



OUTLOOK

SPEAKERS PAPERS

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speaker

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title

Small business in the new food environment

session

Australia's future in food
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National Convention Centre, Canberra



abareconomics

SMALL BUSINESS IN THE NEW FOOD ENVIRONMENT

*PRESENTATION BY IAIN MACGREGOR
TO THE
ABARE OUTLOOK CONFERENCE 2003*

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INTRODUCTION

Thank you Mr. Chairman.

It is a great pleasure to be invited to speak at the ABARE Conference. As a Sandgroper I welcome the opportunity to come over here and participate in various events. I assure you I always find the experience interesting, in more ways than one !

As you have just heard from the Chair, I wear a number of different hats. And I will be wearing most of these hats today.

To start, there is nothing like a practical example to make a point. So I want to tell you about the early days of my own Business.

The Bakewell Foods Story

40 years ago it was a different period for the small entrepreneur with far fewer regulatory constraints, however the risks associated with starting and successfully developing a small business were similar. Lack of capital, competitive markets and limited financial skills frequently led to failure for many small enterprises.

In 1958, my father set up a small, family business baking pies and cakes. Our records show the first week's turnover was 30 pounds or, in today's value around \$550.

The business employed less than a dozen people and supplied its products to the Perth city and metropolitan areas.

45 years and two generations later, the business employs 430 people, produces goods to the value of \$1.5 million weekly and supplies its products throughout Australia, New Zealand and other offshore markets.

I use these statistics to demonstrate what **has** been possible in growing a small family business into a much larger family business. For that is what we still have today; an Australian owned family business. One of a dwindling number of Australian owned food businesses to be sure, but we live in different times!

The relatively simple commercial environment which existed in the sixties and seventies is different to the complex, litigious and costly circumstances which Small to Medium Enterprises find themselves in today.

Looking back to those early years and remembering the challenges which faced us then, I doubt that if we were starting all over again today, we would have been able to achieve and deliver the same outcome.

Cost of Regulation

There are many features which combine to achieve success in business. Although I could talk at length about those ingredients which I consider to be vital, I want to single out one element which is the bane of every enterprise both large and small, and that is **EXCESSIVE COST!**

Business costs come in many forms, but they all have one thing in common. As most people know, costs must be recovered if business is to remain viable.

It is my firm view that, today, costs to SMEs brought about by increasing regulation of business, and in particular food businesses, are becoming increasingly difficult to recover.

Indeed, it is one of the major differences I alluded to a few moments ago when I said that growing a small business 30 or 40 years ago was

enhanced by a far less complex, and less costly commercial environment.

(Note: Of course these increased costs need to be weighed against any public benefit, such as through increased consumer confidence, lower incidence of food borne illness or improved international market access.)

Certainly it would be untrue to claim that business failure is all down to over-regulation as market forces, poor management and competition play their own part. But what needs to be understood is that regulation impacts disproportionately on small businesses whose owners don't have the technical background, resources or time to deal with complex regulations.

The Reform Process

In August 1998 the Commonwealth Government appointed Mr Bill Blair to investigate ways to reduce the regulatory burden on the food industry and to clarify and simplify the food regulatory system, while providing safer food to all Australians.

His final report included recommendations which endorsed the reduction of "Red Tape" and unnecessary cost to business. Unfortunately some of this sentiment seems to have been lost along the way.

And over the past two years significant reforms have come from this report. Whilst all businesses are still recovering from the reform fatigue which the GST and BAS brought upon business, the food industry has continued to undergo significant structural change since then.

Immediately after the GST came into effect the implementation of Blair commenced. This has resulted in the establishment of completely new regulation for the food industry with the New Food Standards

Code coming into place on 20 December 2002 and the establishment of a new regulator, Food Standards Australia and New Zealand. Furthermore, there have been changes to the role and structure of the other two key policy areas for food within the Departments of Health and Agriculture.

Therefore the food industry has been undergoing regulatory reform, which is just as significant as the introduction of the GST, for five years.

In our own Company we now have a paper trail roughly the length of the Hume Highway and our compliance costs have almost trebled since 1998!

Food Regulation Complexities

The new regulations regarding labelling of packaged foods for nutritional content and ingredient percentages have been mandatory for all manufacturers since 20 December last year.

One national survey of business carried out at that time estimated the cost to the packaged food industry in this country to be well in excess of \$400 Million.

A survey of small business carried out by CCIWA gave an average result of \$60 thousand of cost to each business to make these changes.

And now less than two months after the new Code came into place there are proposals to change the laws relating to Country of Origin. If these changes proceed and are reflected in yet more new labelling, it could be a cost body blow to many small businesses.

I have referred to costs associated with the adoption of Standards. Now let's look at some of the problems encountered by all businesses, large and small, in accurately meeting these Standards.

The new labelling requirements include the Nutrition Panel Labels and Ingredient Percentages, which we have all seen. They are the tables that provide fat content, protein, etc, on the labels of packaged food. It needs to be understood that all the information on these labels is an average due to natural changes in raw materials, from seasonal variability and a range of other factors.

Some examples;

Wheat, which is grown in a drier environment, will produce flour which is higher in protein than wheat produced in wetter conditions. So in a dry year, protein content of a product may actually rise.

Much of the milk produced in Western Australia is in areas dominated by a hot, dry climate. For 6 months of the year the crude protein level falls well below that of many other areas in Australia, leading to difficulties with meeting the National Minimum Protein requirements for milk.

A side of beef will have a higher or lower fat content depending on whether the animal was bred in favourable or drought conditions.

The list of variables in materials used in food processing is extensive to the point that a label which contains reasonably accurate information today, could be inaccurate next year. So where does that leave the food manufacturer? Facing the prospect of repeatedly updating packaging and altering labels to avoid the risk of prosecution by local authorities or even the ACCC! Although costly, this is easier for larger companies which have the scientific resources to regularly assess their raw materials and to change their labelling accordingly. However, for smaller business which have to pay consultants to provide this information, it becomes cost prohibitive.

This is the new Food Environment in which all food businesses now must function.

I understand that some small businesses have simply found the new labelling compliance requirements too onerous and have given up, while many others have struggled to come to grips with it. I would be confident in saying that there is a very long way to go before **total** compliance by the SME sector is achieved.

At this point it is opportune to remind regulators and politicians alike, that any proposals for additional labelling changes such as we have just experienced will result in more cost impost and undermine the ability of small business to compete. If this occurs, it will be consumers who pay more for their purchases and ultimately have fewer brands from which to choose.

I also want to put these regulatory changes into perspective. Whilst the change has been painful, in the end we hope that we have a much better system which will provide business and consumers with more efficient and effective governance for years to come.

But the Jury is still well and truly out!

The Food Industry Committee I chair in Perth consists largely of owners of SME's. I can tell you their mood is somber as they attempt to deal with an apparent endless stream of legislation and regulation being directed at the Food Industry at both State and Federal levels.

At some stage in the future it will be necessary to revisit the implementation of the Blair Report to determine if regulation in the food industry has improved or worsened the position for consumers and small business.

Role of governments

Dealing with government in the food industry is particularly complex. Whilst regulations and standards are developed at the commonwealth level, they are based on advice from an amalgamation of state agriculture and health bureaucracies and the enforcement is then

carried out by local governments. As a result, with the number of Jurisdictions, agencies and sectoral interests involved and which must be informed of any changes, achieving change is enormously complex.

Unfortunately, I feel that the new policy environment may marginalise business and consumer interests to the benefit of state and federal bureaucracies.

Stakeholder Consultation

One of the outcomes arising from the Blair Report was the need for effective stakeholder input to policy decision making, and for this reason the Council of Australian Governments agreed in 1999 to the establishment of a Stakeholder Consultation Process to allow business, consumers and other stakeholders to provide input. Unhappily, whilst all government and regulatory changes have come into effect, we still do not have a forum for stakeholders.

And in fact we understand that this may not occur at all.

But given the complex decision making processes in food regulation, such a forum is essential. And through the Chamber network we have developed a proposal which we believe will ensure all stakeholders have some feeling of inclusiveness in the decision making process.

Very simply, we have recommended the establishment of a group of 6 people representing government, consumers and industry to oversee stakeholder consultation. The group will not itself conduct consultation, or oversee reporting to Ministers, simply ensure that all stakeholders views are incorporated into the decision making process.

Conclusion

If the mood of the Western Australian small businesses is reflected by others in the SME Food Sector across the country, my advice is to impress on your local Chamber or Small Business Association the need

to establish links with the Australian Chamber of Commerce and Industry which has active, effective representation for small food businesses. It is vital you have a voice in helping create a Food Environment which is user friendly for small business.

Currently the Australian Chamber of Commerce and Industry is actively engaged in achieving a consultation process with National Food Regulators and Government which will better reflect the SME viewpoint.

It is our strong desire to have an environment in which the small business sector can perform well. The Nation needs its entrepreneurs, innovators and risk takers at this level in the Food Industry. We will all be the poorer in the long run if this cannot be achieved.



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Greg Roche

General Manager Food Safety Legal and Evaluation
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Farm-to-fork becomes a reality for food regulation

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FARM-TO-FORK BECOMES A REALITY FOR FOOD REGULATION

A presentation by

Greg Roche
General Manager, Food Safety, Legal & Evaluation
Food Standards Australia New Zealand



Introduction

We are living in a world and at a time where consumers demand absolute safety in the food supply. This is a non-negotiable requirement of food producers and suppliers.

We have witnessed countries in the midst of famine, unable to feed their people adequately, nevertheless reject genetically modified maize from the United States because of safety fears. We are also too well aware of how the BSE scare in Japan and other Asian countries can affect Australia's export trade in live animals.

It matters not whether these fears have a basis in scientific fact or not. Public confidence is a fragile commodity and, in a global food economy, it can be influenced by incidents occurring overseas as much as by our domestic failures of food safety, and by perceptions as much as reality.

Moreover, the failure of one food product can cast a cloud over an entire industry sector, as occurs when there is a major outbreak of food poisoning. It can lead to public distrust in the ability of government to regulate and enforce food safety. There is therefore an incentive for the food industry and government to address food safety as a whole of food chain issue. This has not occurred until relatively recently.

Food Standards Australia New Zealand (FSANZ) – formerly the Australia New Zealand Food Authority (ANZFA) – has set food standards for the two countries since 1996, mainly for processed and packaged foods. FSANZ has also worked with State and Territory jurisdictions to produce national food safety standards, including a model Food Safety Programs standard which we hope to see introduced as a national mandatory standard in the next year or so.

The food safety standards are outcomes-based and non-prescriptive, based on scientific risk assessments, and compliant with Australia's WTO and Codex obligations. They represent the minimum regulation necessary to provide consumers with the level of protection they demand.

From 1 July 2002, FSANZ assumed responsibility for safety standards for the primary production and processing sectors, thereby extending our risk assessment and risk management work from the fork to the farm. Australia now has the prospect of developing food safety regulations for the entire food chain that will be nationally consistent and harmonised with international standards.

Primary Production and Processing Standards

Some primary industries are already well regulated with respect to food safety. Others have approached FSANZ requesting the development of appropriate industry standards.

The Australia New Zealand Food Regulation Ministerial Council has endorsed a FSANZ's Model Protocol that incorporates many of the elements of FSANZ's existing and transparent processes, including the need for two rounds of public consultation during the standard-setting process.

A major innovation has been the establishment by the FSANZ Board of a Standards Development Committee (SDC) for each commodity to advise FSANZ on technical issues. Members represent stakeholders from industry, government, consumer organisations and other interested parties. They communicate with other stakeholders.

With the help of the SDC, FSANZ prepares, in sequence, an Initial Assessment Report or an Issues Paper that canvasses the issues with the community, followed by a Draft Assessment Report that discusses FSANZ's risk assessment of various stages of production or processing and options for risk management (including a draft standard), and a Final Assessment Report that may incorporate material or changes as a result of a second round of public consultations.

The draft standard is then considered by the FSANZA Board and, if approved, sent to the ministerial council. If the ministerial council does not request a review of the standard, or an aspect of the standard, within sixty days, FSANZ gazettes the standard and it appears in Chapter 4 of the *Australia New Zealand Food Standards Code*.

Once it has been gazetted, the standard is law. Enforcement of the standard is the responsibility of State and Territory jurisdictions. Several of the jurisdictions are moving towards a unified enforcement approach for food safety in the primary sector and for manufactured foods.

Benefits of the new standards

To date, FSANZ's expertise has been in setting safety and compositional standards for manufactured foods. We have developed consultative networks with the manufacturing and retail sectors, with public health organisations, with health departments in the jurisdictions and with consumer organisations.

An important part of our responsibilities is the national coordination of food recalls and the identification of apparent or emerging food emergencies, such as microbiological pathogens and chemicals in the food supply.

Under the *FSANZ Act*, our primary responsibility is to protect public health and safety by maintaining a safe food supply. This objective will be a significant driver in developing the new Primary Production and Processing Standards.

Nevertheless, we expect an enhanced level of consumer confidence to be generated by the new standards that will be a direct benefit to the primary industries concerned and, of course, a safe food supply at home establishes a reputation for Australian food products in the international marketplace. Because the standards will be fully WTO-compliant, this can only assist in overseas trade.

The resulting safety standards for primary industry aim to impose a minimal impost on industry and government. It should ensure the greatest degree of cooperation between the stakeholders in the standards-development process.

Timetable for the new food safety standards

FSANZ has commenced its work on Primary Production and Processing Standards with a standard for seafood. Some seafoods, such as prawns, are regarded as high-risk products and, although regulation exists at the retail level, there is no national standard.

Other sectors that have shown an interest in developing new safety standards include eggs, dairy, honey, horticulture, meat and grains. Work will start on these standards as resources become available.

An SDC for seafood was established by the FSANZ Board late last year. The SDC has already provided technical advice for an Issues Paper that has been released for public comment on the FSANZ website and in hard copy. We expect to issue a Draft Assessment report in late-2003 for further comment.

FSANZ will conduct risk assessments of various hazards associated with seafood – for example, chemical residues such as pesticides and antibiotics and microbiological hazards such as viral and bacterial pathogens.

Once the level of risk has been established, risk management strategies will be examined. It is at this stage that input from industry and the trade and agriculture arms of government are vital so that, in addition to protecting public health and safety, the food regulatory system acts to facilitate trade at home and abroad.

The fork-to-farm approach to food safety

To achieve food safety standards across the whole food chain, FSANZ and primary industry must increase their existing levels of cooperation and put in place consultative mechanisms that allow this to happen.

With the manufacturing sector, FSANZ and its predecessors have built up a trust over the last twelve years. FSANZ must now demonstrate that its methodologies are appropriate to the primary sector and that its ethos of openness and inclusiveness in decision-making can add value to industry's strategies for increasing public confidence in their products.

The farm-to-fork approach to food safety is a sensible, necessary move to meet the demands of the 21st century.