept greater responsibility for food safety and consumer protection.

This section looks at some of the key aspects of food quality and safety, and analyses industry insights into factors such as parallel importing, food labelling and marketing claims.

Fig. 11 provides an overview of respondents' attitudes towards regulation of the food industry. Surprisingly, there was a general belief that there is too little regulation in some areas.

The only area where it was perceived that there is too much regulation is occupational health and safety. On the other hand, there was a belief that there is too little regulation surrounding marketing claims and food labelling.

However, the impact of having more regulations ensuring the safety of the food industry comes at a cost, which has an effect on decision-making along the supply chain. Fig. 12 (pg. 29) shows the areas in which regulation poses the greatest cost. Transport (34%), food safety (34%) and packaging and labelling (37%) are the key areas where respondents said they believe regulatory regimes are imposing the greatest burden.

It is a surprising result that 37% of respondents considered packaging and labelling regulation as a high cost, yet under Fig. 11, 49% of respondents believed there is too little regulation. Perhaps the answer lies in the quality, as opposed to the quantity, of labelling regulation.

Parallel importing

The global nature of the modern food supply chain has far reaching implications. One consequence is that domestic retailers are venturing beyond their local supplier and sourcing goods from foreign markets at often significantly lower costs.

Parallel importers purchase products in one country at a price which is cheaper than the price at which it is sold in another country, import the product into the second country, and sell the product in that country at a price which is between the two prices. Due to the strong Australian dollar, parallel importing has increased in the Australian food retail sector.

On the surface, such importing provides a welcome method of keeping competition healthy and prices down in the food retail sector. However, there are valid concerns that in markets where large food retailers are already powerful, it skews the balance even further in their favour, and can also hurt domestic food and beverage production in countries where imports are cheap, such as Australia.

Whilst parallel importing happens for a variety of goods, it is a particularly crucial issue for the food industry due to the different food safety and quality standards applied in different jurisdictions.

Parallel imported food products may breach local labelling and food safety regulations when imported from suppliers in other jurisdictions, threatening the reputation of the manufacturer and the health of local consumers.

A recent example comes from the recall in South Australia of a parallel imported product that did not carry accurate allergen warnings. In New Zealand, a consumer recently complained that the Milo chocolate he purchased at a local retailer was made for the Philippines market and tasted significantly different.²¹

In 2010, Coles secured a deal with Foster’s for Corona at a price “equivalent” to parallel imports.²² Woolworths is also engaged in the practice, particularly for alcohol, selling brands like Johnnie Walker at significant discounts due to sourcing of parallel imports.²³

Our research asked the views of Australian food industry participants on parallel importing, specifically asking whether it was regulated sufficiently and whether it benefits consumers. Our results show a majority in favour of better parallel import regulation, with only 8% disagreeing. Some were particularly concerned about buyers being misled, and concerns about the buying power of Coles and Woolworths clearly continue to occupy the minds of respondents.

Fig. 11
What is your opinion of the level of regulation in each of the following areas?

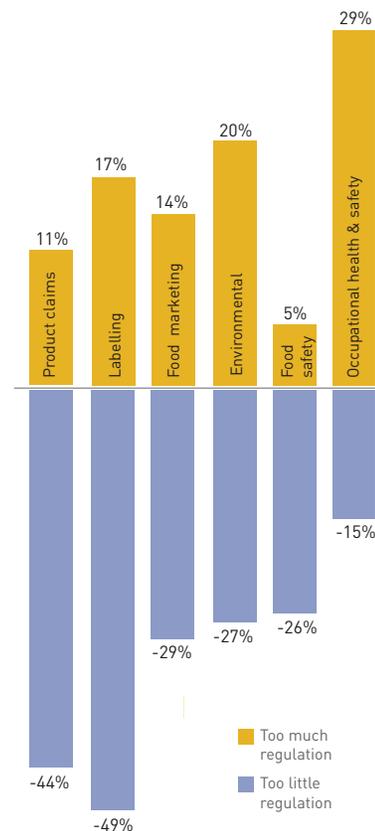


Fig. 12
Which of the following regulatory regimes impose the greatest burden on the food industry along the supply chain?

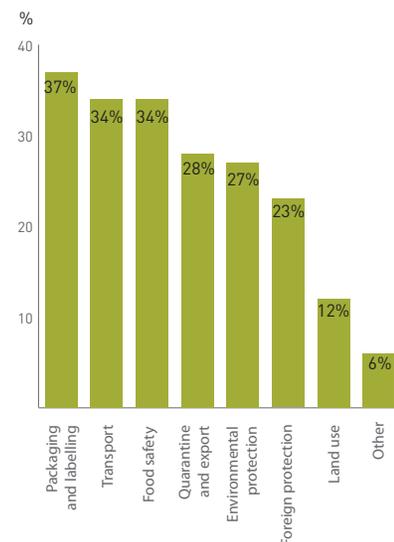


Fig. 13
Do you agree that parallel importing should be better regulated?

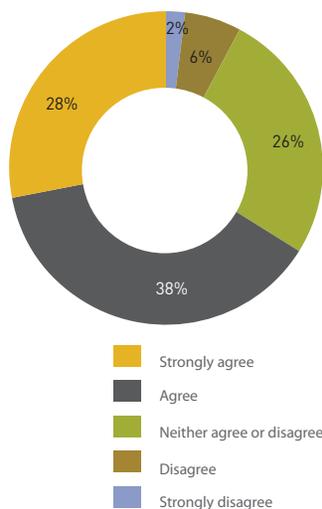


Fig. 14
Do you agree that parallel importing benefits consumers?

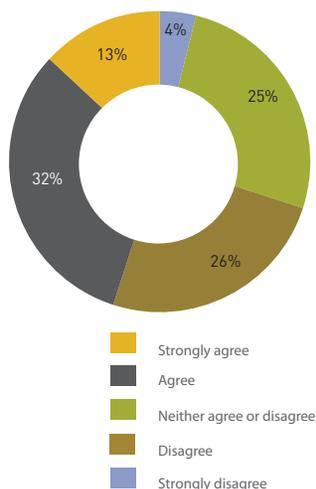


Fig. 13 and Fig. 14 taken together show the trade-offs that must be made when balancing the short-term price benefits to consumers versus the long term need to have a secure and affordable food supply. A majority of our respondents (66%) said they want better regulation around parallel importing, but at the same time, 45% of them believe parallel importing is beneficial to consumers.

Impact of inconsistent regulatory regimes on business

National tastes and preferences reflect a unique set of experiences and cultural traditions. Some countries may perceive a certain food safety risk as totally unacceptable, while others may place a low priority on addressing that same risk.

Imports acceptable to one country may not be acceptable to another. For example, many European countries are willing to accept the risks of listeria in cheese made from unpasteurised milk and select processing standards to minimise these risks. Other countries restrict such imports and even ban the sale of most of these cheeses.

Countries have different food safety experiences and risks in domestic food supplies. Risk levels vary internationally due to differences in available technology (such as refrigeration), plant and livestock host factors (plants with different levels of contamination or herds with varying infection rates), food production practices (such as the use of veterinary drugs), cultural differences (for example, routine consumption of raw seafood), and geographic or climatic conditions (for example, colder climates may reduce some pathogens, and aflatoxin contamination is most common in countries with warm and humid climates).²⁴

Fig. 15 shows that respondents are generally indifferent to the impact of inconsistent regimes, with 52% believing that inconsistent regimes pose neither a positive nor negative threat. Despite this, more believe that there is a negative than a positive impact.

The most common response was to highlight the increased costs associated with the increased paperwork, fees and levies and higher compliance costs.

Food labelling

Food labelling is designed to give the consumer useful data to make an informed choice on a food purchase. It can cover a wide variety of factors, such as nutritional value, country of origin, allergy advice, expiry date and ingredients.

In addition to mandatory labelling imposed by regulation, voluntary labelling is one of a food company’s many marketing options, to highlight the products’ attributes and to differentiate the product from the competition.

Fig. 16 shows the varying degrees of importance the industry places on various food labels. Results show that a significant proportion of respondents believe food labelling is important, and of these, the large majority of respondents (71%) believe that country of origin information is critical.

This result on country of origin labelling supports the contention that the current rules should be revisited again. However, this is unlikely to happen, as the Forum on Food Regulation (convening as the Australia New Zealand Food Regulation Ministerial Council) (Forum) rejected the reform recommendations of the panel of experts, led by Dr Neal Blewett, in its report *Labelling Logic – Review of Food Labelling Law and Policy* (2011) (Blewett Report).

Fig. 17 shows respondents’ views towards interpretive (such as traffic lights) and non-interpretive (such as the Australian Food and Grocery Council’s daily intake guide). The results show that the greatest number of respondents (42%) said they believe that any labelling scheme should have both interpretive and non-interpretive elements to it, although non-interpretive schemes are slightly more popular than the interpretive ones.

This data indicates respondents taking "a bet each way", a position consistent with the general confusion around the best way forward in this area. However, the relatively low score of 18% for an interpretive (traffic lights) scheme is compelling data against the introduction of that scheme on its own.

Despite the Blewett Report’s recommendation, the Forum and the Government decided not to pursue traffic light labelling at this time, with the Government specifically indicating the current evidence is insufficient to show that such a system would be effective.

The next step will be a government-led collaborative process involving industry, public health and consumer stakeholders aimed to bring together the polarised stakeholder views to find common support for some form of front of pack labelling scheme.

Fig. 15
How do the inconsistent regulatory regimes applicable to the food sector in various jurisdictions impact on your business?

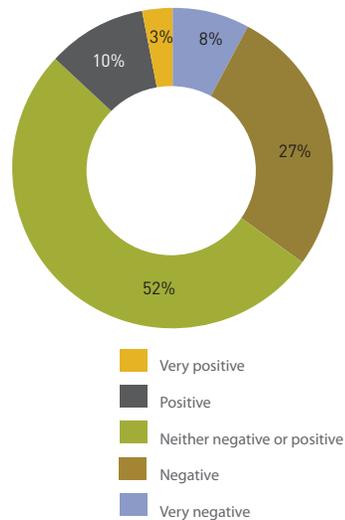


Fig. 16
How important is it for you that the following information be available on food labels?

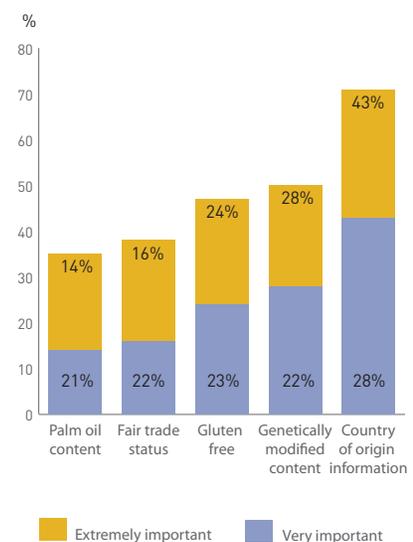
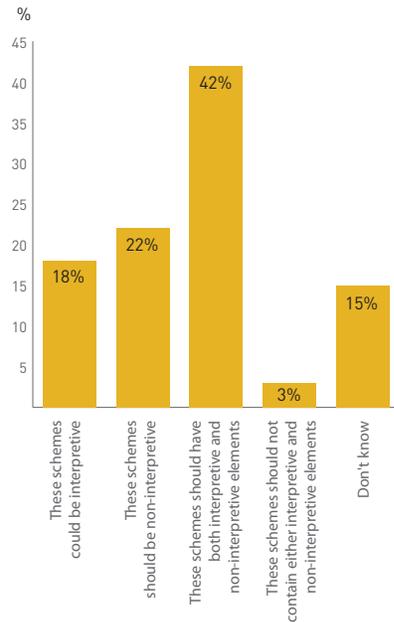


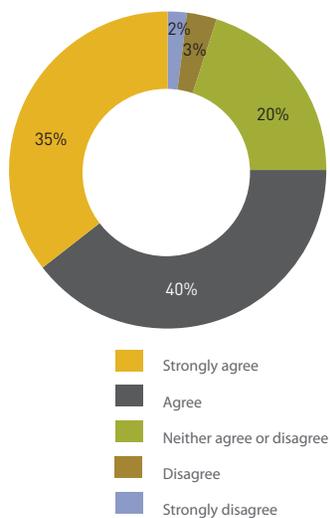
Fig. 17
Do you believe that a front of pack labelling scheme should be interpretive or non-interpretive?



Marketing claims

Looking at Fig. 18, the overwhelmingly strong support for having stronger rules and/or enforcement for the regulation of marketing claims (75%) is very surprising. As on the country of origin labelling issue, this seems to reflect a view that while there is a significant level of existing regulation, it is not particularly effective regulation in terms of clarity or enforcement so that the desired results of regulation in this area (certainly for industry, consumer confidence in claims and a level playing field for all competitors) are not being delivered.

Fig. 18
Do you agree that stronger rules and/or enforcement are necessary to regulate product claims?



A photograph of a herd of cows in a field during sunset. The cows are brown and white, with one cow in the foreground having a blue ear tag. The background is a soft, hazy landscape with mountains under a warm, golden sky.

“There are plenty of examples of countries that produce plenty of food but export it because locals can’t afford the prices commanded on the world market. In the future we may not be able to afford it.”

Chairman – Not-for-Profit Sector



Conclusion

The need for food security is fact, not fiction. This report indicates a level of concern about food security and identifies the specific areas of concern.

Our findings suggest that governments and corporates can take specific action to address the challenges. Our respondents offer an interesting insight into what the key problems are and the most efficient, innovative and effective ways of dealing with them.

In our interconnected and globalised world, food security is a phenomenon which needs to be tackled by a co-ordinated group effort. Although private industry has a key role to play in maintaining food security, the role of governmental bodies is important in ensuring simplification and harmonisation of regulation, and a focussing of investment into key target areas.

Reforms or policy developments should be considered as a necessary prerequisite to address the following concerns of our respondents:

- A need to regulate a consolidated food retail market in Australia, including how suppliers and retailers interact
- Enhanced investment in innovation and R&D from both the Government and private sector is needed to develop new technology and to improve agricultural productivity
- GM foods that have been assessed and considered safe should be implemented more widely to ensure the sustainability of the food supply and to meet environmental needs
- There is a surprisingly high concern about foreign investment, coupled with an equally surprising willingness to move to more trade protectionism, to protect jobs, food quality and local industry
- Implementation of food label information needs to be widened and deepened, to include more effective information. Country of origin information is cited as being particularly important.

Specific actions, in policy and investment, in these areas are not just defensive plays. Food insecurity elsewhere in the world is a major opportunity for Australia's food and agribusiness sector to improve their own and Australia's profitability and productivity, but also to "do well by doing good" for the rest of the world.

“For hundreds of millions of families around the world, food security is a critical part of economic security. And yet the everyday challenges people face in producing, selling and buying food are nearly invisible in the global discussion of agricultural policy.”

Ford Foundation

References

1. *From the Green Revolution to the Gene Revolution: How will the Poor Fare?*, FAO, November 2005
2. Rising food prices: A global crisis, ODI, April 2008
3. Rising food prices: A global crisis, ODI, April 2008
4. <http://www.ft.com/cms/s/0/54cf1176-5e40-11e1-85f6-00144feabdc0.html#axzz1nZb3cU96>
5. UN Population Division, World Population Prospects: 2010 Revision
6. FAO, How to Feed the World in 2050
7. Food Security and rural development, August 2011, AUSAID
8. http://www.economist.com/blogs/bagehot/2011/05/bashing_supermarkets
9. http://www.daff.gov.au/_data/assets/pdf_file/0003/298002/foodmap-full.pdf
10. <http://au.nielsen.com/site/documents/PrivateLabelGlobalReportMar2011.pdf>
11. <http://www.ausfoodnews.com.au/2011/11/28/supermarkets-accused-of-%E2%80%98copycat%E2%80%99-packaging-on-private-labels.html>
12. <http://stage.theland.farmonline.com.au/news/state/agribusiness-and-general/finance/big-two-push-their-labels/2430948.aspx>
13. <http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2012/002.htm&pageID=003&min=mva&Year=&DocType=>
14. Page 16, FOODmap: an analysis of the Australian food supply chain, by the Department of Agriculture, Fisheries and Forestry, 2012
15. Page 17, FOODmap: an analysis of the Australian food supply chain, by the Department of Agriculture, Fisheries and Forestry, 2012
16. http://www.biac.org/statements/agr/FIN09-11_Agriculture_and_Innovation.pdf
17. Page 2, Australia and Food Security in a Changing World, by the Prime Minister's Science, Engineering and Innovation Council, October 2010
18. Page 3, Australia and Food Security in a Changing World, by the Prime Minister's Science, Engineering and Innovation Council, October 2010

19. Part 3 of Issue Paper Number 38, Improving the International Governance of Food Security and Trade, by Manzoor Ahmad, for the International Centre for Trade and Sustainable Development, 2011
20. http://ec.europa.eu/research/biosociety/pdf/a_decade_of_eu-funded_gmo_research.pdf
21. <http://www.foodnavigator-asia.com/Markets/Parallel-imports-could-trip-Kiwi-food-companies>
22. <http://www.theage.com.au/business/retailers-rock-the-boat-with-parallel-imports-20100114-ma5h.html>
23. <http://www.theage.com.au/business/retailers-rock-the-boat-with-parallel-imports-20100114-ma5h.html>
24. <http://www.ers.usda.gov/AmberWaves/November03/Features/foodsafetyandtrade.htm>



Methodology

Baker & McKenzie developed a comprehensive research questionnaire and commissioned Beaton Research+Consulting in early 2012 to undertake detailed fieldwork covering a range of issues relating to food security, affordability and quality

The research consisted of a mix of telephone and internet-based interviews, with all interviews taking place between 10 - 31 January 2012. Respondents were drawn from a range of senior managerial and legal professionals working in food manufacturing, distribution, supply, regulation or agribusiness. The fieldwork targeted professionals working in Australia.

A total of 162 respondents were interviewed during this period. These respondents represented 68 separate organisations in government and the private sector. The fieldwork research was complemented with additional desk research and case studies looking at countries across all the major trading markets which helped to provide further insights on key issues contained within the survey fieldwork. The findings were analysed and the report written in February 2012 and published in March 2012.

The sample included a mix of sectors, with 27% from food manufacturing, 25% from wholesale and retail and a further 24% from retailing and hospitality.

Contacts

AUSTRALIA



David Watson

Partner
+61 2 8922 5264
david.watson
@bakermckenzie.com



Andrew Christopher

Partner
+61 2 8922 5508
andrew.christopher
@bakermckenzie.com



Ross McLean

Partner
+61 2 8922 5287
ross.mclean
@bakermckenzie.com



Martijn Wilder

Partner
+61 2 8922 5276
martijn.wilder
@bakermckenzie.com



Simon De Young

Partner
+61 3 9617 4370
simon.deyoung
@bakermckenzie.com

CHICAGO



Michael Wagner

Partner
+1 312 861 2965
michael.j.wagner
@bakermckenzie.com

CHINA



Bing Ho

Partner
+86 21 6105 8588
bing.ho
@bakermckenzie.com

SINGAPORE



Andy Leck

Partner
+65 6434 2525
andy.leck
@bakermckenzie.com

Baker & McKenzie has been global since its inception.



The information contained in this report should not be relied on as legal or investment advice and should not be regarded as a substitute for detailed advice in individual cases. No responsibility for any loss occasioned to any person by acting or refraining from action as a result of material in this report is accepted by Baker & McKenzie. This may qualify as "Attorney Advertising" requiring notice in some jurisdictions. Prior results do not guarantee a similar outcome.

Baker & McKenzie International is a Swiss Verein with member law firms around the world. In accordance with the common terminology used in professional service organisations, reference to a "partner" means a person who is a partner, or equivalent, in such a law firm. Similarly, reference to an "office" means an office of any such law firm.

© Baker & McKenzie 2012. All rights reserved.

